



ISLAMIC/PARTICIPATORY FINANCE SURVEY

REPORT

June, 2019

Foreword

Islamic or Participatory Finance¹ encompasses concepts and practices based on the Islamic religion principles. Lately, there has been increased interest in this system of finance, leading to its rapid growth globally. In Kenya, a key challenge faced is lack of relevant information and statistics on this system of finance, to inform strategies for even faster growth and development. To address this gap, in July 2019, the Capital Markets Authority (CMA) collaborated with the Kenya National Bureau of Statistics (KNBS) to conduct a pioneering survey to establish stakeholder views on the level of demand for this system of finance's products and services in Kenya.

This report contains findings from this recent survey which are without doubt, useful insights on the Islamic/Participatory Finance landscape in Kenya. The findings from the survey will also be used to inform policy formulation and planning.

The Bureau acknowledges and appreciates individuals and entities that participated in the survey by providing the information required. I also applaud the CMA for their valuable technical and financial contribution to the survey and preparation of this report. I wish to appreciate the technical team for its dedication that enabled a smooth implementation of the survey. The team included Benjamin Avusevwa, Peter Kihara, William Etwasi, Tabitha Wambui, Eunice Munga and Peter Kamau from KNBS; and Wilberforce Ong'ondo, Justus Agoti, and Sabina Obere from CMA. I also owe my gratitude to Collins Omondi (KNBS) and Luke Ombara (CMA) for their leadership and guidance through the various stages of the survey research's implementation.

Zachary Mwangi

Director General

Kenya National Bureau of Statistics

¹ Depending on the jurisdiction of reference the two terms are used to refer to the same system of finance that observes Islamic Principles.

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1. Introduction

1.1 Overview

Participatory Finance is a rapidly growing system of finance that encompasses common ethical principles that among other things prohibit charging of interest and speculation, while encouraging mutual risk sharing as key tenets. Participatory finance aims at achieving financial and social justice objectives that ultimately improve human well-being. The origins of this system of finance can be traced to the 1960s when the first Islamic bank was established in Egypt, thus setting the stage for the establishment of Islamic Development Bank (IsDB). The IsDB was the first bank to be explicitly based on Islamic Finance principles in 1974. Throughout the 1980s and 1990s, Islamic finance continued to grow at an average annual rate of between 10 – 15 per cent per year.

Latest 2018 statistics² show that the global Islamic finance industry grew by 11.0 per cent in 2017 to reach US\$2.4 trillion in assets compared to 2016, registering a compounded annual growth of 6% since 2012. The report also indicates that the global Islamic finance industry will reach a total global asset volume of at least US\$3.8 trillion by 2023, representing an annual growth rate of 9.5 per cent over the past decade. The growth is mainly attributed to expansion of Islamic finance into new jurisdictions; development of new and innovative capital market products; and the development and adoption of sector-specific financial technology. In Sub-Saharan Africa, Nigeria, Senegal and Kenya have been identified as some of the countries leading in the setting out of specific road-maps for Islamic/Participatory finance industry's operation and development.

² Report compiled by Thomson Reuters and the Islamic Corporation for the Development of the Private Sector

As more reforms to prepare the ground for a more efficient operation of this system of finance in Kenya, there has been a lingering question of what the level of demand for Islamic/participatory finance products and services in Kenya is, so as to inform future policy on strategies that will be needed to meet the demand if it is established to be significant. This necessitated a market survey on a selected sample of respondents to address this long-standing question.

1.2 Objectives of the survey

The main objective of the survey was to collect views from stakeholders on the level of demand for Islamic/participatory capital market products and services. The survey also sought to establish the level of understanding and experience of Islamic/participatory capital market products and services, with the ultimate aim of making recommendations on the approaches to addressing the identified challenges.

2. Survey Methods and Techniques

2.1 Legal, Regulatory and Institutional Framework

The survey was conducted under the Statistics Act, 2006, that empowers KNBS to collect, analyze and disseminate statistical information, as well as coordinate the National Statistical System (NSS). The Act also mandates KNBS to collaborate with other bodies for purposes of statistical production. This survey was carried out in collaboration with the Capital Markets Authority (CMA).

2.2 Survey Design

The survey was designed to gain insights into stakeholders' perception of Islamic/Participatory capital market products and services in Kenya. The target participants of the survey included individuals from institutions that have in the past participated in capital markets stakeholder forums on Islamic/Participatory Finance. The survey fieldwork was conducted between 27th May and 21st June, 2019.

2.3 Survey Instruments

The survey was conducted through a questionnaire designed to capture the following information from respondents:

1. Knowledge and usage of Islamic/participatory capital market products;
2. Respondents opinion on the importance of different Islamic/participatory finance stakeholders in Kenya;
3. Opinion on the level of demand of different Islamic/participatory products and services in Kenya;
4. Opinion on major impediments to the growth of Islamic/participatory products and services in Kenya;
5. Respondents' proposed solutions to major impediments to the growth of demand for Islamic/participatory products and services in Kenya and
6. Respondents' opinion on the importance of capital markets in achieving the Government's Big 4 agenda.

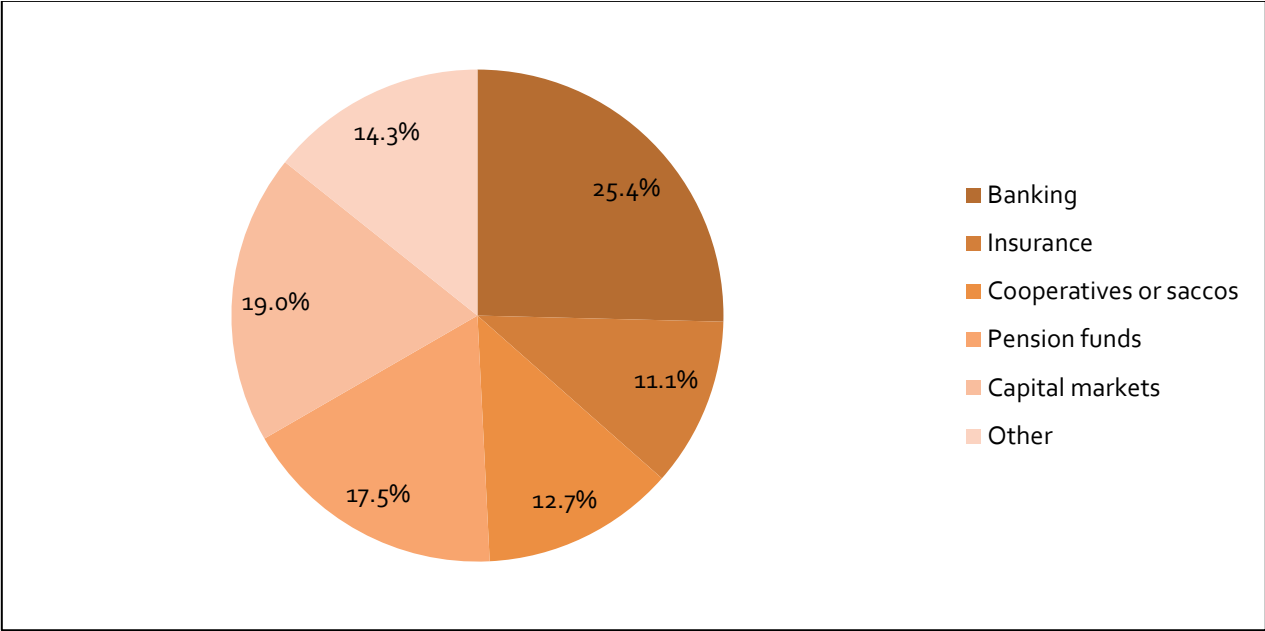
2.4 Survey administration

The survey involved distribution of questionnaires to respondents and face to face interviews. Follow-up calls and visits were also made in cases where respondents were not available to complete the questionnaires immediately.

2.5 Targeted Respondents and Response Rate

The survey targeted 75 respondents drawn from different organizations. A response rate of 84 per cent was achieved. Respondents were drawn from different industries with 25.4 per cent coming from banking, 11.1 per cent from insurance, 12.7 per cent from cooperatives/SACCOs, 17.5 per cent from pension funds, 19.0 per cent from capital markets and 14.3 per cent from other industries. Other industries included construction, marketing and advertisement, consultancy, government, and development agencies.

Figure 1: Profile of Survey Respondents



Source: KNBS

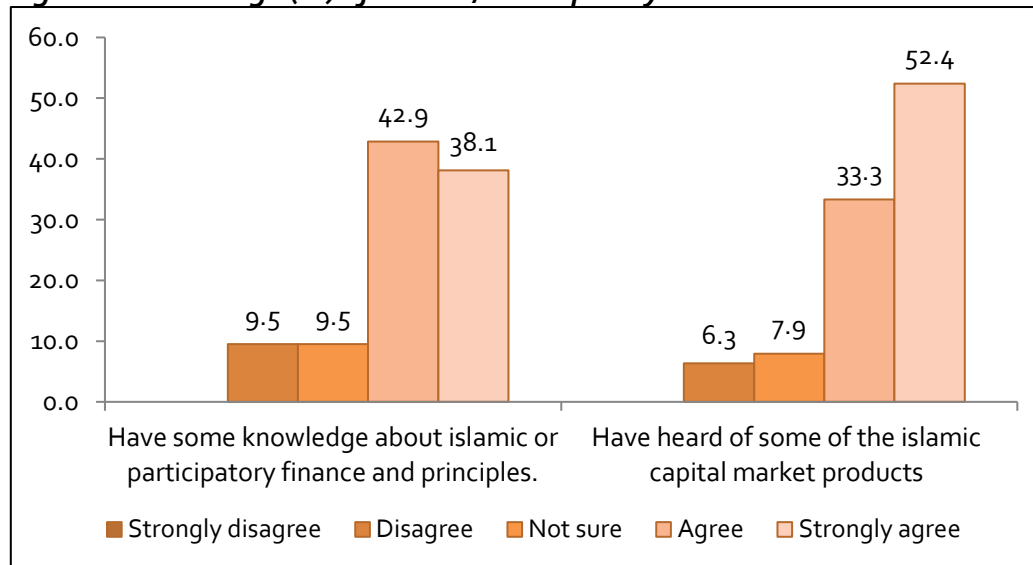
In Kenya, Islamic/Participatory Finance organizations are either fully fledged or windows (subsidiaries or branches) of conventional financial institutions. Out of the interviewed respondents, 17.5 per cent were from fully fledged organizations while 38.1 per cent were from window organizations. 44.4 per cent were drawn from other types of organizations.

3. Survey Findings

3.1 Knowledge of Islamic/Participatory Finance

As a way of collecting crucial baseline information, the survey sought to assess respondents' knowledge of Islamic/participatory finance. Out of the interviewed respondents, 81.0 per cent had some knowledge about Islamic/participatory finance while 85.7 per cent had heard of some of the Islamic Capital Market products such as Sukuk, Murabaha, Musharakah and others.

Figure 2: Knowledge (%) of Islamic/Participatory Finance

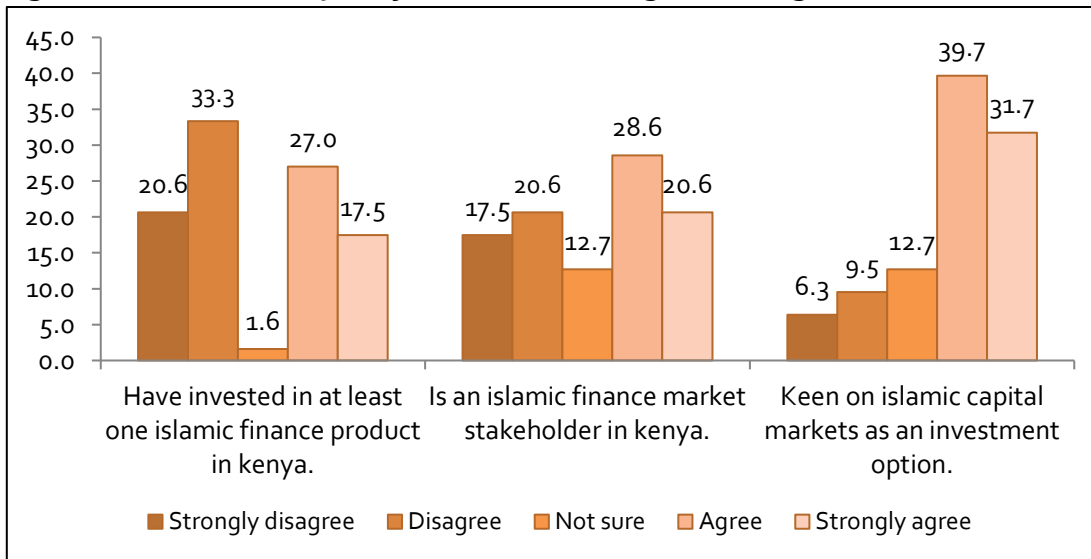


Source: KNBS

3.2 Islamic/Participatory Finance Usage and Involvement

The survey sought to assess the level of usage and involvement in Islamic/participatory finance. Out of the interviewed respondents, 44.4 per cent had used/invested in at least one Islamic finance product, 49.2 per cent market were stakeholders in Islamic finance while. 71.4 per cent indicated that they were keen on using Islamic capital markets as an alternative system of finance.

Figure 3: Islamic/Participatory Finance Knowledge and Usage (%)

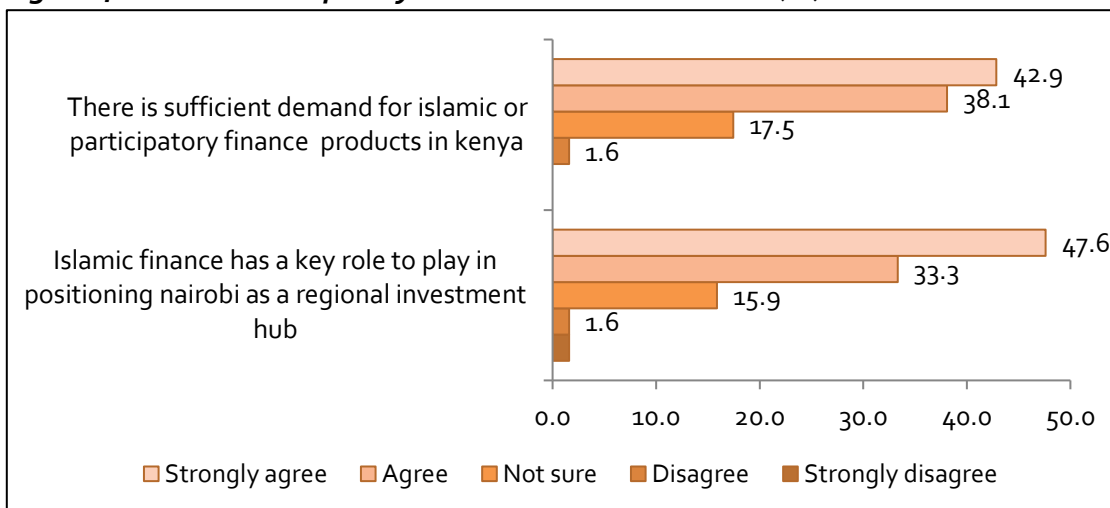


Source: KNBS

3.3 The Role of and Demand for Islamic/Participatory Finance

The survey sought to assess the role of and demand for Islamic/participatory finance. Out of the interviewed respondents, 81.0 per cent agreed that Islamic finance has a key role to play in positioning Nairobi as a regional investment hub, while a similar proportion of respondents believed that there is sufficient demand for Islamic/Participatory finance products in Kenya.

Figure 4: Islamic/Participatory Finance Role and Demand (%)

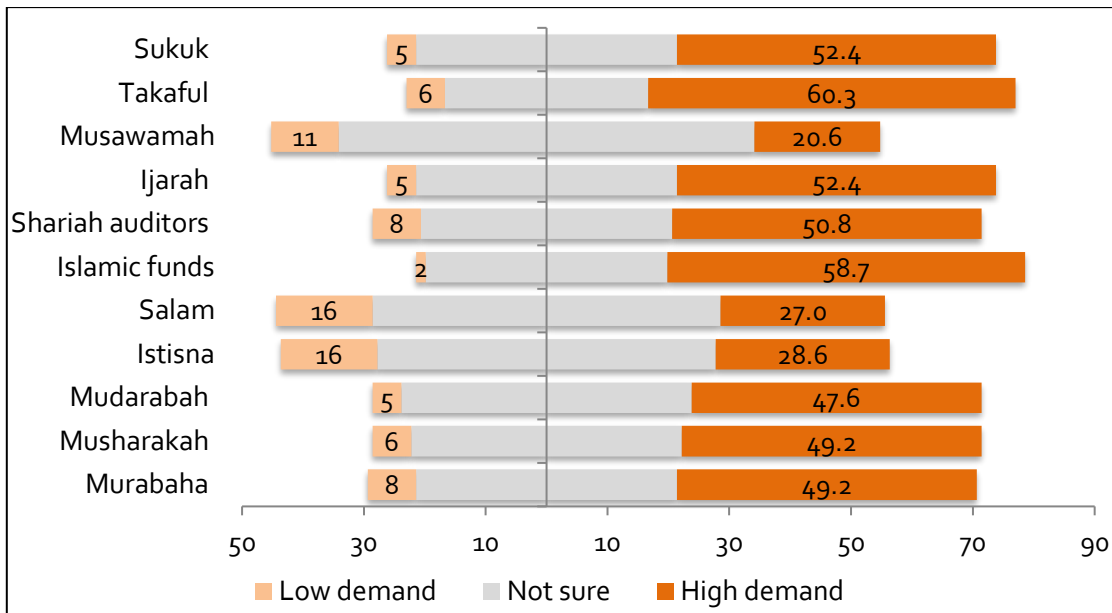


Source: KNBS

3.4 Perception on the Level of Demand for Islamic/Participatory Products/Services

The survey sought respondents' views on the level of demand for Islamic/participatory finance products and services. Murabaha, Musharakah, Mudarabah, Islamic Funds, Shariah Auditors, Ijarah, Takaful and sukuk had high demand, with most respondents not sure on the level of their demand for Musawamah, Istisna and Salam products.

Figure 5: Views on Level of Demand for Islamic Products/Services (%)



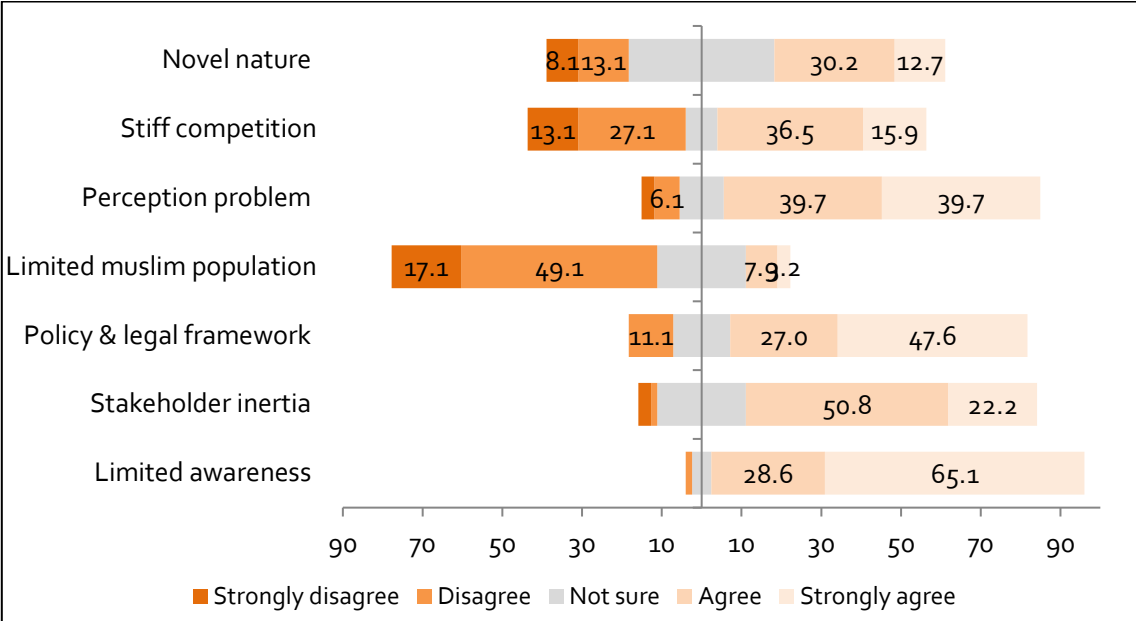
Source: KNBS

3.5 Impediments to Growth of Islamic/Participatory Finance

The survey sought to establish the key impediments to growth of Islamic/participatory finance in Kenya. Most respondents agreed that, limited awareness, stakeholder inertia, a less than fully a facilitative policy and legal framework, perception problem, stiff competition from conventional finance and the novel nature of this system of finance, were the key impediments to its growth. It is

worth noting however, that the limited Muslim population was not seen as a major impediment.

Figure 6: Major Impediments to Growth of Islamic/Participatory Finance (%)



Source: KNBS

3.6 Solutions to Impediments to Growth of Islamic/Participatory Finance

The following solutions were proposed to enhance growth of Islamic/participatory finance.

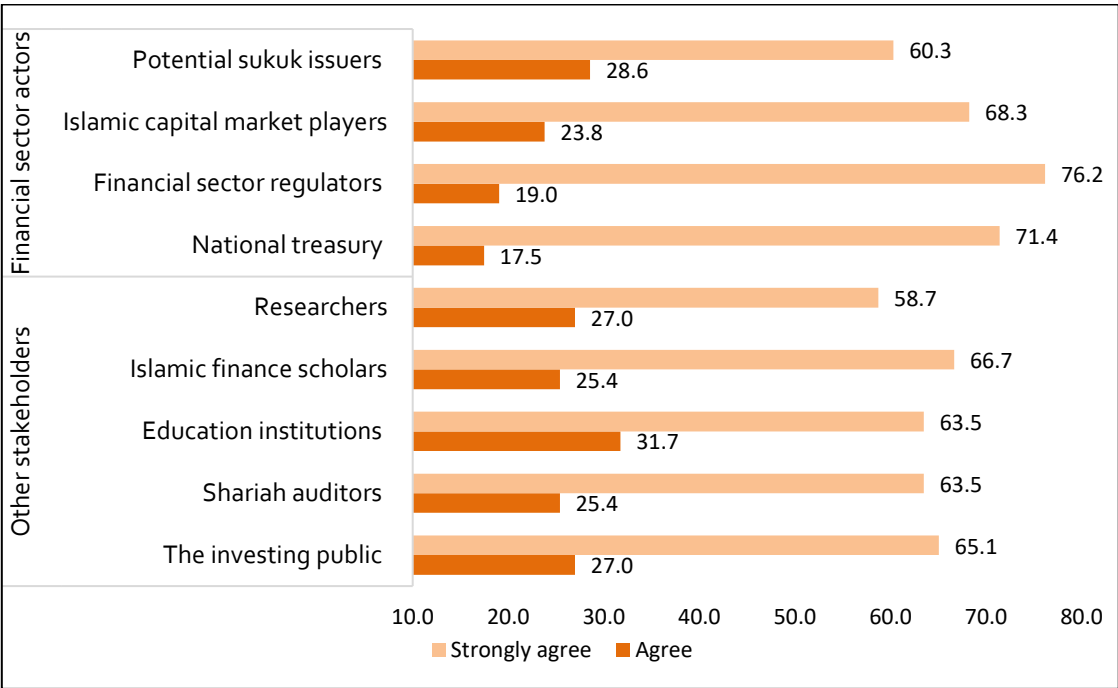
1. Increase public awareness through public participation forums and other sensitization forums.
2. Continuously market products and services to improve brand visibility.
3. Strengthen regulatory and legal framework.
4. Align the policy frameworks with the Islamic sharia concepts and principles.
5. Establish a central Shariah board.

3.7 Importance of Stakeholders

The survey sought to establish the importance of various stakeholders in Islamic/participatory finance. These stakeholders included those with direct

engagement/role in the financial markets and other interested parties who may have had an indirect role. The National Treasury was cited by 88.9 per cent of the respondents as an important stakeholder to Islamic finance in Kenya, while 95.2 per cent of the respondents indicated that financial sector regulators were a significant stakeholder. Most respondents also agreed that Islamic finance is important to Scholars, Researchers, Capital Market players, potential Sukuk issuers, Shariah auditors, and educational/awareness creating institutions in Kenya.

Figure 7: Importance of Stakeholders in Islamic/Participatory Finance (%)

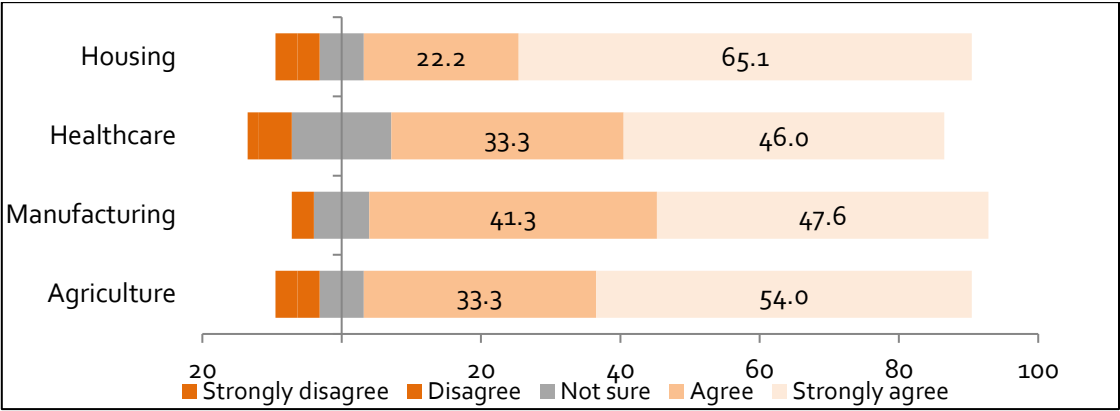


Source: KNBS

3.8 Importance of Capital Markets in Achieving the Big 4 Agenda Program

The survey also sought to establish the importance of capital markets in achieving the Kenya Government’s big 4 agenda program. Most respondents agreed that capital markets shall play a crucial role in the achievement of the Government’s agenda under agriculture, manufacturing, healthcare and housing.

Figure 8: Importance of Capital Markets in Achieving Governments' Big 4 Agenda Program



Source: KNBS

Annexes

Annex 1: Survey Questionnaire



ISLAMIC/PARTICIPATORY CAPITAL MARKET PRODUCTS SURVEY

2019

BACKGROUND

Introduction

Kenya National Bureau of Statistics (KNBS) and Capital Market Authority (CMA) are carrying out a survey on Islamic/participatory capital market products. The survey seeks to collect data on the level of demand for these products and services in Kenya, so as to inform future policy and strategy.

Objective of the survey

The objective of the survey will be to collect views from stakeholders on their Islamic/Participatory capital markets and by extension, Islamic/Participatory finance experience thus far and determine on how best to address existing challenges (if any) in order to grow the country's capital markets.

Legal mandate

These statistics are collected under the Statistics Act 2006 which empowers KNBS to collect economic statistics from establishments among other required information for the country. Failure to comply with the Act constitutes an offence and may result to legal and administrative action. It is also important that the information is accurately reported and timely when requested. The Constitution of Kenya, 2010 defines statistics as a shared function between the National and County governments. Accordingly, the fourth schedule identifies the national statistics and data on population, the economy and society, as a primary function of National Government.

Confidentiality

Information provided in the questionnaire by individual enterprises / establishments will be treated as confidential and will be used strictly for statistical purposes. The data / information collected will only be published in aggregated form. The staff involved are under oath not to disclose any information to any third party. Confidentiality is guaranteed under the statistics Act, 2006 which may be accessed on the KNBS Website www.knbs.or.ke.

Completion of the Questionnaire

All sampled enterprises / establishments are required to provide the required information in this form (questionnaire). In cases where one enterprise has two or more establishments, each establishment has to provide information in a separate form (questionnaire).

Queries

Queries or assistance regarding this survey should be addressed by the interviewer and / or supervisor. For more information contact the following office:

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Tel: +254 20 3317583/6/8

[E-mail: directorgeneral@knbs.or.ke](mailto:directorgeneral@knbs.or.ke) OR info@knbs.or.ke

For official use only		
Position	Name	Telephone No.
Research Assistant		
Supervisor		

PART I: GENERAL INFORMATION

Section I: Establishment details

Street name:

Building name and floor:

Postal address:

Postal code:

Telephone number:

Mobile phone number:

Email:

Website:

Section 2: Respondent Details

Name of respondent:

Designation of the respondent:

Organization's name:

Current email address:

Current physical address:

Mobile phone number:

Industry: *[kindly tick where applicable]*

Banking Insurance Cooperative/SACCOs Pensions funds

Investment banks Investment funds Stock brokers

Other (specify) _____

Type of Islamic /Participatory Finance Organization: *[kindly tick where applicable]*

Fully fledged Window

Other (specify): _____

PART 2: SURVEY QUESTIONS

1. In the statements below, please indicate to what extent you agree or disagree by marking with a (✓).

	Statement	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1)	I have some knowledge about Islamic/Participatory finance and principles.					
2)	I have invested in at least one Islamic Finance product in Kenya.					
3)	I am an Islamic Finance market stakeholder in Kenya.					
4)	I am keen on Islamic Capital Markets as an investment option.					
5)	Islamic Finance has a key role to play in positioning Nairobi as a regional investment hub					
6)	I have heard of some of the Islamic Capital Market products such as Sukuk, Murabaha, Musharakah etc.					
7)	I believe there is sufficient demand for Islamic/Participatory finance products in Kenya					

2. The stakeholders below are important to Islamic Finance in Kenya.

	Stakeholder	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1)	The National Treasury					
2)	Kenya Financial Sector Regulators (CMA, CBK, IRA, SASRA & RBA)					
3)	Islamic Finance Scholars					
4)	Researchers					
5)	Islamic Capital Market players (Investment Banks, Brokers etc.)					
6)	Potential Sukuk issuers					
7)	The investing Public					
8)	Shariah Auditors					
9)	Educational/awareness creation institutions					

3. In your opinion, what is the level of demand for the Islamic/participatory finance products and services and/or contracts below in Kenya?

	Product	High demand	Not Sure	Low demand
1)	Murabaha			
2)	Musharakah			
3)	Mudarabah			
4)	Istisna			
5)	Salam			
6)	Islamic Funds			
7)	Shariah Auditors			
8)	Ijarah			
9)	Musawamah			
10)	Takaful			
11)	Sukuk			
	Any other product. (specify)			
12)				
12)				
13)				
14)				
15)				

4. In your opinion, to what extent do you agree or disagree with the factors below as the major impediments to the growth of Islamic/Participatory finance in Kenya?

	Factor	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1)	Limited awareness					
2)	Stakeholder inertia					
3)	Lack of a facilitative policy & legal framework					
4)	Limited Muslim population					
5)	Perception problem					
6)	Stiff competition from conventional finance					
7)	Novel nature of this system of finance					
8)	Any other factor (Specify)					
9)						
10)						
11)						
12)						
13)						

5. How can the impediments you have identified in (4) above be addressed to help Islamic/Participatory capital markets/finance in Kenya grow even more rapidly?

- i. _____
- ii. _____
- iii. _____
- iv. _____
- v. _____

PART 3: ASSESSMENT OF THE IMPORTANCE OF CAPITAL MARKETS IN ACHIEVING GOVERNMENTS' BIG 4 AGENDA PROGRAM

6. On a scale of 1(low) to 5 (high), which of the following Big 4 Agenda items would most benefit from a developed Capital market?

Agriculture	Manufacturing	Housing	Health care

7. On a scale of 1(low) to 5(high), which Big 4 agenda sectors would benefit most from the country's capital market's role as a capital mobilization avenue;

Agriculture	Manufacturing	Housing	Health care

8. To what extent do you agree or disagree with these statements on capital markets and the governments' Big 4 Agenda development program.

Big 4 Agenda item			Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
1)	Agriculture	As a way of stabilizing Agricultural produce prices, capital markets can enhance food security through vibrant commodity markets.					
2)	Manufacturing	The capital market is a big driver in developing the manufacturing for Agenda 4 in the county					
3)	Healthcare	Capital markets can be used to raise capital for universal healthcare					
4)	Housing	Capital markets are a key capital raising mechanism in line with the targeted construction of 500,000 housing units per year over a 5-year period from 2017 to 2022.					

If you have any additional comments/suggestions etc., please highlight them.

- i. _____
- ii. _____
- iii. _____
- iv. _____
- v. _____

PART 4: ABBREVIATIONS AND DEFINITIONS³

Term	Section	Description
Fully-fledged Islamic institution	S.2	A fully-fledged institution in Islamic Finance is one operated and managed in compliance with Islamic finance principles namely; No charging of interest, Profit & Loss sharing, No speculation, No prohibited activities, No Uncertainty and risk and Obligatory tax known as <i>Zakat</i>).
Islamic Window	S.2	Refers to a Subsidiary/Department/Section etc. that offers services compliant with Islamic principles, but by a conventional bank.
Sukuk	Q.3	Refers to certificates of equal value which evidence undivided ownership or investment in certain assets acquired using Shariah principles.
Murabaha	Q.3	Cost-plus financing It is an Islamic financing structure in which the seller sells the asset at cost plus an additional profit margin.
Mudarabah	Q.3	Profit-and-loss sharing partnership Mudarabah is a profit-and-loss sharing partnership agreement where one partner (the financier) provides the capital to another partner provides the expertise/labor etc. and manages the investment so that it accrues a return on capital. The profits are shared between the parties according to a pre-agreed ratio.
Musharakah	Q.3	Profit-and-loss sharing joint venture It is a form of a joint venture where all partners contribute capital and share the profit and loss on a pro-rata basis. The major types of these joint ventures are: <ul style="list-style-type: none"> i. Diminishing partnership: This type of venture is commonly used to acquire properties. The expert and investor jointly purchase a property. Subsequently, the expert/bank gradually transfers its portion of equity in the property to the investor in exchange for payments. ii. Permanent musharakah: This type of joint venture does not have a specific end date and continues operating as long as the participating parties agree to continue operations. Generally, it is used to finance long-term projects.
Istisna	Q.3	A contract of exchange, whereby the funding party agrees to deliver a commodity or an asset at a pre-determined future time at an agreed

³ Our information sources were mainly from the internet including <https://corporatefinanceinstitute.com/resources/knowledge/finance/islamic-finance/>

		price.
Salam	Q.3	A sale in which the seller undertakes to supply specific goods in terms of quantity and quality to the buyer at a future date in exchange for an advance fully paid price at spot. A Salam contract creates a moral obligation on the Salam seller to deliver the goods.
Islamic Funds	Q.3	It is a joint pool into which investors contribute their funds which are then invested to earn halal ⁴ profits in conformity with Islamic principles. The concept of Islamic Mutual Funds has its roots in “Musharakah”.
Shariah Auditors	Q.3	Independent examiners of financial and operational aspects of an Islamic Finance institution or Window. It is conducted to express an opinion to the stakeholders regarding the adherence to Shariah principles by the institution.
Ijarah	Q.3	Leasing The lessor (who must own the property) leases the property to the lessee in exchange for a stream of rental and purchase payments, ending with the transfer of property’s ownership to the lessee.
Muwasamah	Q.3	The most common type of Islamic trade where the selling price of a commodity is negotiated between the seller and the buyer, with the cost price being unknown to the buyer. However, there are restrictions for this kind of trade to exist. Firstly, the product or service needs to be wholly owned by the seller. Secondly, the sale must take place at the time the product or service is being traded and not at any future date, thirdly, the product or service must be valuable and usable ⁵ .
Takaful	Q.3	A type of Islamic insurance wherein members contribute money into a pool system to guarantee each other against loss or damage to an asset.

Thank you for taking time to fill-in this questionnaire. Your responses will inform the direction of the continuing stakeholder engagement on how to better develop Islamic/Participatory finance in Kenya.

⁴ adheres to Islamic law, as defined in the Koran

⁵ <http://www.investorwords.com/15589/musawamah.html#ixzz5ntJIGPrv>

