

THE EFFECT OF ISLAMIC FINANCE ON ECONOMIC GROWTH IN KENYA

BY

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DECLARATION

This research report is my original work and has not been presented for a degree in any other university.

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This research report has been submitted for examinations with my approval as the university supervisor.

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DEDICATION

This study is dedicated to my family for giving me the enabling environment for the production of this work.

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LIST OF ABBREVIATIONS AND ACRONYMS

BEA Bureau of Economic Analysis

GDP Gross Domestic Product

GNP Gross National Product

IIFS Islamic Financial Services

ROA Returns on Assets

ROE Returns On Equity

SPSS Statistical Package for Social Sciences

UK United Kingdom

WHO World Health Organisation

ABSTRACT

The purpose of the investigation was to verify the effect of Islamic finance on economic growth in Kenya. This investigation employed a descriptive research. The study utilized secondary data. Annual data on Islamic finance was sourced from the financial accounts of the fully-fledged Islamic banks for and while data on economic growth was sourced from Kenya National Bureau of Statistics. The gathered covered a period of 7 years that is, 2010 – 2017. Data analysis was done using Statistical Package for Social Sciences (SPSS) to create quantitative reports that were exhibited through tabulations, percentages, mean as well as standard deviation in presenting a clear picture of the influence of Islamic finance on economic growth in Kenya. To test the statistical significance the F test was performed to examine the overall importance of the model in its entirety while the t – test was used to examine the importance of the coefficients at 5% significance level. To ascertain this chi-square test and a comparative analysis of the trends in economic growth for the seven-year average of the economic growth using. This was done using changes growth rate and total changes in average annual growth rate in Islamic Finance. Findings in the table above indicate that a strong positive link existed between GDP growth rate in Kenya and growth in Mishawaka financing /partnership. There was a powerful positive link between GDP growth rate in Kenya and Mudaraba financing /Cost plus financing. There was a strong positive correlation between GDP growth rate in Kenya and Murabaha financing /finance by way of trust. There was a powerful positive link between GDP growth rate in Kenya and Ijara financing /Leasing. This is an indication of a strong correlation an indication that Islamic finance lead to improved economic growth. A regression model was applied to determine the link between Islamic finance and Economic growth. From the regression model, the investigation ascertained that Islamic finance adoption boosts economic Growth. The independent variables that were investigated point out a considerable 17.45% of the changes in GDP growth rate in Kenya of as exemplified by adjusted R^2 (0.1745). This for that reason implies that the independent variables contribute 17.45% of the GDP growth rate in Kenya whereas other elements as well as random differences not investigated in study make up 82.55% of the GDP growth rate in Kenya. The study therefore recommends that a legislative framework should be put in place to enhance the regulation of the industry as well as amendment of the Banking Act to incorporate Islamic Banking concepts

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Islamic finance came in the international business platform as early as the 1950s, increased drive in the 1970s, following the oil crisis in 1973 and the beginning of Islamic movements, and increased rapidly in the 1990s. Varying in scope from corporate finance to asset management, Islamic finance has detonated worldwide, and expected to give attention to derivatives liquidity management fundamentally determined by the oil industry (Walker, 2017). Islamic finance, entails offering financial products as well as services by institutions offering Islamic financial services (IIFS) for Shariah accepted basic transactions as well as economic activities. Finance is anchored on Shariah in order to conform to the religious obligations of Muslims according to their “aqidah”, an element that differentiates Islamic finance from typical finance. Shariah compliant financial products as well as services ought to add value towards economic growth.

Financial organizations across the globe are attempting to match the rising need for Sharia compliant products as well as services (Islamic Banking and Finance Centre UK, 2018). Al-Jarhi (2016) argue that guideline is able to increase the performance of typical banks till it reaches the limit, however cannot remove the inadequacies as a result utilization of the typical loan agreement. Islamic finance involves complex as well as expensive likened to typical finance. However, it has substantial macroeconomic gains, which cannot be adopted by single banks. As a result, Islamic bankers have a tendency to copy typical finance so as to reduce costs as well as increase short-term profits.

Major principles (theories) of Islamic finance include: First is the principle of requiring zakat. This is to uphold justice connected to the allocation of wealth or resources. Islam

levies a property tax referred to as zakat (Uddin, 2015). The second principle is prohibiting riba (interest). Islam forbids transactions based on interest. The third principle is encouraging shared risk. Islamic finance fosters risk-sharing in economic relations (Harrison & Ibrahim, 2016). Lastly, is the principle that prohibits gambling. In Islam, wealth acquisition through chance (not by effort) as well as games of gamble are forbidden since they depend on uncertainty (Uddin, 2015).

Kenya's Islamic finance industry is the most developed in the region, improving institutions as well as products in banking, insurance (Takaful), pensions, microfinance, investment and many more despite the challenge of shortage of qualified personnel it faces. The growth of Islamic banking and finance has increased drive in the last few years and Kenya is fast growing as for East African Islamic finance hub (Dahir, 2017). Kenya's exchequer in recent times revealed a blueprint to normalize Islamic financing as component of a determination to promote economic growth, and to aid in establishing the industry up as a basis of development funding.

Regulatory agencies indicate that Kenya has the prospects of making Islamic finance as well as banking to boom. The major motivation of this study in the Kenyan context is as a result of the improvement of Islamic financial structure to become the leader in East and Central Africa. Kenya also recently subscribe to the Islamic Financial Services Board, a Malaysia-based organization that controls and supports good as well as transparent Islamic financial services worldwide (Dahir, 2017).

1.1.1 Islamic Finance

According to World Bank WHO (2015) Islamic finance refers to an equity-based, asset-supported, moral, justifiable, environmentally as well as socially-responsible finance that

upholds risk division, attaches the financial segment with the actual economy, and gives emphasis to financial involvement as well as social prosperity. Walker (2017) defines Islamic finance that is in conformity with the Islamic laws know as Sharia laws. According to Dahir (2017) Islamic finance, is a financial scheme based on profit-division, and forbids the gathering as well as interest payment.

The current reality forces a number of financial needs, and to satisfy these needs Muslim jurists focused in financial transactions were dedicated to come up with unique financial products as well as solutions well-matched with Sharea' meeting the requirements of people as well as corporates perfectly. Among Islamic finance tools are: Idjara which is an Islamic financial tool precisely, referring to leasing. In this contract the bank purchases equipment and leases it momentarily to a customer for some fee. At that, the customer is allowed to buy the equipment from the financial establishment in the period of agreement validity or afterward its termination depending on initial agreement with the bank. Istisna is also an Islamic financial tool that assumes that one of the parties purchases materials or commences to offer finance to another party for performance of particular jobs (Chokri & Anis, 2018).

Another Islamic financial instrument is Mudarabah which is a type agreement that entails investment partnership when one party funds the task and the other one is responsible for its completion. In Muslim countries such deals are classic form of investment into development projects (Tatiana, Igor & Liliya, 2015). Mubarakah is another Islamic financial instrument that is bGDP growth ratedly applied in Islamic finance. The impression is that a financial organization, as a regulation, a bank, purchases some goods upon customer's order that well ahead purchases it with markup. Payment for such goods

by a customer may possibly be made as one payment as well as using installments (Basov & Bhatti, 2016).

Sukuk is an Islamic finance instrument that is vigorously developing Islamic investment instruments. It is usually likened with classic bonds however as Sharia rules forbid the investment instruments with the fixed profit rate, Sukuk has various differences (Alzoubi, 2017). Murabaha is another Islamic finance instrument regarded as the most widely known finance instrument as an obvious real-world solution for purchasing various goods. The bank purchases the product needed by the customer from supplier, then, resells it to the customer for installments after calculating the bank profit to the gross selling price. The parties of "Murabaha" are three: seller, buyer as well as the bank. Murabaha agreement depends upon two aspects, promise "*Wa'd*" as well as credit sale (Basov & Bhatti, 2016).

1.1.2 Economic Growth

According to Raworth (2017) economic growth is the upsurge in the commodities as well as services that an economy generates, over an extended period of time and evaluated as proportional upsurge in actual gross domestic product (GDP) i.e, GDP adjusted for inflation. GDP is the market value of all absolute commodities and services created by a nation's economy. According to Ghazanchyan, Stotsky and Zhang (2015) economic growth refers to an upsurge in an economy's ability to produce create commodities as well as services, associated from a single of time period to the other. He adds that economic growth can be evaluated in nominal (adjusted for inflation). Amadeo (2018) defines economic growth is an upsurge in the creation of commodities and services in a certain period. Economic growth simply means an increase in aggregate productivity.

Kenyan economic growth has been backed by healthy growth in private consumption as well as higher investment facilitated by favorable credit conditions, together with a sustained expansion in agricultural output behind better weather conditions. Additionally, conclusion of phase one of the Nairobi/Mombasa standard gauge railway to restrain import demand to some extent assist in narrowing the economy's present account deficit. Therefore, economic expansion pace may possibly be limited by fiscal consolidation policies of the government. Economics pundits estimate a growth in GDP by 5.5 percent in 2018, which is unaffected from previous month's projection, and 5.8 percent in 2019.

In measuring economic growth Gross domestic product is the most suitable method of measuring economic growth. It considers the nation's whole economic yield. It comprises all commodities as well as services that enterprises in the nation offer to the market irrespective of domestic or foreign trade. Therefore, a higher GDP would imply an economic growth. Per capita Income is another way to measure economic growth. Population is incorporated in order to deal with growing population. If population grows at a greater rate than national income then obviously economy was not wealthier. Therefore, per individual income which is national income divided by population is considered (Council of Economic Advisers, 2015).

Per capita consumption is another economic growth metric. It essentially distinguishes between what proportion of income is directed towards savings and what proportion of consumption. Relatively high rate of saving particularly in developed nations can lead to recessionary situations. Generally, too much emphasis on savings at the expense of producing essential goods can undesirably affect well-being (Ali, Egbetokun & Memon,

2018). Therefore, growth in per capita consumption is considered another metric to determine economic growth. Another measure of economic growth is Welfare. A developing economy is not a conclusion in itself it refers to a way of making individuals' lives better. The eventual goal of public policy is welfare. Environment is another measure of economic growth. The NEF suggests a national metric of lifestyle-linked carbon emissions, comparative to an apportionment determined from international targets for evading risky extents of climate change (Wallis, 2016).

1.1.3 Islamic Finance and Economic Growth

There are several empirical investigations on the role of Islamic banking in economic growth as well as development. Researches have determined that Islamic finance lets a clearer relationship between actual economic undertakings that brings value as well as financial undertaking to be established (Nedal, 2011). For example, Hassan, Kayed and Oseni (2013) noted that Islamic banking as well as finance constitute the key elements of the modern global financial structure. Kammer et al. (2015) similarly contended that Islamic finance bears the prospective to lead to a more all-encompassing economic growth. Furthermore, Adeola (2007) indicated that Islamic banking promotes economy growth by way of better combination of the actual as well as financial segments of the economy, better enterprise principles.

Similarly, Tabash and Dhankar, (2014) examined empirically the link between the expansion of Islamic finance and economic growth in the Middle East where he ascertained that financing by Islamic banks has led to enhanced investment as well as attraction of FDI in the longstanding and in a progressive manner, The outcomes of

Granger causality assessment indicated a progressive as well as statistically substantial link between economic growth and financing of Islamic bank in the on Malaysian economic progress. They ascertained that Islamic banking structure is relies upon the capability of drawing large deposit amounts from Muslims as well as Non-Muslims clients.

Asif, Ather and Isma (2014) on their research on the influence of Islamic investment drift on Pakistan's economic progress established that deposits Islamic Banks in four separate intervals considerably were important in forecasting the economic progress because Islamic banks could inspire staff, stakeholders as well as business partners economically which can lead to the sustainability of nation's exchequer and different ranges of key social improvement programs. Aurangzeb (2012) similarly stressed that a substantial and strong relationship exists between the nation's financial segment as well as performance as a whole, therefore nations with proper financial system always develops its economic growth faster.

1.1.4 Islamic Finance and Economic Growth in Kenya

The Kenyan government's pledge to establish a Shariah-compliant fund structuring as well as banking framework is a strategy aimed at growing foreign direct investments. This plan has been welcome because focus on Islamic banking would have a number of benefits towards Kenya's economic growth (Ilako, 2017). The unveiling of a plan by the Kenyan Finance Ministry to mainstream Islamic financing is aimed at fueling Kenya's economic growth, as well as to aiding establish the sector as a basis for growth financing (Dahir, 2017). The endorsement of the Islamic Banks by the Central bank of Kenya has

been key towards financial inclusion, as the newly instituted Islamic banks as well as other typical banks with windows of Islamic finance provide the Muslims with financial services in accordance with their faith. This would be an impetus for Kenya's economic growth (Warsame, 2017).

A study by Walid (2015) establishes that that an increase in savings in Islamic banks stimulates economic growth in Kenya whereas a decrease in lending inversely affects economic growth whereas increase in lending by Islamic banks also stimulate economic growth in Kenya. Ali (2017) similarly noted that the Islamic concept of profit sharing is key towards fostering economic growth and development by encouraging equal income distribution as well as resulting in greater benefits for social justice and long-term growth. As such, he concluded that banks in Kenya ought to adopt an interest free environment to facilitate a level playing ground amongst market participants.

1.2 Research Problem

The concept of Islamic finance is important as it has developed as an efficient instrument for financing development globally, comprising non-Muslim nations. Key financial markets are solidly ascertaining that Islamic finance has by this time been conventionalized in the universal financial structure and that it bears the likelihood to aid in dealing with the challenges of finishing extreme poverty as well as enhancing mutual prosperity. The study has considered the context because Kenya has the most developed Islamic finance industry in the region, boasting institutions and products in banking, insurance (Takaful), pensions, microfinance, investment among others, however the major problem arising in Islamic finance is the shortage of competent personnel in the field (Omar, 2016).

Kenya's treasury ministry lately revealed a blueprint to conventionalized Islamic funding as an attempt to fuel economic progress, as well as to aid establish the sector as a basis for growth financing (Dahir, 2017). The government through Ministry of finance has proposed changes to the financial acts and dispense new guidelines to expedite a retirement benefits scheme that is Sharia-compliant. It will similarly make changes to the public finance administration law to support the *sukuk*, or Islamic bonds issuance. The endorsement of the Islamic Banks by the Central bank of Kenya was key towards financial inclusion, as the newly instituted Islamic banks as well as other typical banks with windows of Islamic finance may possibly provide the Muslims with financial services in accordance with their faith. Shariah-compliant banks as well as other organizations offering related products would be key in fostering financial inclusion amongst Muslims (Warsame, 2017).

A number of researches have been carried out both globally and locally on the Islamic Banking as well as economic growth concepts, for instance Kalim, Mushtaq and Arshed (2016) conducted a research in the context of Pakistan to investigate short run as well as long-term correlation between Islamic finance progress, its numerous products and economic growth. The investigation pointed out that a supply side link exists between economic progress and Islamic banking in Pakistan. Bahkhita (2017) similarly conducted a research to explore the impact of Islamic financing modes on economic growth by way of financial strength. Amine (2015) carried out a research in Malaysia that sought to establish the influence of Islamic bank financing on economic growth. Lastly, Kassim (2016) similarly performed an investigation in Malaysia to empirically verify the influence of Islamic finance on economic growth. Locally, a number of studies on the

concept have been conducted as well. For instance Omar (2016) conducted a research that sought to ascertain the influence of the financial Islamic banking on performance of Kenyan conventional banks. Ali (2017) conducted a research on First Community Bank in Kenya to verify the influence of Islamic banking on economic progress. Yussuf (2017) also conducted a research that sought to measure how Islamic banking influence growth of SMEs in Nairobi. Lastly, Fidow (2016) conducted a study that empirically tested the correlation between Islamic financing and borrowing levels in Kenyan commercial banks. According to the above studies, focus has been on Islamic finance, however no single study has tackled the concept of Islamic finance and the economic growth in Kenya. This research for that reason seeks to fill the present research gap by exploring the the effect of Islamic Finance on economic growth in Kenya. The research seeks out to answer the research question: How does Islamic Finance influence economic growth in Kenya?

1.3 Research Objective

To investigate the effect of Islamic Finance on economic growth in Kenya.

1.4 Value of the Study

To the management, this investigation will give some food for thought in the financial crisis. For instance, the Islamic financial system was less influenced by global financial crisis due to its inherent elements that assist in the stabilization of credit growth, promotion of an asset-based investment, fostering economic productive transactions thereby reducing systemic risk, and most importantly assist in balanced leverage.

This research will add significantly to the existing body of knowledge in the topic of Islamic banking as well as economic growth hence bridging the current research gaps on

the concept. This research will similarly be a source of empirical literature that helped future researchers as well as scholars a material of reference that they would cite in their researches above and beyond suggesting areas for advancing research.

To the policy makers, this research was valuable as well. Through emphasis that thorough risk management as well as proper corporate governance are core foundations to any bank's capability to comprehend as well as control its risks. Through the increasing prominence of Islamic banks as well as Sharia-compliant financial novelty, it was ever more important to safeguard comprehensive Islamic financial establishments moving ahead. Policy makers was able to collaborate in promoting every bank to enhance their risk controlling practices as well as openness.

For the practice, this research was significant to the MBA students as it will give them deeper knowledge of Islamic finance that improve the growth in Islamic finance in the Islamic finance on the global financial market platform as well as their personal career potentials and similarly in influencing a new financial order that is impending.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter seeks to conduct a presentation on a section of literatures. The literatures will seek to underpin the influence of Islamic finance on economic growth in Kenya. The chapter is with a short review on some of the theories underlined in the Islamic Banking segment followed the determinants of growth in the Kenyan economy and lastly empirical studies that support this study. The chapter will then end with a summary of the reviewed literatures, efforts that will establish a research gap that was addressed.

2.2 Theoretical Review

As established, this study heavily relied on the profit and loss sharing theory, trust financing theory, and the interest theory.

2.2.1 Profit and Loss Sharing Theory

The concept's proponent lies in the need for an equitable sharing of resources, a significant trajectory in the Islamic financing concept given that this model reflects the values held by the Muslim faithful's. The model also known as Mudaraba as well as Musharaka are perceived to be a strong pillar in Islamic finance. The Mudaraba system mainly accepts funds from the different stakeholders known as depositors under a risk-sharing agreement. The Islamic financial institutions equally share the profits and losses made on the Mudaraba ventures with its depositors. As established in the views of Jedidia and Hamza (2014) in the rules of Shariah, individuals are not allowed to make claims for any form of compensation without incurring an ex ante investment risks. In other words, the profits and loss sharing model exercised by the Islamic financing institution necessitate the need to comply with the Islamic Shariah laws. According to Iqbal (2013)

the Islamic profit sharing is considered a crucial tool in fostering economic growth and progress given the fact that this method encourages the equal distribution of resources, resulting into greater benefits.

Contrarily, the Musharaka financing appGDP growth ratech necessitates the need for the clients to engage in the management of the affairs of the Musharaka business as established by (Iqbal, 2013). The clients and the Islamic banking institutions mutually share the profits as well as losses generated from the Musharaka investments. The bank then shares the accrued profits and takes liabilities of financial losses generated during the investment process (Iqbal, 2013). It is however essential to note that the profit and loss sharing theory within the Islamic context has primarily been flogged and faulted for the lack of proper measures used in the monitoring process especially in cases where the Mudaraba fails to provide control rights to the financiers.

Literature on the profit and loss sharing model dates back from 1986. As adduced in the views of Saleh (1986), there are rights and responsibilities of the financiers in any form of Mudaraba arrangement. Firstly, the financiers need to ensure that the borrowers of lending institutions comply with the Islamic banking terms of contract, limited liabilities, and the sharing or profits as well as losses. The primarily responsibility of these measures lies on the need to ensure that the Mudaraba capital is handled in an effective manner. On the other hand, Saleh (1986) unravels that the borrowers equally have rights that may need to be observed. In other words, the rights of the borrowers include engaging in accounting processes of any Mudaraba arrangement and conducting business a higher

level or degree of freedom. However, it is essential to note that a section of studies such as that conducted by Shingjergji and Idrizi (2014) accentuates that there are underlying factors that may hamper the implementation of the profit and sharing model in financing.

2.3.2 Interest Theory

The first writings concerning finance and Islamic banking were founded during the early twenties by Siddiqi. The Islamic banking theory is mostly grounded on the point that according to the Islamic beliefs, interest is forbidden. The theory is also based on the fact that Islamic religion provides the necessary guidance on where to base the banks. The theory is essentially based on the principle that interest is unnecessary as well as not required foundation for the banking undertakings. It also argues that Islamic knowledge provides a foundation for operating the banks. The basis suggests that Islamic teachings guide all the theoretic work regarding Islamic banking and that profit and trade is permissible (McDonnel & Rubin, 1991).

The main standard in the Islamic regulation is that manipulative or unfair contracts which involve conjecture or any other form of risks are impermissible. In *Economics of Islam*, a book authored by Ahmad, he predicted the development of Islamic banks founded on a combined stock company with a limited liability. Besides current accounts, which do not allow any interests or dividends, there existed another account where people deposited their capital in terms of partnership with other stakeholders where they received higher bonuses than the real account holders.

Hypothetical work concerning Islamic banking includes various features related to possible socioeconomic consequences as a result of implementation of the freshly introduced system as well as operating actions of Islamic banks. Islam intends to create a community founded on justice and fairness (McDonnel & Rubin, 1991). Therefore, the idea regarding Islamic banking has continued under the condition that supervision for all the established developments within the Islamic community should be based on the philosophies of Sharia. The major content and form of Islamic banking have to be guided by the Islamic teachings. For example, a loan gives the creditor a established return regardless of the results of the debtor's project.

The Islamic teachings also point out that it is fair for the losses and profits to be shared by all the involved parties. In this context, fairness is perceived in two scopes; the provider of the funds enjoys the privilege of being rewarded, however the return must be equal to the efforts as well as risks implicated, hence should be guided by the yield realized on the person's venture into which the capital was invested.

A financial organization which does not consider interests requires a monetary rule framework (McDonnel & Rubin, 1991). Following the abolition of interests in the economy, the strategy of the Sharia-compliant financial policy dominates among the economists as well as the Islamic bankers. The Islamic standards require a field that plays equally among all the market participants, thus permitting the economy to develop which helps in alleviating poverty. In a conservative economy, the monetary policy seeks to control inflation and alleviate output fluctuation.

2.3.3 Trust Financing Theory

In the Islam, the trust financing theory is known as Mudaraba. Trust financing theory is a type of partnership where a single associate (rabbal) funds the entire venture whereas the partner (mudarib) controls it. The method of funding necessarily doesn't need the creation of an enterprise. The financial organization gives every required funds whereas the client manages the project. Therefore, all the profits realized from the invested capital are dispersed according to predetermined and fixed ratio. The partner possesses all the assets, whereas the other one is given the option to purchase the other partners investments. The trust financing theory may be established between the Islamic bank, which is regarded as the supplier of funds as well as the business owned by the client (Jonanovonic, 1989).

The argument that more rules exist in the Islamic banking apart from the eradication of interest was pointed out by Chapra in the year 1985. He predicted the Islamic banks whose prospects, operations and nature may not be similar to the typical banks. Apart from the illegalization of riba, he regarded it important that the Islamic banks serve the interests of the public rather than helping a group or an individual. Islamic banks should help to improve the welfare of the society rather than playing the role of maximizing profits. Chapra perceived the Islamic banks as the cross-breed of merchants and profitable banks, investment-management institutions and investment trusts that would guarantee an extensive range of services to their clients.

2.3 Determinants of Economic Growth

The financial performance and economic growth and posterity of the Islamic financing sector is mainly determined by different variables. According to Ajlouni (2014), these variables include:

2.3.1 Gross Domestic Product (GDP)

It is adduced by Ajlouni (2014) is a logical expression used in measuring the economic growth of a market by taking consideration of monetary expenditures in an economy. In out words, economists can make use of this tool in understanding the productive output of a market or industry by tracking the value of the dollar on in an industry during a specific period. A combination of the outputs in an economy or industry are then measured in regard to the amounts invested or dollars spend to determine the total production. However, there are tautologies that allege that expenditures in determining the GDP of a market tend to be equal to the sold-production and may not be used in measuring the relative productivity of a market. In this case, Ajlouni (2014) argues that the productive capacity of an industry of economy may not grow as a result of the circulation of foreign currencies, but economies turn out to be productive when resources and productively put to use.

2.3.2 Gross National Product

The gross national product (GNP) is an economic indicator used by economists to determine the total income of a nations or an economies resident within a period and the manner in which the residents make use of their resources. GNP therefore plays a significant role in determining the total income accrued among a population sample in a period.

According to the Bureau of Economic Analysis (BEA), the GNP was employed in determining the financial health of the U.S before the financial crunch that hit the nation. Kogid, Mulok, Beatrice & Mansur (2015) alleges that there are differences between the two financial indicators in as much as they differ significantly in the manner in which they are used in different markets. For instance, an economy that mainly contains foreign-owned investments and companies are likely to have a higher GDP as opposed to GNP.

2.3.3 Productivity vs. Spending

The relationship between the productivity and spending of an economy may be used as a tool in determining the productivity of a market. Several economists establish that total spending is a product of a productive output, an aspect that may be used in adjusting inflation. Contrarily, a section of literatures posit that increased spending alone may not be used an indication of growth.

Productivity and spending therefore spur profits in several businesses and as a result, there is a rise in stock prices in the market. As established by Kogid et al., (2015), this gives organizations and companies within the sector to make investments and hire more employees. As jobs are created within an economy, the levels of incomes rise and the consumers are in a position to access more money they require in purchasing additional products and services. This therefore established that purchases drive the level of economic growth in an economy. For this reason, organizations that have a positive economic outlook are more productive and spend a little bit more.

2.3.4 Liquidity

Liquidity is an instrument that is mainly used in measuring the extent and capacity of a financial institution in meeting the short-term and immediate financial obligation of the market or the development of assets that can be converted to achieve this goal. Matz (2013) posits that liquidity ratios are primarily characterized by higher levels of trading activities in a market, thus providing room for the sales or purchase of these assets. The proper management of a firm's working capital hence could be key in reducing the operational costs of a firm, thus contributing to the reduction of liquidity risks while on the other hand mitigating instances of financial losses that are attributed to the lack of resources needed to engage in profitable investments.

Matz (2013) in their theoretical modeling of liquidity ratios allege that a moderate amount of a firm's liquidity has the capacity to foster growth and propel performance of organizations in the market, thus contributing to the expansion of a markets growth. However, it is essential to realize that an abundance of liquidity is likely to result into more harm, positing the ambiguity of a firm's financial performance.

2.4 Empirical Literature

Bashir (2016) in a qualitative research study on the aspects of Islamic Banks' profitability as well as rates of return margins found that there are several underlying factors that determine the performance of financial institutions. A regression analysis was performed in the investigation measure the correlations between the profitability of Islamic financial systems and the economic progress of a market. The study revealed that the profits of Islamic financial institutions are mainly generated from customers short and long-term

financing, generated overheads, and non-interest earning assets that determine and bear an influence on the economic progress of a nation.

Ahmed & Zakaria, (2013) in another qualitative study on the performance of Islamic Banking contracts in Malaysian Banking Industry examined 17 financial institutions and analyzed data from the institutions. The findings of this study revealed that Mudaraba deposits and Non-Mudaraba deposits were the main instruments used by Islamic financing systems in sourcing their financial needs that are directed towards investments in an economy. In a summary, the study equally revealed that the profits of Islamic financial institutions are mainly consumed by the banks customers and are statistically significant to the profitability of the financial institutions.

Zulkifli (2014) in a study on Shariah administration in Malaysian Islamic financial establishments examined the performance of Islamic financial systems and products and revealed that Islamic contracts of Al-Bai remains the main contributors of profits and the economic growth of the Malaysian economy. The study examined the determinants of performance in 19 Islamic financial systems and institutions are established that there are positive correlations between the Islamic financial institutions and systems performance and the growth of an economy given that the institutions provide capital assets and loans based on different asset ratios. The higher the ratios as adduced in this study, then the more profitable a financial institution remains.

A similar qualitative study that mainly encompassed a series of variables in the quest to unravel the profitability of the Islamic financing and its impact on the growth of an economy was done by Alkassim (2015). The study made use of a regression analysis in determining the profitability measures of an economy that include returns on assets (GDP GROWTH RATE), returns on equity (ROE), and interests Margi through the analysis of six financial institutions. The outcomes pointed out that deposits have a substantial impact in the economic growth of a nation given that the state borrows from different financial institutions to run their developmental functions. In a nutshell, the study revealed that expenditures of the state may impact the growth of an economy.

Sufian (2016) conducted a descriptive examination on the Islamic banking segment's efficiency in Malaysia and revealed that liquidity ratios are an essential phenomenon that highlight the financial health of Islamic funding systems and the economic progress of a market in Malaysia. This study therefore revealed that there is a relations between the Islamic financing systems and capitalization in the Middle East, efforts that determine the growth of an economic market. The basis suggests that Islamic teachings guide all the theoretic work regarding Islamic banking and that profit and trade is permissible. The results of this study equally indicated that most of the foreign-owned financial institutions remains profitable than the domestic institutions.

Contrarily, other local studies have also undertaken measures to address the effect of Islamic financing on the economic accomplishment of the nation. Kinyanjui (2013) in an investigative study focused on the challenges that exhibit the Islamic financing systems in

Kenya. The study used a case study model that mainly focused on the four Islamic financing systems and institutions that were compliant with the regulations of the market. The study's findings verified that Islamic financing was mainly swayed by the element of religious conformity as well as the need to meet the customer's needs. Besides this, the study established that improvements in the Shariah laws within a diversified market niche.

In a descriptive research study conducted by Kasmani (2013) on the growth of Islamic financing in Kenya and its impact on the economy revealed that religious considerations plays a role in determine the stakeholders and customers of the Islamic financing systems. Muslims as established in the study constitute a larger majority of the financing systems customers while the non-Muslims widely appeared unrepresented. A majority of the respondents in this study were self-employed, making them the customer niche focused by the financing systems. However, the Islamic financing systems offered better product portfolios, pointing to the reason why it is effective and leads to economic growth.

Kadubo (2014) on the other hand undertook a case study investigation to verify some of the aspects that influence the development of the Islamic financing systems and institutions. The research found that religion remains a key drive of the economic growth of the Kenyan economy given the investments that are made by these financing systems in the Kenyan economy. The diversification of the systems products were crucial in the

Islamic finance progress, an aspect that contributes to the growing pace of Islamic financing systems in the Kenyan economy.

Ndungu (2015) in a research study driven towards determining the development of the Islamic financing systems in the Kenyan economy found that these systems provide greater opportunities for growth in the Kenyan economy, creating jobs to a section of the populations. In summary, the study unraveled that taxes has an impact on the performance of an economy, while on the other hand, a favorable macroeconomic environment may impact the profitability of an economy. As per the outcomes of this investigation, Islamic financial institutions undertake the provision of risk capital to an organization that allows professional managers to take responsibility in making operational and strategic financial decisions that may earn profits and returns.

2.5 Summary of Literature

As established in this part, the Islamic financing systems and monetary policies are expected to enable the mobilization of allocation of resources and savings which is dependent on the economic development. On the other hand, the literature reviews established that Islamic financing has a correlation with the growth of the Kenyan economy, providing several opportunities for investments and job creations as well. Lastly, deposits bear a significant effect in the economic progress of a nation only if the state borrows from different financial institutions to run their developmental functions. In a nutshell, it revealed that expenditures of the state may impact the growth of an economy.

2.6 Conceptual Framework

This section presents a diagrammatic representation between study variables. The independent variable is represented by Islamic finance while, dependent variable economic growth. The relationship is represented by figure 2.1.

Figure 2.1: Conceptual Framework

Independent Variable

Dependent Variable



CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides a detailed description of the study's research methodology mainly adopted by the investigator. The key fundamental components in this section include the study's design, the targeted population, the sampling methods and design, and the data gathering and analysis instruments.

3.2 Research Design

It entails the configuration of the investigation. According to Lodico, Spaulding and Voegtle (2016), research designs are the glues that hold all the proponents and elements of a research procedure weaved together. A research design is therefore utilized in structuring a research process, revealing all the major components and parts of a research project used in addressing a central research issue.

This investigation utilized a descriptive study. The primary rationale for the use of this method in this study lies in the fact that quantitative research methods opens a window opportunity for the study to conduct an in-depth analysis on the subject by probing the respondents and answering the research questions based on their responses to understand the element of feelings and motivations (Lodico et al., 2016). Secondly, the rationale behind the use of this method is in the fact that it helped in defining the subject of study by exploring and measuring usability.

3.3 Data Collection

Levy and Lemeshow (2015) posit that data includes the facts that are presented to researchers from an environment of study which mainly include the secondary and

primary data. The study utilized secondary data. Bless et al (2016) posits that secondary data sources are data that are neither collected by a user nor specified for the users since they involve the collation and analysis of published information from different internet sources. Quarterly data on Islamic finance was sourced from the financial reports of the fully-fledged Islamic banks while data on economic growth was sourced from Kenya National Bureau of Statistics. The gathered covered a period of 7 years that is, 2010 – 2017.

3.4 Data Analysis

Before the processing of the study's response, a preparation method was employed on the completed questionnaires with the intent to edit, code enter, and clean the data from any errors. The data collected in the study was analyzed through inferential statistics method that involved the examination, identification, and the interpretation of a multiple regression. A multiple regression model is a model used to ascertain the association of more than two variables.

Data analysis was done using Statistical Package for Social Sciences (SPSS) to produce quantitative information that were exhibited by tabulations, percentages, mean as well as standard deviation in presenting a clear picture of the effects of Islamic finance on economic growth in Kenya.

3.4.1 Analytical Model

$$Y = \alpha + X_1\beta_1 + X_2\beta_2 + X_3\beta_3 + X_4\beta_4 + \varepsilon$$

Where; Y= Economic growth was measured by Gross Domestic Product

α = constant term (The Y intercept)

Beta (β) = Beta coefficients

ε = Error term.

X_1 = The amount of Musharakah /partnership Financing contracts

X_2 = The amount of Murabaha /cost plus financing contracts

X_3 = The amount of Mudaraba /finance by way of trust Financing contracts

X_4 = The amount of Ijara /Leasing financing contracts

3.4.2 Diagnostic Tests

To test the statistical significance the F test was utilized to scrutinize the overall importance of the entire model while the t – test was used to verify the importance of the coefficients at 5% significance level

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This part provides the analysis of the sourced data and also provides an interpretation of such analytical outcomes and turns the findings into useful research information that can be used to make informed business decisions. The analytical process has been guided by the research methodology outlined in chapter three. The research data was gathered exclusively through secondary data.

4.2 Descriptive Statistics

The investigation aimed at verifying the effect of Islamic finance on economic growth in Kenya. This was measured through correlation analysis between the study independent variables financial indicators which include growth in Musharakah /partnership Financing contracts, Murabaha /cost plus financing contracts, Mudaraba /finance by way of trust Financing contracts and Ijara /Leasing financing contracts as compared to GDP growth rate. Consequently, descriptive statistics of the collected data was analyzed using excel analysis tool Pack and the overview of the outcomes is presented in the in table 4.1 below

Table 4.1 Summary of study variables

Statistic	GDP		Mud		
	growth	Musharaka	araba	Murabaha	Ijara
Mean	5.93	43.10	13.41	10.93	1.29
Standard Error	0.30	2.14	0.85	0.58	0.07
Median	5.60	42.34	12.67	11.95	1.38
SD	1.67	12.10	4.83	3.30	0.39
Sample Variance	2.80	146.47	23.31	10.89	0.15
Kurtosis	6.33	-0.43	-0.39	-0.96	-0.99
Skewness	2.04	-0.12	0.56	-0.49	-0.42
Range	8.90	48.00	18.72	11.41	1.35
Minimum	3.50	18.58	6.24	4.73	0.56
Maximum	12.40	66.58	24.97	16.14	1.92
Sum	189.60	1379.24	429.10	349.60	41.14
Count	32	32	32	32	32

The findings indicate that the average annual partnership financing values by the Islamic banks in Kenya was 43.10 billion shillings with a standard deviation of 1.67, while the average annual cost-plus financing contract values was 43.10 billion shillings with a standard deviation of 12.10. The average annual financing under trust for the Islamic banks in Kenya was 10.93 billion and a standard deviation of 3.3. The average annual lease funding by the Islamic banks in Kenya was 1.29 billion and a standard deviation of 0.39. The average GDP growth rate in Kenya was 5.93 with a standard deviation of 1.67.

4.2.1 Islamic Finance and GDP growth rate trend analysis

A trend analysis of the growth rate of Islamic finance growth indicators for the study was undertaken as well as GDP growth indicators to verify the correlation between the two investigation variables. The variables measured included changes the amount of Musharakah /partnership Financing contracts, total changes in the amount of Murabaha /cost plus financing contracts, changes in the amount of Mudaraba /finance by way of trust Financing contracts, change in the amount of Ijara /Leasing financing contracts as compared to change in GDP growth rate in Kenya. The outcomes are exhibited in the in table 4.2 Trend Analysis.

Table 4. 2 Islamic Finance and GDP Growth Rate Trend Analysis

Year/ Performance measure	2010- 2011	2011- 2012	2012- 2013	2013- 2014	2014- 2015	2015- 2016	2016- 2017	Average growth
Real GDP growth	6.1%	4.6%	5.9%	5.4%	5.7%	5.8%	4.8%	5.5%
Misharaka	8%	0.12	0.06	0.06	0.06	0.08	0.10	8%
Mud araba	16%	0.13	0.12	0.18	0.12	0.15	0.18	15%
Murabaha	7%	0.04	0.03	0.03	0.03	0.05	0.07	4%
Ijara	2%	0.09	0.03	0.04	0.03	0.05	0.07	5%

The findings indicate that the mean annual growth rate in in Musharaka financing /partnership values for the seven-year period was 8%. The mean annual growth rate in in Mudaraba financing Cost Plus Financing for the seven-year period was 15%. The mean annual growth rate in in Murabaha financing /finance by way of trust for the seven-year period was 4 %. The mean annual growth rate in in Ijara financing /Leasing for the seven-year period was 5%. The mean annual growth rate in in annual growth in Islamic finance for the seven-year period was 8% while the mean annual growth rate in in annual growth in GDP growth rate for the seven-year period was 5.5%.

4.3 Effect of Islamic Finance on Economic Growth

To ascertain this chi-square test and a comparative analysis of the trends in economic growth for the seven-year average of the economic growth using. This was done using changes growth rate and total changes in average annual growth rate in Islamic Finance.

4.3.1 Chi-square Test

The study established the link between Islamic Finance and economic growth. The Chi-Square test is usually performed to verify a between two study variables drawn from a sample can possibly reveal an actual link between these two study variables or if a difference exists between the two variables. It thus test the probability (p-value) that the link seen between the two variables has occurred coincidentally, i.e. owing to sampling error

Table 4.3 Chi Square-Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	24.000a	19	0.042
Likelihood Ratio	19.094	19	0.032
N of Valid Cases	7		

According to the findings in the above table, the significance figure was 0.042, which shows that there was a statistically significant the influence of Islamic Finance on economic growth. This is because the significance figure was below 0.05 ($p \leq 0.05$).

Table 4.4 Correlation Analysis

	GDP		finance by		
	growth	partnership	Cost Plus	trust	Leasing
GDP growth	1				
partnership	0.992605	1			
Cost Plus	0.992425	0.975366	1		
Trust	0.985964	0.983182	0.966872	1	
Leasing	0.98331	0.993534	0.971763	0.957136	1

Findings in the table above indicate that a powerful positive link existed between GDP growth rate in Kenya and growth in Mishawaka financing /partnership. A powerful positive link existed between GDP growth rate in Kenya and Mudaraba financing /Cost plus financing. A powerful positive link existed between GDP growth rate in Kenya and

Murabaha financing /finance by way of trust. A powerful positive link existed between GDP growth rate in Kenya and Ijara financing /Leasing. This is an indication of a strong correlation an indication that Islamic finance lead to improved economic growth.

4.4 Regression Analysis

A regression model was applied to verify the link between Islamic finance and Economic growth. The dependent variable is GDP growth rate in Kenya while the independent variable is Islamic finance. The analytical model utilized to assess the link between study variables is:

$$Y = \alpha + X_1\beta_1 + X_2\beta_2 + X_3\beta_3 + X_4\beta_4 + \varepsilon$$

Where: Y= Competiveness Evaluated by (ROA)

α = constant term (The Y intercept)

Beta (β) = Beta coefficients

ε = Error term.

X_1 = The amount of Musharakah/ partnership financing contracts

X_2 = The amount of Murabaha /Cost Plus financing contracts

X_3 = The amount of Mudaraba/ trust financing contracts

X_4 = The amount of Ijara /Leasing financing contracts

α = Constant

$\beta_1, \beta_2, \beta_3, \beta_4$ = Regression coefficients or variation in Y by every X value

ε = error term

The dependent variable is GDP growth rate in Kenya whereas the independent variables are the Islamic finance.

Coefficient of determination illustrates the degree to which dependent variable's variations can be described by the independent variables' variation or the proportion of change in (GDP growth rate in Kenya) that is described by the four independent variables (Islamic finance). The investigation utilized statistical package for social sciences (SPSS V 21.0) to code, record as well as calculate the multiple regressions' extents.

Table 4.5: Model Summary

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.417708
R Square	0.17448
Adjusted R Square	0.14729
Standard Error	1.283651
Observations	32

R-Squared statistic is often utilized to measure model fit. It is 1 minus the proportion of residual changeability. The adjusted R^2 or coefficient of multiple determinations, is the proportion of the change in the dependent described exclusively or together through the independent variables 17.45% of the GDP growth rate in Kenya in can as a result of joint influence of the predictor variables.

Table 4.6 Summary of One-Way ANOVA

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	4	42.31	10.58	6.42	0.0009
Residual	27	44.49	1.65		
Total	31	86.8			

The investigation utilized One-way ANOVA to establish the significance of the regression model from which a possibility rate of 0.0009 was determined. This indicates that the regression link was greatly substantial in calculating how adoption of Islamic finance affects Economic growth. The F evaluated at 5% significance level was 6.42. As F calculated exceeds the F critical; this points out that the entire model was substantial.

Table 4.7 Regression Coefficients results

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	0.967	1.02	9.50	0.00	7.58	11.76
partnership	0.15	0.05	-3.34	0.00	-0.25	-0.06
Cost Plus	0.36	0.16	2.30	0.03	0.04	0.69
Mudaraba trust	2.26	1.58	1.43	0.016	-0.98	5.51
Leasing	2.79	14.44	-1.44	0.016	-50.41	8.84

The established regression equation was;

$$Y = 0.967 + 0.15X_1 + 0.36X_2 + 2.26X_3 + 2.79X_4 + e$$

The regression equation has pointed out that keeping every other aspect constant (no implementation of Islamic finance) GDP growth rate in Kenya of GDP growth rate in

Kenya would be 0.967. The outcomes similarly pointed out that keeping all other independent variables at zero, a unit upsurge of Musharakah /partnership. Financing contracts would bring about an upsurge in GDP growth rate in Kenya by 0.15. A unit upsurge in Murabaha /cost plus financing contracts would bring about an upsurge in GDP growth rate in Kenya by 0.36. A unit upsurge in Mudaraba /finance by way of trust financing contracts would bring about an upsurge in GDP growth rate in Kenya by 2.26. A unit upsurge in of Ijara /leasing financing contracts would about an upsurge in GDP growth rate in Kenya by 2.29. This therefore implies that GDP growth rate in Kenya is positively correlated to growth in Islamic finance and therefore we conclude that Islamic finance enhances Growth in Islamic finance of Islamic Kenya.

4.5 Interpretation of the Findings

The above regression model, points out that Islamic finance adoption boosts economic Growth. The independent variables investigated point out a considerable 17.448% of the changes in GDP growth rate in Kenya of as denoted by adjusted R^2 (0.17448). This implies that the independent variables contribute 17.45% of the GDP growth rate in Kenya whereas other aspects as well as random variations not explored make up 82.55 % of the GDP growth rate in Kenya.

CHAPTR FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This part illustrates an overview, inferences, and commendations of the investigation. Part 5.2 recaps the major outcomes established, whereas section 5.3 draws the inferences. Section 5.4 outlines the commendations from the outcomes of the investigation. Part 5.5 outlines the limitations of the investigation whereas part 5.6 offers propositions for additional studies.

5.2 Summary and Findings

The objective of the study aimed at establishing the kind of link between Islamic finance and economic growth in Kenya. Descriptive and inferential statistics of correlation, regression as well as ANOVA were utilized to examine the model's implication as well as to verify the association between Islamic finance and economic growth in Kenya. The research findings indicate that that Islamic banking product enhances economic growth in Kenya.

Regression analysis was performed to scrutinize the degree and nature of association within the independent and the dependent variable. The investigation outcomes point out that the variables are statistically significant in impelling economic growth as indicated by the Regression analysis relationship coefficients. This implies that the Islamic finance can be relied upon to make conclusions about the economic growth in Kenya as shown by their strong relationship.

The investigation aimed at measuring the effect of Islamic finance on economic growth in Kenya. This was measured through correlation analysis between the study independent

variables financial indicators which include growth in Musharakah /partnership Financing contracts, Murabaha /cost plus financing contracts, Mudaraba /finance by way of trust Financing contracts and Ijara /Leasing financing contracts as compared to GDP growth rate in Kenya. Consequently, descriptive statistics of the collected data was scrutinized by excel analysis tool Pack.

The findings indicate that the average annual partnership financing values by the Islamic banks in Kenya was 53.57 billion shillings, while the average annual cost-plus financing contract values was 16.9 billion shillings. The average annual financing under trust for the Islamic banks in Kenya was 14.12 billion. The average annual lease financing by the Islamic banks in Kenya was 1.66 billion. The average annual GDP growth rate in Kenya was 5.5%.

A trend analysis of Islamic finance growth indicators for the study independent variables was undertaken to establish the change in economic growth as a result of introduction of Islamic finance. The variables measured included changes the amount of Musharakah /partnership financing contracts, total changes in the amount of Murabaha /cost plus financing contracts, changes in the amount of Mudaraba /finance by way of trust financing contracts, change in the amount of Ijara /Leasing financing contracts as compared GDP growth rate in Kenya.

The findings indicate that the mean annual growth rate in in Musharaka financing /partnership values for the seven-year period was 8%. The mean annual growth rate in in Mudaraba financing cost plus financing for the seven-year period was 15%. The mean annual growth rate in in Murabaha financing /finance by way of trust for the seven-year

period was 4 %. The mean annual growth rate in in Ijara financing /Leasing for the seven-year period was 5%. The mean annual growth rate in in annual growth in Islamic finance for the seven-year period was 8% while the mean annual growth rate in GDP for the seven-year period was 6.2%. This is an indication of a strong correlation an indication that Islamic finance lead to improved economic growth.

Findings indicate that a powerful positive association existed between GDP growth rate in Kenya and Mishawaka financing /partnership. A powerful positive association existed between GDP growth rate in Kenya and Mudaraba financing /Cost plus Financing. aA powerful positive association existed between GDP growth rate in Kenya and Murabaha financing /finance by way of trust. A powerful positive association existed between GDP growth rate in Kenya and Ijara financing /leasing. This is an indication of a strong correlation an indication that Islamic finance lead to improved economic growth.

A regression model was applied to verify the association between Islamic finance and Economic growth. 17.45% of the GDP growth rate in Kenya was a through a joint influence of the predictor variables. The study utilized One-way ANOVA to establish the significance of the regression model from which a probability value of 0.043 was verified. This indicates that the regression link was greatly substantial in calculating how Islamic finance affects economic growth. The F determined at 5% significance level was 1.4706. As F calculated exceeds F critical; this shows that the entire model was substantial.

From the regression model, the investigation pointed out that Islamic finance adoption boosts the Growth in Kenya. The independent variables explored illustrate a considerable

17.45% of GDP growth rate in Kenya as adjusted R^2 (17.45) exemplifies. This implies that the independent variables make up 17.45% of the changes in GDP growth rate in Kenya whereas other aspects as well as random changes not investigated make up 82.55% of the changes in GDP growth rate in Kenya.

5.3 Conclusion

Chi-square test was employed in evaluation of the degree and nature of association between independent variable and the dependent variable. The regression and the chi-square test implied that the variables under the model are key in determining the direction of Kenya's economy. The study concludes that Islamic finance lead to improved Growth in Kenya.

5.4 Recommendations for Policy and Practice

In line with the objectives of this study, the following recommendations can be deduced from the conclusions of the research: In order to aid the progress of Islamic Banking in Kenya and reap the most benefit for the country, a legislative framework should be instituted to improve the segment's regulation. This means both the Central Bank Act as well as Banking Act should be amended to incorporate Islamic Banking concepts.

A National Shari'ah Supervisory Board should be constituted to guide a process of Ijtihad led standardization and convergence of products, set qualification and certification of Banks' Shari'ah Board members and set rules for Shari'ah control. The Central Bank should constitute a Shari'ah Advisory Board that will add value to its regulatory relationship with the Islamic Banking industry. Active restructuring of the government

public debt to include sukuk components in order to allow for active participation of Islamic Banking industry in Kenya.

5.5 Limitation of the Study

Data collection was extremely tedious and time consuming. The period that the investigation performed was inadequate, therefore thorough investigation was unable to be undertaken. The study, however, minimized these by conducting in-depth analysis that significantly covers the shortcomings of the study. Additionally the information was tiresome to gather as well as work out since it was in its raw nature. Also the data arrangement was different that led to difficulty in data computation.

The researcher did not overlook the key drawback of descriptive research investigation which is that the investigation makes it hard to describe occurrences over time, hence the study's findings are only applicable to the study's time frame. This makes it harder to describe occurrences over time, hence the outcomes are only pertinent to the investigation's period. It was difficult to access secondary data due to strict confidentiality exhibited by the banks under study. The annual financial reports are also created under the key assumptions and concepts which are particular.

Lastly, numerous financial reports are confirmed in the previous years implying that information misstatements of enterprises' performance may develop a prospect for previous year's alterations and this could possibly not be conveyed to the public's attention. This implies the outline illustrated could imping on the link verified.

5.6 Suggestion for Further Research

This study concentrated on the effect of Islamic finance on economic growth in Kenya. There is therefore need to do more research on other factors that influence GDP growth rate in Kenya. The research therefore should be replicated in other conventional banks that have opened Islamic financing products.

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APPENDIX: Quarterly Data On GDP and Islamic Finance

DATE	GDP growth	Musharaka	Mud araba	Murabaha	Ijara
31 Dec 2015	5.2	57.27470	15.15772	19.44671	1.00269
30 Sep 2015	5.6	47.05807	15.99755	14.08248	1.07816
30 Jun 2015	7.2	40.88115	17.84766	15.16526	1.14027
31 Mar 2015	5.8	59.51118	16.90059	14.76611	1.15931
31 Dec 2014	6.23	46.36176	18.51361	15.93039	1.22609
30 Sep 2014	6.1	49.88155	17.87160	15.50119	1.24657
30 Jun 2014	6.7	53.28084	18.22969	16.75310	1.31838
31 Mar 2014	5.8	42.67207	18.91570	16.29161	1.34040
31 Dec 2013	5.4	42.01596	18.99966	17.63774	1.41761
30 Sep 2013	5.3	57.27455	15.55955	17.22323	1.43703
30 Jun 2013	6.1	53.87208	18.83058	17.14151	1.44129
31 Mar 2013	6.5	59.51102	16.94669	17.58992	1.48015
31 Dec 2012	6	41.88168	19.27709	17.96762	1.53935
30 Sep 2012	5.7	47.05788	16.42962	18.14325	1.54520
30 Jun 2012	5.7	57.58804	17.60053	18.05539	1.54977
31 Dec 2017	6.3	28.58422	15.24366	15.72662	1.56109
31 Mar 2012	5.6	44.39458	17.11035	18.35665	1.58553
31 Dec 2011	5.5	49.88135	17.92117	18.53755	1.59155
30 Sep 2017	7.7	43.46196	15.71361	16.08239	1.60332
30 Jun 2017	6.6	49.61995	16.21894	16.46494	1.64873
30 Sep 2011	5.6	52.87423	16.42698	18.94368	1.65522
30 Jun 2011	5.6	47.94615	16.75922	19.02448	1.66481
31 Mar 2011	5.7	59.25928	22.22008	19.03805	1.66642
31 Mar 2017	5.8	57.39421	16.76230	16.87628	1.69756
31 Dec 2010	5.5	56.04669	18.39822	19.36199	1.70487
31 Dec 2016	5.2	53.17435	17.34656	17.31858	1.75006
30 Sep 2010	5	61.92262	19.77587	15.00620	1.78135
30 Jun 2010	5.5	60.53042	21.15795	15.08009	1.79012
30 Sep 2016	5	61.88151	17.97479	17.79417	1.80652
30 Jun 2016	6.1	55.16481	18.65031	18.30556	1.86722
31 Mar 2010	5	66.58346	24.96639	16.13569	1.91543
31 Mar 2016	6.4	44.39440	18.37668	18.85544	1.93250