International Journal of Science Academic Research
Vol. 06, Issue 04, pp.9726-9729, April, 2025
Available online at http://www.scienceijsar.com

ISSN: 2582-6425

Research Article

PREDICAMENTS OF ISLAMIC BANKING IN KENYA

***Dr. Ali Mwinyi Mziwa**

Lecturer Faculty of Education &Social Studies, Umma University,Kajiado Kenya

Received 18th February 2025; **Accepted** 27th March 2025; **Published online** 18th April 2025

Abstract

The general aim of the research was to evaluate the challenges faced by Islamic banks in Kenya. The main features of the Islamic Banking:

i. Profit and loss sharing (Musharakah). The Islamic Bank pools investor's money and assumes a share of losses on a mutual agreed ratio. the profit and losses.

ii.Shared Risk between the parties involved in any financial transaction are shared by both financial institutions and depositors saves on a mutual ratio.

iii.Prohibition of Usury, exploitation gains made in trade or business this include interest.

iv.Prohibition of Gharar. The word Gharar means uncertainty, hazard or risk, Gharar can arise when the claim of ownership is unclear or suspicious. For example, of Gharar in modern finance include futures and options contracts which have dates of delivery in the future.

v.Prohibition of Gambling or speculation behaviors.

vi. No involvement in prohibited industries such as Gambling, alcoholic beverages, pornography and others that are haram

vii.Payment of Zakat (a compulsory charity on wealth and earnings to be distributed to the less fortunate), Waqf (an endowment made by a Muslim to a religious educational or charitable cause) and Sadaqah (voluntarily giving to charity).

Keywords: Gharar (Uncertainty), Riba, Maysir, Musharakah.

INTRODUCTION

Population and Sampling Design

The study focus at university students, Islamic Bank Customers, Islamic Bank employees and Muslim Scholars

Sampling Technique

Implementation of Probability Proportional Size (PPS)

Respondent	University students	Bank customers	Scholar/Imam
	45	45	20

Data Collection Methods

The Data combination of quantitative and qualitative methods implemented in the study with the aim of providing comprehensive Data. Interviewing the participants in depth, getting more precise information

Conceptual Framework

The independent variable of the study will therefore comprise of the economic socio-cultural, Belief and also political. The choice of an Islamic Banking by the customer in Kenya will be dependent variable of this study.

Research Design

A Descriptive survey design was adapted in describing the phenomenal behavior. The Questionnaire used in collection of information from participants detailing the scope of products commonly used in Islamic Banks in general.

The purpose was to find pivotal challenges facing the Islamic Banks from the population opinions, identifying different opinions. Even with the current environment the Islamic Banks should business with the principles of Islamic law as this is the key differential from other Conventional Banks. The Islamic Banks should keep reviewing their products on a continuous basis to align them to the market needs both internal and external training of staff. To achieve the study, the researcher adopted a descriptive research design, this design adopts the suitable research design hence it facilitates the highlights of the challenges as guided by the research objectives. The questionnaire and interviews were meant to collect primary data from the respondents. The data collected was coded statistically and analyzed using Statistical Package for Solid Scientists (SPSS) and Microsoft Excel. The presentation was done using charts, tables and figures to get accurate findings. The study reveals not all Islamic products are used in the Islamic Banks. The study also reveals that Islamic products are fairly attractive to clients.

The main challenges affecting the Islamic Banks in Kenya,

- Lack of Regulatory and legal framework remains as the main challenge Sections of the Central Bank of Kenya Act and the Banking Act were noted to be contradictory with the Sharia law hence challenges the ability of Islamic Bank in Kenya to comply with the Sharia law. Inessence, the unique nature of the Shariah compliance from a financial perspective strikes challenges, that current regulation such as the Banking Act (Cap 488) and the Central Bank of Kenya Act (Cap 491) the CBK Act do not sufficiently deal with. The Kenya Deposit Insurance Corporation Act 2012, which aims to protect depositors of troubled Banks such as

Corresponding Author:** ***Dr. Ali Mwinyi Mziwa,
Lecturer Faculty of Education &Social Studies, Umma University,Kajiado Kenya.

The Chase Bank, is equally not well suited to cater depositors of Banks that provide Islamic Banking products, as well as Conventional Banking as deposit premiums from Account holder of purely Islamic financial products are not segregated from premiums of regular deposit holders. The premiums from Islamic Banking products would need to be aligned to the Takaful Insurance Model which is an Islamic alternative to conventional insurance and also emphasizes avoidance of riba, maysir and Gharar. The need for a regulatory framework has become eminent based on the fact that International Banks offering Islamic products are keen on breaking into Kenyan financial market in order to exploit the full potential of Islamic Banking, the recent entry of Dubai Islamic Bank, which is one of the largest Banks in the United Arab Emirates, now operating in Kenya.

The Divergent opinion on the Sharia compliant, liquidity management

- Lack of Islamic financial colleges to promote and train students and employees working in Islamic financial institutions, hence the Islamic Banking struggling coping with unskilled human resources which lack service delivery, few Islamic banking products in the market comparing with Malaysian Islamic financial products.

Customer awareness and limitation of Islamic products in the market, lack of aggressive marketing, and the Muslims scholars and Imam's not involved. Despite having high population of Muslims in the Republic not added advantage.

- Lack of Islamic Digitalized system which offers innovative products and services in line with Shariah

There is lack of Shariah Advisory Council of Kenya which reinforces the role and functions of Shariah Advisory Council as the Authority for the ascertainment of Islamic law for the purposes of Islamic financial business supervised and regulated by the Bank. The Shariah Advisory Council assumes a pivotal role in ensuring consistent application of Shariah Rulings by the Islamic financial institution in Kenya. The Shariah rulings to ensure end-to end Shariah Compliance in product structuring and implementation of their financial Activities.

- Lack of standard financial contracts and products can be a cause of ambiguity and a source of dispute and cost.In addition, without a common understanding on certain basic foundations, further development of banking products is hindered

There is no proper mechanism of transparency and disclosure to the public in order to ensure consumer protection as provided by Shariah

I. Shortage of experts in Islamic banking: The supply of trained or experienced bankers has lagged behind the expansion of Islamic banking. The training needs affect not only domestic banks, both Islamic and non-Islamic, but foreign banks as well.
II. Absence of accounting (and auditing) standards pertinent to Islamic banks: Uncertainty in accounting principles involves revenue realization, disclosures of accounting information, accounting bases, valuation, revenue and expense matching, among others. Thus, the results of Islamic banking schemes may not be adequately defined, particularly profit and loss shares attributed to depositors.
III. Lack of uniform standards of credit analysis: Islamic banks have no appropriate standard of credit analysis. Similarly, there is a widespread training need involving related aspects such as financial feasibility studies, monitoring of ventures, and portfolio evaluation.
IV. Potential conflicts with central banks: Islamic banks have been established as separate legal entities; therefore, their relationships with central banks and/or other commercial banks are uncertain. Problems may be further aggravated when an Islamic bank is established in a non-Muslim nation like the case of Kenya, and is subject to that nation's rules and requirements.
V. Instruments that meet the demand of specific investment requirements: One of the biggest challenges facing institutions is the provision of short-term investment instruments. Several institutions.

Recommendations

In Republic of Kenya, all banks offering Islamic banking system have established their own separate Shari'ah Advisory Board to oversee and ensure consistent application of Shariah Rulings to their respective banks on Islamic banking system. In principle, Shari'ah Boards have the authority to impose their viewpoint, but logistic considerations do not permit timely vetting and/or monitoring of all banking operations. I recommend CBK to put in place a policy to establish a national Shari'ah Advisory Boards which will consist of well versed Islamic Finance Professors to oversee Islamic banking operation in Kenya. Conventional banking system in Kenya are compelled to have a uniform financial reporting standard thus mixing their funds that are both conventional and Islamic compliant. In view of this, Muslim customers are discouraged to bank with such conventional banks, as it is not acceptable in terms of shari'ah. Therefore, I recommend CBK to allow such conventional bank to have separate financial reporting index.Set up Islamic Financial College to have strong skilled human resource and deliver . Lack of qualified Islamic banking personnel is another major setback in Kenya. Further training and Islamic finance education should be given to bank personnel to up skill them to offer quality service and appropriate advice to bank customers. I recommend Islamic banks to initiate International Islamic finance conferences,set up call for research papers organize regular training and workshops by inviting well-versed Islamic scholars to educate bank personnel about Islamic banking and financing.Also recommend the CBK on the regulatory Acts so as to accommodate the Islamic Banking system.The Banks should introduce outreach programs to rural areas.

REFERENCES

1. Alexakis, C. &, Tsikouras, A, (2009). Islamic finance regulatory framework : challenges lying ahead, *International Journal of Islamic and Middle Eastern Finance and Management,* Vol. 2 Iss: 2, pp.90 –104
2. Ahmad, S.M. (1952) "Interest and Unemployment" Islamic Studies, VIII I, pp. 9-46.
3. Al-Harran, S.A.S. (1993). Islamic Finance: Partnership Financing, Pelanduk Publications, Malaysia, pp. 15-157.
4. Amin, H. (2008). Determination of choice criteria in Malaysia's Retail Banking. Kuala Terrengganu. Malaysia.

5. Anwar, M. (1989). Modeling interest free economy; *Genuine publication.* West, New Dhephi.
6. Al-Arabi, (1966) "Contemporary Banking Transactions and Islam's Views Thereon" Islamic Review, May, pp. 10-16.
7. Ariff, (1982) Monetary and Fiscal Economics of Islam, *International Centre for Research in Islamic Economics,* Jeddah.
8. Bashir, (2000) Assessing the Performance of Islamic Banks: Some Evidence from the Middle East Paper retrieved on June 12, 2006 from http://www.luc.edu.orgs/meea/volume3/revisedbashir.pdf.
9. Bryman, C. (2001).Improving Internal Control: A Practical Guide for Microfinance Institutions.
10. Brunei. Khan, M. M. & Bhatti,M. I., (2008) Development in Islamic banking: a financial risk-allocation
11. AAOIFI (1428H, 2007); Accounting and Auditing Organizations of Islamic Financial Institutions, Bahrain ISBN99901-23-07-1
12. AAOIFI (1429H, 2008); Accounting and Auditing Organizations of Islamic Financial Institutions, Bahrain ISBN 99901-23-07-1
13. Abdul Azeez A. (2014): A comparative study of Islamic financial system and conventional financial system, Victoria University of Wellington. https://www.researchgate.net/publication
14. Abdul Ghafar, I. (2010). Money, Islamic Banks and the Real Economy, Cengage Learning Asia
15. Ahmad, A.and Khan, T. (1997): Islamic Financial Instruments for Public Sector Resource Mobilization, Islamic Research and Training Institute, Islamic Development Bank, Jeddah Kingdom of Saudi Arabia.
16. Ahmad T. El Diwany T. Ahmad F. (2010): Islamic Banking and Finance: What it is and what it could be, 1st Ethical Charitable Trust, Springfield House, and Summerfield Road, Bolton, United Kingdom.
17. Aliyu S. U. Rano (2012): Islamic Banking and Finance in Nigeria: Issues, Challenges and Opportunities. Online at http://npra.ub.uni-muenchen.de/42573/MPRA Paper No.12573, posted 13 Nov. 2012
18. Asian Development Bank and Islamic Financial Services Board (ADB and IFSB) (2015):Islamic Finance for Asia: Development, Prospects, and Inclusive Growth. May 2015. IFSB Bulletin sixth issue in https://www.ifsb.org
19. Ayub, M. (2007): Understanding Islamic Finance", West Sussex, England: John Wiley & Sons.
20. Ayub, Muhammad (1999). Banks' Prize Schemes: Their Sharı´ah Position, *Journal of the Institute of Bankers, Pakistan,* June, pp. 29–38.
21. Ayub, Muhammad (2002). Islamic Banking and Finance: Theory and Practice, State Bank of Pakistan, Karachi, December.
22. Bank Negara Malaysia (2010): Shari'ah Governance Framework for Islamic Financial Institutions: Islamic Banking and Takaful Department, Malaysia. Shari'ah 2 (2010) (English) https://law.resource.org
23. Bashir A Umar (2011): "Overview and Conceptual Issues in Non- I nterest Banking in Nigeria" CBN Bullion vol. 35 No.3 July- Sept, 2011 Bashir,(2000) Assessing the Performance of Islamic Banks: Some Evidence from the Middle East Paper retrieved on June 12, 2006 from http://www.luc.edu.orgs/meea/volume3/revisedbashir.pdf.
24. Bryman, C. (2001). Improving Internal Control: A Practical Guide for Microfinance Institutions.
25. Brunei. Khan, M. M. & Bhatti,M. I., (2008) Development in Islamic banking: a financial risk-allocation
26. Noureddine K. & Abbas M. (2009): Comparative Development of the Islamic Economic Model in context of current market conditions', Seminar Presentation held on 30 January, 2009, organized by KPMG, London, UK
27. CBN, (2011a): Central Bank of Nigeria: Framework for the regulation and supervision of institutions offering non-interest financial services in Nigeria. *Online at: www.cbn.gov.ng*
28. Chapra, M.U. & Khan, T. (2000): Regulations and Supervision of Islamic Banks. Occasional paper No.3, Islamic Research and Training Institute, Islamic Development Bank, Jeddah, KSA.
29. Chapra M. U. (2009): "The Global financial crisis: Can Islamic finance help?", *Al- Manar: Internal Information Bulletin of the Islamic Development Bank, Issue no. 102 (Rajab/July).*
30. Viewed in Mustafa D, Ibrahim M. Y, Adewale A (2011)**:** The Establishment and Operation of Islamic Banks In Nigeria: Perception Study on the Role of the Central Bank of Nigeria.
31. Australian Journal of Business and Management Research Vol.1 No.2 | May-2011,
32. Choudhury, Masadul Alam (1997). Money in Islam: A Study in Islamic Political Economy. Routledge, London, pp. 71–103, 286–291.
33. International Centre for Education in Islamic Finance (INCEIF) (2006): Applied Shari'ah in Financial Transactions, Menara Tun Razak, Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia.
34. Iqbal Z. (1997). Islamic Financial System: Journal of Finance & Development Vol 34 No.2 World Bank's Treasury Information Services Department.
35. ISRA,(2011): Islamic Financial System, Operations and Principles, International Shari'ah Research Academy for Islamic Finance, Menara Tun Razak, Jalan Raja Laut, Kuala Lumpur, Malaysia.
36. Kabir, H. Rasem N. K. & Oseni, U.A. (2013): Introduction to Islamic Banking & Finance Principles and Practice Pearson Education Limited, Edinburgh Gate, China.
37. Khan, M. S. & Mirakhor, A. (Eds.) (1987): Theoretical Studies in Islamic Banking and Finance The Institute of Research and Islamic Studies, Houston, USA.
38. Moinuddin, C. (N.d): An Introduction to Islamic Finance: A different perspective on global business, HSBC Amanah, Malaysia.
39. Mustafa D, Ibrahim M. Y, Adewale A (2011)**:** The Establishment and Operation of Islamic Banks In Nigeria: Perception Study on the Role of the Central Bank of Nigeria. *Australian Journal of Business and Management Research* Vol.1 No.2 | May-2011,
40. Nazim Ali, S. (Ed) (2006): Islamic Finance; Current Legal and Regulatory Issues, Massachusetts Harvard Law School
41. Nikonova T., Kokh I. & Safina L. (2015): Principles and Instruments of Islamic Financial Institution, International Conference on Applied Economics, ICOAE 2015, 2-4 July 2015, Kazan, Russia.
42. Obaidullah, Mohammed (N.d.): Islamic Financial Services, King Abdul Aziz University, Jeddah, available at: http://www.islamiccenter.kau.edu.sa/english/publications/Obaidullah/ifs/ifs.html
43. Rusni, H. (2018): Enhancing Shari'ah Compliance of Islamic Financial Institutions Through Shari'ah Governance, Islamic Finance Intellectual Discourse.
44. Saiful Azhar R. (2010). Critical Issues in Islamic Banking, and Financial Markets: Islamic Economics, Banking and

finance, investments, Takaful and financial planning. Dinamas publishing, Kuala Lumpur, Malaysia.

45. Siddiqi, M. N. (1983). Issues in Islamic Banking, Islamic Foundation, UK ISBN:0- 86037-118-2.
46. Siddiqi, M. N. (1988). Banking without Interest, The Islamic Foundation, Leicester. Siddiqi, M. N. (2006.) Islamic Banking and Finance in Theory and Practice: A Survey of State of the Art, *Islamic Economic Studies,* No. 2 Vol. 13, February 2006.
47. Simona F. & Asma A. A. (2018): Principles of Islamic Finance and Principles of Corporate Social Responsibility: What Convergence? Department of Economics and Management, University of Brescia, Contrada Santa Chiara 50, 25122 Brescia, Italy.
48. Sole, Juan (2007). Introducing Islamic Banks into Conventional Banking Systems, IMF Working Paper 07/175, International Monetary Fund, Washington DC.
49. Tag el-Din, S. I. (1997): Characterizing the Islamic Financial Market, *Journal of King Abdulaziz University*, Vol S, 31-52. Jeddah, KSA.
50. Usmani, M. T. (2002): An Introduction to Islamic Finance, Kluwer Law International, The Hague, London, New Kluwer Law International, The Hague, London, New York.
51. Wahbah, Z. (2003): Financial Transactions in Islamic Jurisprudence, Dar al Fikr, Syria, translated by Mahmoud A. El Gamal.
52. Warde,T. (2010): Islamic Finance in the Global Economy, (2nd ed.), Edinburgh: Edinburgh University Press.
53. Zarqa, A. (1980). Islamic Economics: An Approach to Human Welfare. In Ahmed, K. (Ed.), Studies in Islamic Economics. approach.VOL.1 PP 40-51.
54. Khan, M. M., & Bhatti ,M. I. (2006). Why interest-free banking and finance movement failed in Pakista. Humanomics Vol 22, 3 pp 145-161. Australia. Kothari, C.R. (2004).
55. Research methodology: methods & techniques. New Delhi: New age international (P) limited publishers.
56. Chandran, E. (2004). Research methods: A quantitative approach with illustrations from Christian ministries. Daystar University, Nairobi.
57. Chapra, (1982) “Money and Banking in an Islamic Economy”. In Ariff, M. Ed. Monetary and Fiscal Economics of Islam, Jeddah: *International Centre for Research in Islamic Economics.*
58. Cooper, D., & Schindler, P. (2000). Business research methods. (8th edn) New Delhi, Tata Mc Graw Hill. Ebrahim,
59. C. R. Kothari (1990) Research Methodology, Methods and Techniques. New Delhi, Wishwa. European Journal of Business and Management www.iiste.org ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online) Vol.5, No.22, 2013 102
60. Erol, C. & El-Bdour, R. (1989). “Attitudes, behaviour and patronage factors of bank customers towards Islamic banks”. *International Journal of Bank Marketing,* Vol. 7 No. 6, p. 31.
61. Gafoor (2007) Islamic Banking Paper retrieved on June 27, 2007 from . http://users.bart.nl/~abdul/chap4.html.
62. Gerrald, P. (1997).Division of Banking and Finance, Anyang business school. Nyanyang Technology University. ”. *International Journal of Bank Marketing,* 15 /16 pp204-216.
63. Husain, I.(2010).Keynote address delivered at the Conference on Islamic banking and Finance : Islam and the Future of Economics .Karachi .
64. Iqbal, M. ed. 2000. Islamic Banking and Finance: Current Developments in Theory and Practice. Islamic Foundation and IAIE.
65. Iqhal (1991) Stabilization and growth in an open Islamic economy, Review of Islamic economy vol 1(2): 1-20
66. Kahf, M. (2004).Success factor of Islamic Banks, Symposium on Islamic Banking and Finance.
67. Kumar, M., Kee, F. T., & Charles .V. (2010).International Journal of Quality & Reliability Management, Volume 27, Number 3, 2010, pp. 352-378(27).Emerald Group Publishing Limited. Mingala, M. S. (2002). Financial Markets and Institutions. Addison Wesley, New York.
68. Khan (1987) Theoretical studies in Islamic banking and Finance, Houston institute for research and Islamic studies.
69. Microfinance Network with GTZ, Technical Guide No. 1 CBK. (2010). Targets Gulf cash with compliance bonds: Business daily news. Nairobi. Kenya.
70. M.S,(2001).Islamic banking in Brunei Darussalam. University of Brunei Darussalam/National University of Singapore, Singapore, and Tan Kai Joo Kemuda.te for research and Islamic studies.
71. Mirakhor (1989) Monetary management in an Islamic Economy: International Monetary Fund Washington D.C
72. Nasim, (1998), ‘Key Concepts of Islamic Finance: Their Relevance to Consumer Finance Products’, Proceedings of the Second Harvard University Forum on Islamic Finance, Cambridge, Massachusetts: Harvard University, 291-93.
73. Nasim, Pervez (1999), ‘Various Islamic Modes of Home Financing’ in Islamic Banking and Finance, The Concept, the Practice and the Challenge (ed.), Imtiazuddin Ahmad, Indianapolis: Islamic Society of North America, 69-73.
74. Siddiqi, M.N. 1988 “Islamic Banking: Theory and Practice”. Islam have tried to develop high quality short-term instruments, but have been hampered by their ability to generate assets, by their credit ratings, and by liquidity.

****