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by Mathew Kiragu

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**THE RELATIONSHIP BETWEEN ISLAMIC FINANCING AND THE
LEVEL OF BORROWING IN COMMERCIAL BANKS IN KENYA**

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**A MANAGEMENT ¹RESEARCH PROJECT PRESENTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION,
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DECLARATION

This research project is my original work and has not been presented for the award of a degree in any University.

Signed..... Date.....

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This research project has been submitted for examination with my approval as the University of Nairobi Supervisor.

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DEDICATION

This project is dedicated to my mother, Habibo Mohamud Alasow, my late father, Noor Fidow Igal, my children Kowther A Noor, kifah A Noor, Kafia A Noor, and their mother Leyla Hassan Mudey.

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ABBREVIATIONS AND ACRONYMS

CBK:	40 Central Bank of Kenya
FCB	First Community Bank
GAB	Gulf African Bank
GDP	Gross Domestic Product
KBA	Kenya Bankers Association
KIE	Kenya Industrial Estates
NIM	Net Interest Margin
SCF	Sharia-compliant financing
SEFCO	Small Enterprises Finance Company

ABSTRACT

Commercial banks are of late giving loans to customers with no much check or requirement of providing assets as securities against loans taken. Most if not all commercial banks rarely ask employees for tangible securities such as assets before advancing loans to them, they only require customers who apply for loans to provide the pay-slip or savings from the employer as evidence that they are in employment with a guarantee that the employer will recover the loan advanced through the check-off system on behalf of the bank and remit the same to the bank. The main intention of this study was to investigate the relationship between Islamic financing and the level of borrowing in commercial banks in Kenya. This study adopted on a descriptive survey research design. The study employed quantitative method through analysis of the income statement, equity statement, and statement of financial position using regression analysis to provide quantitative data to the study. The population of this study was two fully fledged Islamic banks and six conventional banks that offer partial Islamic banking. The study made use of both primary and secondary data on the deposits and account opening of the banking industry for the last five years from 2011 to 2015. Qualitative and quantitative data analysis techniques were adopted to analyze descriptive statistics of mean and standard deviation. The results shall be presented in graphs and tables. The study found that there is a large positive relationship between Islamic financing and the level of acquiring in business banks in Kenya. This could be credited to the patterns recorded in the three factors. Loan cost strategies helps the banks loan wisely and brings down the hazard level to the banks. Strict adherence to lending policies therefore has led to increased levels of borrowings. The study also concludes that proper assessment of creditworthiness of a borrower, listing some risky sectors and insurance services are some of the measures being adopted to increase the level of borrowings.

CHAPTER ONE:

INTRODUCTION

1.1 Background of the Study

Kenya's monetary sector is ruled by business banks, insurance agencies, benefits subsidizes and contracts who have roots to the frontier time frame and were verifiably situated towards meeting the monetary needs of outside exchange and huge scale trade. Kenya has a long history on the change of business banks industry that has been described by solid development, accordingly making a noteworthy commitment to the general economy and simple acknowledgment of its blue print vision 2030 (Lewis, Mervyn and Latifa, 2011). These financial institutions don't, in this way have a reputation of loaning to family units and start-up little ventures. When the Kenya government recognized this shortfall, it embarked on initiatives such as savings and credit cooperatives (Sacco's), Small Enterprises Finance Company (SEFCO), Kenya Industrial Estates (KIE) and other alternatives to fill the financing gap that was there then (Khan and Bhatti, 2008).

This study is in the body of knowledge under theory of diffusion of innovations and financial liberalization theory. The theory of Diffusion of Innovations as described by Rogers (1995) is the procedure by which a development is imparted through specific channels after some time among the individuals from social frameworks (Hanlon, 2015). It is a special type of communication, in that the messages are concerned with new ideas (Rogers, 1995). Different qualities of the financial environment in which dispersion

happens may influence the pace of dissemination, while the dissemination itself may likewise have inputs on the earth. A choice not to embrace a development identifies with the dismissal of the accessible new thought.

Globally, Islamic banks are growing at between 10% to 15% per annum with global asset in excess of one trillion dollars and operating within more than sixty countries across the world especially in the Middle Eastern and Asian region countries (El-Gamal, 2006). The allure and energy about Islamic managing an account by Muslims and non-Muslims in both Muslim and non-Muslim nations has been proven by the spread of most Islamic banks inside center eastern and rising nations and numerous all-inclusive banks in created nations expanded request of Islamic budgetary items (Yudistira, 2013).

The Islamic banking institutions' relative stability has attracted a lot of attention even from the Vatican. The Vatican embraced the Islamic fund governs as an approach to reestablish trust in the traditional money related framework in light of the worldwide financial emergency. As the aftereffect of the trust in the Islamic money related frameworks amid budgetary emergency it is evaluated that Islamic keeping money would develop at a rate of 10-15% every year and with indications of steady future development (Chapra, 2009).

Islamic money related framework is new. Indeed, all references commercial fitting in with standards of Islam was constituted in "Islamic" financing (Hassan and Lewis, 2007). Nonetheless, portraying the Islamic money related framework essentially as "premium

free" does not give a genuine delineation of the framework all in all. Absolutely, disallowing the receipt and installment of intrigue framework, by forcing Islamic principle standards to hazard sharing, right of people and property, and sacredness of pacts (Chapra, 2009). Also, Islamic money related framework isn't constrained in keeping cash but instead harness wide range of monetary activities.

Monetary pioneers guarantee that the fundamental explanation behind empowering Islamic back in Kenya is to battle money related rejection among a huge number of Muslims who are either outside or are at the edges of the budgetary administrations industry because of their confidence. The contention is that the accessibility of Shariah consistent monetary items would build the money related comprehensiveness of Kenyan Muslims since the obstacle of Shariah contradiction would be expelled (Khan and Bhatti, 2008). An inferred contention, however not really a substantial one is that by presenting and empowering Islamic back, the Kenyan government has handled the budgetary prohibition of Kenyan Muslims (Yudistira, 2013). The principal wellsprings of Islam are the blessed Quran (the Islamic hallowed book) and the Sunnah (part of Muslim law in light of prophet Muhammad's words or acts, acknowledged as legitimate by Muslims), which is synonymous with the lessons and conventions credible interpretation. Both of these sources regard enthusiasm as a demonstration of misuse and treachery and accordingly it is conflicting with thoughts of reasonableness and property rights.

1.1.1 Islamic Financing

Financial Services that meet the necessities of the Shariah, or Islamic law are called Islamic fund. While intended to meet the particular religious necessities of Muslim clients, Islamic financing is not limited to Muslims: both the budgetary administrations supplier and the client can be non-Muslim, and in addition Muslim (Hassan and Lewis, 2007). Shariah-consistent financing (SCF) constitutes money related practices that fit in with Islamic law. Islamic fund can go about as another option to the routine budgetary framework. The real elements of Islamic fund, similar to resource backing, the bans on vulnerability (Gharar) and intrigue or usury (Riba), and hazard and benefit sharing appear to give a stronger money related framework.

There are two completely banks of Islam ¹ (Gulf African Bank and First Community Bank) and six customary with incomplete Islamic managing an account (Barclay's, National, Chase, Imperial, Diamond Trust and Standard Chartered Bank) working in Kenya (Central Bank of Kenya, 2015). Under Islamic financing, loaning and acquiring are completely resource supported and there is no extension for obligation exchange (swaps) or theoretical exchanges past the genuine esteem. The motivation behind why Islamic banks have not felt the full brunt of the worldwide credit emergency is that it is hard to get advances from Islamic banks unless the advances are esteemed judicious, development elevating and valuable to society (Chapra, 2009).

Two other generally utilized financing items are murabaha and ijara. Murabaha is basically an increase deal; the loan specialist purchases the great and offers it to the client

in ex-change of a cost that incorporates the first cost and a predetermined edge. The cost can be paid in a few portions (Yudistira, 2013). While murabaha takes a gander at first look like a straightforward advance with enthusiasm, there are contrasts. The first is the nonattendance of enthusiasm for the feeling that the "arrival" applies to the offer of the great and not the offer of cash (taboo under Islamic law). The second is the preclusion against charging a punishment for default. The third concerns the way that a hazard is borne by the loan specialist, as the moneylender claims the useful for a predetermined period (regardless of the possibility that this period can be extensively lessened to reduction chance).

Ijara is an Islamic type of renting. The loan specialist purchases the great and leases it to the client for a given period and a given lease. The bank does not profit from cash in accordance with the disallowance against enthusiasm as it believers cash into unmistakable resources for make the exchange (Hassan and Lewis, 2007). Here, there is no sharing of benefits and misfortunes; the moneylender knows the arrival of the venture from the earliest starting point of the exchange. Be that as it may, the loan specialist bears some hazard as the bank is viewed as owning the great all through the agreement time frame.

Universally, Islamic banks have all the earmarks of being stronger against the worldwide monetary turndown and global money related emergency than customary banks have been. Islamic financing has a tendency to maintain a strategic distance from theoretical speculations, for example, subsidiaries, that numerous investigators trust prompted the

monetary emergency influencing customary banks (Hanlon, 2015). For some spectators, Islamic fund serves as a vehicle for recouping from the global budgetary emergency. The Islamic keeping money industry might have the capacity to fortify its position in the worldwide market as speculators and organizations look for interchange wellsprings of financing (Yudistira, 2013).

1.1.2 Level of Borrowing

A borrowing base is the measure of cash a bank will credit to a substance in view of the estimation of the insurance the element vows (Ongore and Kusa, 2013). The getting base is typically controlled by a strategy called margining, where the bank decides a rebate element that is duplicated by the estimation of the guarantee; the outcome is the sum that will be credited to the organization (Lewis, Mervyn and Latifa, 2011). Institutional investors have grown rapidly in the Kenya since the 1950s, encouraged in particular by tax concessions on contractual pension and life insurance schemes, and they now constitute the primary means of channelling personal savings into corporate investment.

In 2004, pension funds, insurance companies, unit trusts and investment trust companies collectively owned around 64% of Kenya's ordinary shares, compared with around 18% held by private individuals (Holmstrom and Tirole, 2007).

1.1.3 Relationship between Islamic Financing and the Level of Borrowing

Islamic financing has an indistinguishable reason from customary saving money: to profit making organization by giving loans while holding law of Islam. Since Islam restricts just

loaning out cash at premium, Islamic standards on exchanges (known as Fiqh al-Muamalat) have been made to avert it (Yudistira, 2013). The essential rule of Islamic financing depends on hazard sharing which is a part of exchange as opposed to hazard exchange, that is the guideline in customary account management. Islamic financing presents ideas, for example, benefit sharing, care cost-in addition and renting.

Translations of Shariah may fluctuate marginally by nation. As indicated by Humayon Dar, the Islamic Republic of Iran takes after a more liberal understanding of the Shariah than Malaysia, whose translation is more liberal than Turkey or Arab nations (Holmstrom and Tirole, 2007). Mohammed Ariff likewise discovered less demanding translation of Shariah consistence in Iran where the administration had announced, "that administration getting on the premise of an altered rate of come back from the nationalized managing an account framework would not add up to intrigue and would consequently be reasonable. There is concern that some products offered by Islamic banks in Kenya have interest component but only the word "interest" have been changed to "profit". While appreciating the fact that interest is strongly prohibited in Islam, there is concern not to be alarmed where there is no interest involved.

An Islamic back framework can assume imperative part in the monetary advancement of Islamic and non-Islamic nations by preparing lethargic reserve funds that are as a rule intentionally kept out of premium based money related channels and encouraging the improvement of capital markets (Chapra, 2009). While a few items like Profit sharing (mudharabah) and joint wander (musharakah) appears to completely agree to Islamic

Shariah, others like cost-in addition to have a tendency to have the intrigue segment, which has unequivocally prohibited in Islam through Quran and hadith of the prophet Muhammad (peace be upon him).

The framework in this way gives a self-defensive mechanism and edges theoretical exchanges prompting intemperate credit developments. On the off chance that monetary development neglects to accomplish the objective or goes into a period of constriction, Islamic budgetary foundations will endure, yet they are probably not going to go bankrupt as borrowers are dealt with as joint proprietors and are subject to acquire misfortunes (or benefits on occasion of high development) (Chapra, 2009). From an individual speculator's point of view, Islamic fund is normally viewed as an "okay low pick up" framework which ought to fulfill the necessities of the individuals who subscribe to the fundamental standards of Shariah law (which by and large disheartens ravenousness and unreasonable riches amassing). The guiltless and the individuals who are not completely mindful of the advantages (and additionally of the related dangers) of money related ventures are secured against any sort of deceitful exercises that may emerge out of immaculate theory.

1 1.1.4 Commercial Banks in Kenya

Business banks in Kenya are managed by acts and the distinctive prudential guidelines issued by the Central Bank of Kenya (CBK). The keeping cash division was changed in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is in charge of defining and actualizing fiscal approach and encouraging the liquidity, dissolvability and appropriate working of the budgetary framework (Kimuyu,

1
2008). As at December 2010 there were forty-six keeping money and non-bank foundations, fifteen miniaturized scale fund establishments and one hundred and nine remote trade agencies. The privately claimed money related foundations include 3 keeps money with huge government shareholding and 28 exclusive business banks. The outside claimed budgetary establishments involved 8 privately joined remote banks and 4 branches of outside fused banks. Of the 42 private keeping money foundations in the part, 71% are privately possessed and the staying 29% are outside claimed (Central Bank of Kenya, 2010).

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Players in this area have encountered expanded rivalry throughout the most recent couple of years coming about because of expanded advancements among the players and new participants' taxes into the market like Barclays bank of Kenya presented Islamic financing. The Central bank of Kenya manages the operations of every single business bank (Lewis, Mervyn and Latifa, 2011). Amid the on-location assessments all dangers are assessed and vital therapeutic activities are suggested. 7
The banks have met up under the Kenya Bankers Association (KBA), which serves as an anteroom for the saving money areas' interests (Pass et al., 2005).

The CBK distributes data on Kenya's business banks and non-managing an account money related organizations, loan fees and different productions and rules (Yudistira, 2013). The banks have met up under the Kenya Bankers Association (KBA), which serves as a hall for the banks' advantages and addresses issues influencing its individuals (Kenya Bankers Association, 2010). 9
Players in this segment have encountered expanded rivalry in the course of the most recent couple of years coming about because of expanded developments among the players and new contestants into the market (Shubik, 2012).

Islamic financing was presented in Kenya in the year 2008 when the initial two Islamic Banks, First Community Bank (FCB) and Gulf African Bank (GAB), opened their entryways. Between them they have branches in Nairobi, Mombasa, Garissa and Wajir Counties (Karau, 2006). This denoted the start of the present-day recovery of Islamic bank. Islamic bank is a bank that by its own particular decision, select to consent to two arrangements of laws: the rule that everyone must follow; and the Islamic law (Shariah). This is the reason Islamic banks have two arrangements of insight; conventional "legal advisors" and Shariah gatherings (Lewis, Mervyn and Latifa, 2011).

Islamic banks manages exchanges which are restricted to monetary connections including entrepreneurial venture subject to the ethical denial of Speculation, wagering, and betting (maisir), including the theoretical exchange or trade of cash for obligation without a fundamental resource exchange, The exchanging of similar protest amongst purchaser and merchant (narrows' al inah); Preventable instability (gharar, for example, all money related subordinate instruments, sending contracts, and future understandings (Holmstrom and Tirole, 2007).

Sharia precludes the installment or acknowledgment of premium charges for advances of cash (Riba, usury), for particular terms, and in addition putting resources into organizations that give products or administrations considered as opposed to its standards (Haraam) prohibited (Subhi and Labib, 2009). Little scale constrained degree intrigue free foundations were unsuccessfully attempted in the mid-1990s and 2000s (Gafoor, 2005). From 2006 onwards, look into by Muslim researchers bit by bit delivered standards for keeping money hones that were probably going to be adequate to the managing an account and Islamic people group in Kenya.

1.2 Research problem

Commercial banks are of late giving loans to customers with no much restriction or requirement of providing assets as securities against loans taken. Most if not all commercial banks rarely ask employees for tangible securities such as assets before advancing loans to them, they only require customers who apply for loans to provide the pay-slip or savings from the employer as evidence that they are in employment with a guarantee that the employer will recover the loan advanced through the check off system on behalf of the bank and remit the same to the bank (Chapra, 2009). As a result of this most employees are accessing commercial banks and borrowing so easily from them. Banks have also embarked on serious marketing strategies of marketing various loan products they sell to the extent that rarely will one month pass without finding these banks putting up tents at strategic points within business premises.

The Muslim community in Kenya experiences critical neediness, which is extremely mind boggling and multifaceted (Hassan and Lewis, 2007). The scientist⁶ is of the feeling that absence of access to budgetary administrations has extraordinarily exacerbated the predicament of this group and the accessibility of appropriate monetary items would significantly improve the financial power and additionally their economic wellbeing (Holmstrom and Tirole, 2007). Islamic monetary market are working far beneath their potential on the grounds that the clients are not completely persuaded about the consistence of the items offered by Islamic banks, whether they consent to the necessity of Islamic Shariah.

Comprehensively, various studies have been led on the impact of level of getting in money related organizations. For example, Altman (2007) analyzed the sparing and advance industry. Gasbarro et al., (2012) discovered that methodology to distinguish money related foundations drawing nearer budgetary pain shift from nation to nation; they are intended to create monetary soundness evaluations and are generally alluded to as the CAMEL rating framework.

Locally few studies have been done on the impact of level of obtaining in budgetary foundations, among them incorporates Silikhe (2008) on level of acquiring and credit hazard administration in microfinance organizations in Kenya discovered that in spite of the way that microfinance establishments have set up strict measures to advance getting, advance recuperation is still a test to dominant part of the foundations. Wambugu (2009) on advance acquiring hones in small scale monetary foundations offering front office administrations discovered that hazard distinguishing proof is an imperative stage in advance getting rehearses and ought to be connected adequately to recognize the present credit dangers standing up to the association, give the probability of these dangers happening and uncover the sort and measure of misfortune these dangers are intended to bring about on the off chance that they happen. Lewis, Mervyn and Latifa, (2011) led a study of advance getting practices and methods of unsecured bank advances. While the examination results give understanding on credit obtaining hones, there is no known study done on the relationship between Islamic financing and the level of acquiring in business banks in Kenya. In this way, the information crevice exists in the matter of

whether the relationship between Islamic financing and the level of getting in business banks in Kenya.

1.3 Research Objective

Goal of this research was investigating relation among Islamic financing with the level of borrowing in Kenya commercial banks.

17 1.4 Value of the Study

The study is with an end goal to assess whether the presentation of Islamic back in Kenya has upgraded the money related comprehensiveness of Muslim people group. Numerous Muslim people group pioneers and observers are of the sentiment that the certified, aggressive Shariah-consistent money related items assume a basic part in the budgetary consideration of Kenyan Muslims. Advance, these reporters declare that numerous Muslims are especially barred from the primary routine money related items, for example, contracts, individual, business and speculation accounts because of the denial of riba (enthusiasm) in Shariah the study was of significance to the clients of Islamic banks, administration of the banks, the Shariah supervisory board, the shareholders of the bank and the academicians.

The findings of this study can be utilized by the approach creators, particularly, the Ministry of Finance to put in place regulations for those banks who want to introduce sharia compliant product. It will help regulators understand the banking behavior of a portion of Kenya's population and know the micro-financial services used by this group.

This insight could help the Central Bank in drafting regulatory framework for guiding Islamic banks.

LITERATURE REVIEW**2.1 Introduction**

This chapter discusses the theoretical literature related to the research topic, determinant of financial performance as well as a review of empirical studies at the International evidence and local level on deepening and commercial banks' level of borrowing and the summary of literature reviewed.

2.2 Theoretical Review

This section takes a gander at four speculations, which incorporate hypothesis of dispersion of developments, hypothesis of money related extending, and the budgetary progression hypothesis. Key among them is money related progression hypothesis, which takes a gander at how a changed budgetary framework can decidedly influence monetary development and also the level of getting in the managing an account industry.

2.2.1 Theory of Diffusion of Innovations

Rogers (1995) portrays dissemination of developments as: "the procedure by which an advancement is imparted through specific channels after some time among the individuals from social frameworks. It is an uncommon kind of correspondence, in that the messages are worried with new thoughts" (Rogers, 1995). Innovation dissemination is a vital procedure through which mechanical capability of imaginative exercises can be really transformed into efficiency. Different attributes of the financial environment in

which dissemination happens may influence the pace of dispersion, while the dissemination itself may likewise have criticisms on the earth. A choice not to receive an advancement identifies with the dismissal of the accessible new thought. Notwithstanding, keeping in mind the end goal to clarify the rate of selection of developments Rogers proposes estimation of the accompanying saw qualities of advancements: relative preferred standpoint similarity; multifaceted nature; unwavering quality; and discernibleness (Hanlon, 2015). Rogers (1995) proposed that the reception of advancements is impacted by these five attributes, and that they can clarify the rate of innovation appropriation.

Cheung et al. (2000) characterized unpredictability as the degree to which a development can be considered moderately hard to comprehend and utilize. They found that unpredictability adversely impacts the appropriation of Internet use. Intricacy is the inverse of convenience. Convenience alludes to the degree to which versatile managing an account is seen as straightforward and work. Hanlon, (2015) proposes that there is a solid effect of saw usability of new innovation on its reception as keeping money administrations have extremely easy to use interfaces, clients consider them to be anything but difficult to utilize, and henceforth to frame uplifting states of mind towards them (Lin 2011).

Reorganizability of a development depicts the degree to which an advancement is obvious to the individuals from a social framework, and the advantages can be effectively watched and imparted (Hanlon, 2015). Moore and Benbasat, (1991) disentangled the first

develop by rethinking perceptibility into two builds: perceivability and result verifiability. With regards to saving money, perceptibility ¹³ is characterized as the capacity to get to the managing an account administrations whenever and from any area immediately or line, and seeing the impact of saving money exchanges promptly, and passing on the availability advantages to others.

The reception procedure has been characterized as the procedure through which singular adopters go from attention to full acknowledgment of a development (Kimuyu, 2008). Therefore, it must be either acknowledged or dismisses by a definitive client in the general public or group. The relative novelty of these advancements and the related vulnerability is the thing that separates development reception choices from different sorts of basic leadership. The rise of Islamic monetary framework has made another measurement to financial models and especially to Islamic saving money, having caught noteworthy partake in the worldwide budgetary market (Yudistira, 2013). Generally known as Islamic banks, these premium free organizations are sorted out monetary middle people, which work as per Islamic law.

2.2.2 Theory of Financial Deepening

The contention that promoters that money related division advancement prompts budgetary improvement and in the long run to financial development depends on the hypothetical structure and explanatory supporting. By Mckinnon (1973) and Shaw (1973), The idea of money related developing is normally utilized to clarify a condition of an atomized monetary framework, that is, a budgetary framework that is generally free from budgetary restraint (Nnanna and Dogo, 2013). Monetary extending comes about

because of the reception of proper genuine fund strategy, in particular relating genuine rates of profits to genuine supply of back. On the other hand, shallow monetary framework is halfway the result mutilations in the relative procedure of fund (Chapra, 2009). Money related intermediation of development takes into account budgetary extending. Shaw (1973) battles that an expansion in the genuine size of the money related framework will create open doors for the productive operations of different foundations too, from bill merchants to mechanical banks and insurance agencies. In its own particular right, money related profundity adds to development by enhancing the efficiency of venture. This linkage proves assist the positive pretended by money related progression on development (Friedman, 1998).

It is settled that a lively, element, and well-working money related segment prompts a large group of enhanced monetary results, as reviewed by Levine (1997, 2008 and 2009) hence an unfathomable writing demonstrating the advantages that collect to nations in which budgetary advancement is more prominent. (McKinnon,1973) cited the important in financial improvement which may be done saving money framework freely on loan fees and amounts which are pervasive. Advanced writing, started to perceive that monetary framework when all is said in done not solely banks performed four fundamental capacities crucial to financial improvement and development: activation of reserve funds, designation of assets to beneficial uses, encouraging exchanges and hazard administration, and applying corporate control (Hanlon, 2015). Through these capacities, a nation giving a domain helpful for more prominent monetary improvement will bring

increased development rates, hence large impact occurring more noteworthy efficiency as opposed to a higher general rate of speculation.

While the open entryways for Islamic keeping, cash will continue developing, there is a need to make things and organizations that are as per the changing needs and demands of customers to remain forceful in the business (Yudistira, 2013). For the most part, fiercer level of rivalry in the managing an account segment has escalated in the course of recent years in Kenya as well as internationally (Hanlon, 2015). The procedure of globalization and progression together with digitalization has filled the force of business rivalry today (Chapra, 2009). Islamic banks in Kenya as key players in the administration business are confronted with firm rivalry, not just with the since quite a while ago settled ordinary managing an account framework and the worldwide players additionally inside themselves. As rivalry escalates in business management, Islamic saving cash is seen as a business, focused as traditional managing an account.

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2.2.3 Financial Liberalization Theory

In financial liberalization theory, as advanced by McKinnon, (1973) and Shaw, (1973), financial repression, that is distortions of financial prices such as interest rates, diminishes the genuine size of the money related framework in respect to the non-monetary, which prompts moderate genuine rate of financial development. The hypothesis lays on the presumptions that sparing is an expanding capacity of genuine rate of enthusiasm on stores and genuine rate of development in yield and that speculation is a

diminishing capacity of the genuine advance rate of intrigue and an expanding capacity of the development rate.

As indicated by this hypothesis, in a situation where venture openings are ample yet the money related framework is curbed, the way to higher and more effective speculation is to raise the arrival to savers that is the genuine loan fee. The hypothesis inferred that reducing budgetary confinements in creating nations (for the most part by permitting market powers to decide genuine loan fees) could apply a beneficial outcome on development rates as financing costs ascend toward their aggressive market balance (Hanlon, 2015). As indicated by this convention, simulated roofs on financing costs lessen investment funds, capital amassing, and demoralize the productive assignment of assets.

2.3 Determinant of Borrowings

As banks work inside a worldwide monetary framework, they have not been totally protected from the late monetary and money related stuns. For example, from one perspective, the Islamic money related industry is considered by numerous to be less dangerous in light of the fact that monetary exchanges are sponsored by unmistakable resources (Khan and Bhatti, 2008). Then again, be that as it may, Islamic banks might be more helpless against variances in the home loan showcase, given their high movement in the land part contrasted with ordinary banks. The late log jam in land action in the Gulf economies raises worries about some Islamic banks' money related positions.

Interest Rate Policy

14 Banks are for the most part allowed to decide the financing cost they will pay for stores and charge for credits, yet they should consider the opposition, and in addition the market levels for various loan costs and national bank approaches (King and Levine, 2013). The Central Bank of Kenya impacts loan fees by having harsh policies, stipulating bank save prerequisites, purchasing and offering "chance free" (most secure securities in presence) the Treasury and organization securities affecting stores held by banks at Central Bank (Nnanna and Dogo, 2013). This is alluded to as money related strategy and is proposed to impact financial movement and in addition the wellbeing and security of the general saving money framework. Most market-based nations utilize a comparative kind of fiscal arrangement in their economies.

An essential tool United States of America. Encouraged utilizations which impact fiscal approach by Federal assets rating, rate of banks parities exchange (acquire and loan). Numerous loan fees, such as rate of prime, a rate used by banks for perfect client with strong FICO assessment and installment history, depend on Fed rates, for example, the Fed reserves (Yudistira, 2013). Different contemplations that banks may consider are desires for expansion levels, the request and speed for cash all through the United States and universally, securities exchange levels.

Market-based Factors

Especially the Net Interest Margin, boosting of it by banks by deciding yield bend steepness. This bend fundamentally appears in a graphical configuration, distinction among fleeting and financing long haul costs. By and large, acquiring or payment of fleeting rates by banks to contributors, loan, by making credits, during yield bend at the more drawn out part. On the off chance, it can be done effectively, shareholders will be pleased by getting profits. A modified yield bend, implies that left loan costs, or fleeting range, peak long haul rates, hence very troublesome for beneficially loaning of a bank. Luckily, transformed yield bends happen occasionally and for the most part don't keep going long.

Hanlon (2015), properly entitled "How Do Banks Set Interest Rates," assesses construction of rates by banks charged in light of monetary elements such as development level in (GDP) and swelling. It likewise refers to loan fee unpredictability, or the good and bad times in market rates, as an imperative component banks take a

gander at. The variables effect interest for advances, by increasing or decreasing rates (King and Levine, 2013). At the point when request is low, for example, amid a financial subsidence, banks can build store rates to urge clients to loan, or lower credit rates to influence clients to assume obligation. Nearby market contemplations are additionally essential. Littler markets may have higher rates because of less rivalry, and in addition the way that advance markets are less fluid and have bring down general advance volume (Nnanna and Dogo, 2013).

Client Inputs

Prime rate of a bank, which is again the rate that bank clientele are charged, a perfect rate charged and accept a high probability of advance forked over the required funds and on time. However, as any customer knows who has attempted to apply for a new line of credit, various different elements become an integral factor (Yudistira, 2013). For example, client obtaining, FICO score and general association with the bank (e.g. the quantity of items the customer utilizes, to what extent he or she has been a client, what financial assessment he or she has) all become possibly the most important factor.

The measure of cash put down as an up-front installment by the client like; 5%, 10% or 20%, is additionally imperative. Contemplates have exhibited that when a client puts down a vast starting up front installment, has adequate "skin in the amusement" not leaving credit amid intense periods. Way shoppers place minimal expenditure down (have advances and plans which are negative, which means advance adjust expanded after some period) to home purchasing amid the Housing Bubble is viewed as colossal figure fanning the flares of Crisis of the Credit.

Insurance likewise impacts skin in the diversion (Nnanna and Dogo, 2013). The credit length, or to what extent to development, is additionally imperative. With a more extended term comes a higher hazard that the credit won't be reimbursed (Hanlon, 2015). This is by and large why long haul rates are higher than fleeting ones. Additionally, Banks take a gander at the general limit for clients to assume obligation (Yudistira, 2013). For example, the obligation benefit proportion endeavors fitting the talk to a helpful recipe used by bank to locate financing cost to be charged for an advance, (Nnanna and Dogo, 2013).

2.4 Empirical Literature

2.4.1 International evidence

Chapra, (2009) examined on elements that decide obtaining in Islamic partnered SACCOs in India and discovered that getting is not imbedded into the SACCOs institutional societies and its esteem is not shared by all representatives. The scientist figured out how to gather information from 35 SACCOs and MFIs. However, the change clarified is not higher than the unexplained rate since there are different factors that clarify a more noteworthy rate of monetary developing in the managing an account industry. All things considered, the aftereffects of the model demonstrate that none of the factors is altogether identified with the reliant variable. He likewise noticed that given the limit, presentation of advanced frameworks and specialized apparatuses chance administration does not work in SACCOs and in this way, they do not have the limit required for hazard administration.

Khan and Bhatti, (2008) researched the determinants of obtaining of twenty-eight Islamic banks by looking at the impression of senior Islamic investor toward hazard. The outcome delighted that; Islamic banks are normally presented to similar sorts of hazard in routine manages an account with various levels of the dangers. Hanlon, (2015) found that reimbursement execution is fundamentally influenced by borrower's attributes, moneylender's qualities and credit qualities. Reimbursement issues can be in type of credit wrongdoing and default. Whatever the frame be that as it may, the borrowers alone can't be considered capable wherever issues emerge, it is essential to look at the degree to which both borrowers and moneylenders consent to the advance contract and in addition the nature and obligations, duties and commitments of both sides as reflected in the plan of the credit program instead of stacking faults just on the borrowers.

Owusu (2008) on obtaining rehearses in provincial Islamic banks in Ghana discovered that the examination of credit getting and applications did not satisfactorily survey the inalienable credit hazard to control the assuming of suitable praise choice he additionally discovered that the drafted credit strategy archives of the two banks needed fundamental credit administration essentials like credit conveyance handle, credit portfolio blend, premise of estimating, administration of issue advances among others to sufficiently make them strong. In his proposals, he expressed that credit sum ought to be deliberately surveyed for distinguished tasks with a specific end goal to guarantee satisfactory subsidizing. This circumstance gives the required monetary assets to sustain tasks to realization, hence preventing preoccupation of assets to different purposes, which may not be financially feasible.

As per Iqbal and Abbas (2007) the money related train of provisioning for advance misfortunes has not been a piece of the SACCO improvement since SACCOs have depended on the registration framework for a considerable length of time. SACCOs hence wind up having to a great degree low net institutional capital and neglect to meet the WOCCU prudential standard of greatness of at least 10% net institutional capital. Institutional capital is a basic second line of resistance after advance misfortune arrangements from misfortunes acquired by the credit union identified with expanding wrongdoing and defaults.

2.4.2 Local Evidence

Ongore and Kusa (2013) directed a study to build up the determinants of advances acquisitions of business banks in Kenya. The concentrate basically centered around **44** **the impact of bank possession structure on the budgetary determinants of getting in Kenya**. It was apparent from the discoveries of the study that bank particular components essentially influence the determinants of acquiring in Kenya, aside from liquidity variable. The concentrate likewise uncovered that the general impact of macroeconomic factors did not significantly affect the money related determinants of obtaining in Kenya since it has a noteworthiness level of 5%. It was additionally clear from the finding that the directing part of possession character on the monetary determinants of obtaining was inconsequential to the money related determinants of acquiring in Kenya. The concentrate in this manner inferred that the monetary determinants of acquiring in Kenya

are driven predominantly by board and administration choices, while macroeconomic variables have immaterial commitment.

Githingi (2010) reviewed on working effectiveness and advance portfolio markers use by microfinance organizations discovered that most microfinance foundations to an awesome expand utilized working proficiency pointer as a credit chance administration hone. Proficiency and efficiency proportions are utilized to decide how well microfinance foundations streamline their credit operations. He likewise noticed that microfinance organizations need to utilize a mix of execution markers, for example, productivity, working effectiveness and portfolio quality pointers to gauge their general execution.

Gisemba (2010) examined on the relationship between acquiring rehearses and money related execution of Sacco's discovered that the Sacco's embraced different methodologies in screening and breaking down hazard before granting credit to customer to minimize advance misfortune. This incorporates setting up limit, conditions, utilization of security, borrower screening and utilization of hazard examination in endeavor to lessen and oversee credit dangers. He presumed that for Sacco's to oversee credit hazards viably they should minimize advance defaulters, money misfortune and guarantee the association performs better expanding the arrival on resources.

Gaiho (2010) studied on level of acquiring by traditional banks in Nairobi, discoveries uncovered that larger part of Sacco's utilized credit hazard administration practices to moderate dangers as a reason for target credit chance examination. She additionally

discovered that lion's share of Sacco's depended vigorously on the watchfulness and capacity of portfolio administrators for successful acknowledge hazard administration hones rather than a framework that institutionalizes credit and credit chance choices.

Wambugu (2009) using a loan acquiring hones in Sacco's offering front office administrations discovered that credit getting is an essential stage in credit hazard administration and ought to be connected viably to recognize the present credit dangers defying the association, give the probability of these dangers happening and uncover the sort and measure of misfortune these dangers are intended to bring about in the event that they happen. He inferred that the foundation of an audit framework that gave exact opportune and applicable hazard data in an unmistakable, effectively comprehended way is critical to hazard observing.

2.5 Summary of Literature Review

This proposition has endeavored to give an outline of Islamic back, its components and its developing significance in today's fiscally incorporated and related world economy. The circumstance of the present world economy, which is experiencing a budgetary emergency, has constrained business analysts and scholars everywhere throughout the world to scrutinize the current money related framework. Here comes the part of Islamic fund, which can go about as a contrasting option to the routine monetary framework. The significant elements of Islamic fund, similar to resource backing, bans on vulnerability (Gharar) and intrigue or usury (Riba), and hazard and benefit sharing appear to give a stronger monetary framework.

Going ahead, the speed and level of achievement with which Islamic keeping money will develop inside routine frameworks will to a great extent rely on upon whether potential contributors and speculators are very much educated about the open doors and dangers close by, and on whether Islamic managing an account is seen as a straightforward and all around controlled movement. Sound credit getting and administration involves basic evaluation of credit hazard and control, organized credit conveyance handle, successful checking/supervision administration, establishment of oversight system by the Board of Directors as far as strategy measures and supervisory control by the controller in regard of credit cutoff points, arrangement and provisioning of credits.

3 CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights the methods and procedures used in carrying out the study. It presents survey ¹ research design, population of the study, data collection, data analysis, Conceptual and analytical model as well as data presentation methods.

3.2 Research Design

This proposition has endeavored to give an outline of Islamic bank, its components and its developing significance in today's fiscally incorporated and related world economy. The circumstance of the present world economy, which is experiencing a budgetary emergency, has constrained business analysts and scholars everywhere throughout the world to scrutinize the current money related framework. Here comes the part of Islamic bank, which can go about as a contrasting option to the routine monetary framework. The significant elements of Islamic bank, similar to resource backing, bans on vulnerability (Gharar) and intrigue or usury (Riba), and hazard and benefit sharing appear to give a stronger monetary framework.

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3.3 Population

The objective populace in an examination study is the aggregate number of people in a gathering or the quantity of gatherings that the specialists are meaning to work with (Cooper and Schindler 2001). Cooper and Schindler (2001) named the populace as the aggregate gathering of the components about which the analysts are expecting to make their derivations from.

The number of inhabitants in this study are two completely banks of Islam (1 Gulf African Bank and First Community Bank) and six ordinary with incomplete Islamic managing an account (Barclay's, National, Chase, Imperial, Diamond Trust and Standard Chartered Bank) (Central Bank of Kenya, 2016).

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3.4 Data Collection

The study made utilization of both essential and auxiliary information on the stores and different exchanges of the saving money industry throughout the previous five years from 2011 to 2015. Information gathering process included reaching individuals from the populace.

Essential information was gathered by utilization of a questionnaire. Data was collected from three customers from each bank. The researcher relied on several other sources for the data; audited and published financial statements of the target banks.

3.5 Data Analysis

Information examination includes sorting out, representing and clarifying the information; that is, understanding the information regarding respondents' meaning of the circumstance taking note of examples, subjects, classes and regularities (Mugenda and Mugenda, 2003). After the information, has been dissected, a round of questioning was done to guarantee the pattern and examples of the different proportions and models used to empower for a precise and finish translation. The information was from there on broke down utilizing a measurable PC bundle, the SPSS. Inferential statistical analysis regression model will be used;

The regression model is illustrated below:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Y = level of borrowing (the number credit borrowers and amount borrowed through the Islamic financing) for a period of 5 years

α = constant term (Where:

25
 β_0 is the regression constant

$\beta_1, \beta_2,$ and β_3 are the coefficients of independent variables,

X_1 = Interest Rate Policy

X_2 = Islamic Law

X_3 = Client Inputs

2 CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

Findings and analysis are presented here. Relation among Islamic financing and the level of borrowing in Kenya commercial banks. Primary data collected through questionnaire while published commercial bank statement used as secondary data sources.

4.1.1 Response Rate

Results were conducted from two fully fledged Islamic banks and six Islamic conventional banks, all of 16. This reasonable response rate was made a reality after the researcher made personal calls and visits to remind the respondent to fill-in and return the questionnaires. All of the respondents have been working in the company for the last five years, this perceptibly contributed to the congruence in answering questions related to the research area.

4.2 Demographic Characteristics

The researcher asked the respondents to indicate their respondent's gender, their position in the bank and educational background. This information was provided in the sub-headings below.

4.2.1 Distribution of Respondents by Gender

In this section the researcher 17 sought to establish the age category of the respondents. Their responses are highlighted in the Figure 4.1 below

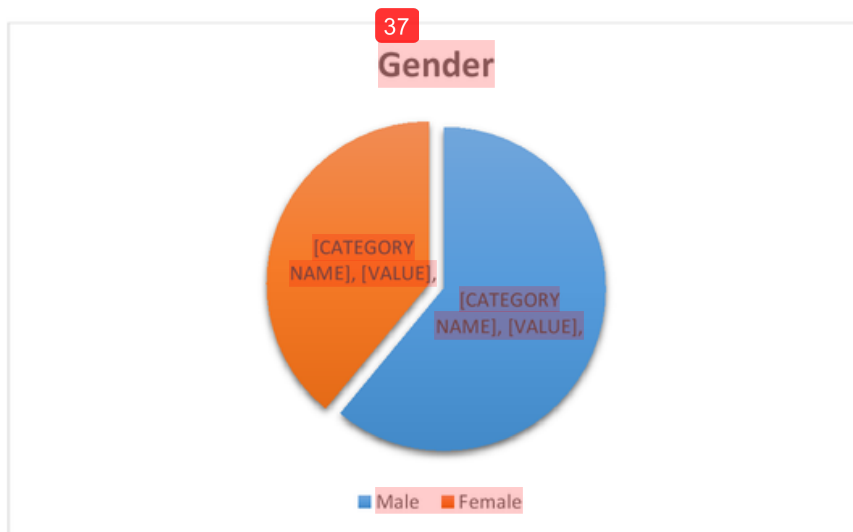
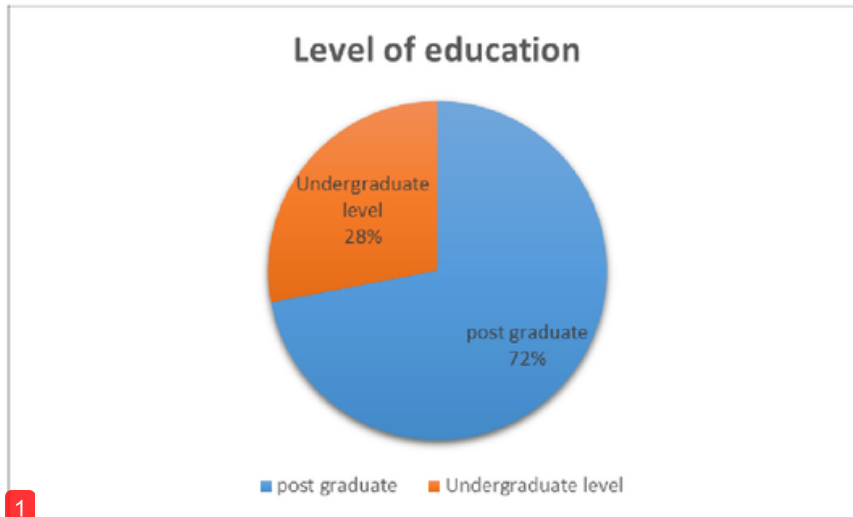


Figure 4.1: Gender characteristics of respondents

Sixty one percent of the respondents were male while 39% percentage of the respondents was female as shown on the figure below. This demonstrates that males dominate commercial banks in Kenya.

4.2.2 Highest level of education

Research showed education level of manager of banks. 72% attained university level and 28% masters. It's shown below.



1
Figure 4.2: Highest level of education

4.2.3 Position held in the bank

Majority (35%) of the respondents are head of asset finance, 24% of the respondents are in SMEs loan, 20% were in mortgage, 17% were in personal banking while 4% were heads of credits. Participants were obtained from all departments in banks.

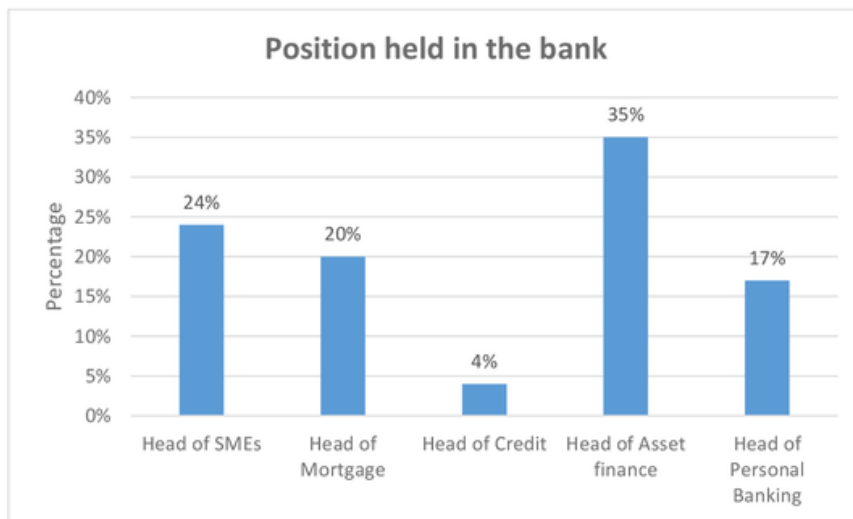


Figure 4.3: Position held in the bank

4.3 Loan appraisal in banks

Respondents of the study were asked their views on the principles guide they bank on the level of borrowing. Majority (69%) reported the ability to pay as the major guiding principle in loan administration, 15% reported the borrower history, 10% reported availability of adequate security, 4% of the respondents reported knowing the borrower and 3% of the respondents reported competitive pricing.

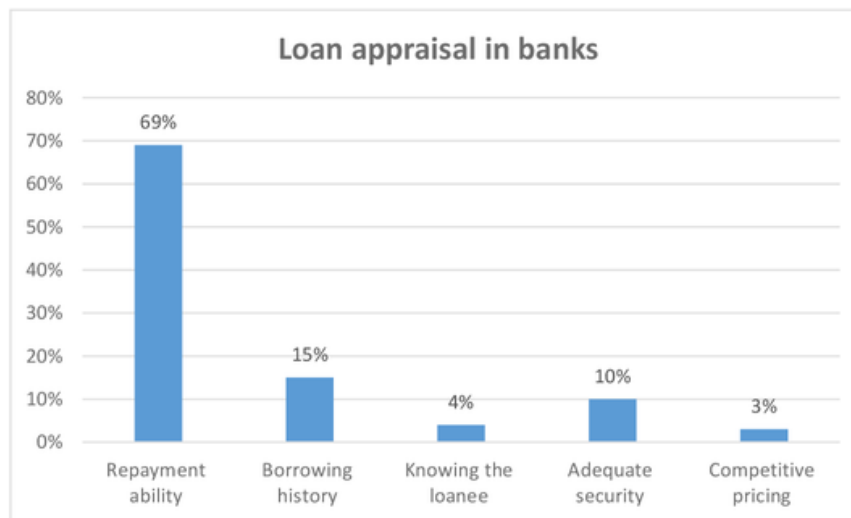


Figure 4.4: Loan appraisal in banks

4.3.1 Majority of Bank borrowers

The findings reviewed that majority (42%) of the banks' borrowers are the loyal customers, 24% are corporate bodies, 19% are societies, 11% constitute the government of Kenya and 4% of the respondent said group and welfares are their main borrowers. This shows that majority of the bank consider lending to customers that they have had a relationship with and this can improve the level Islamic borrowing. Table 4.8 shows Bank major borrowers.

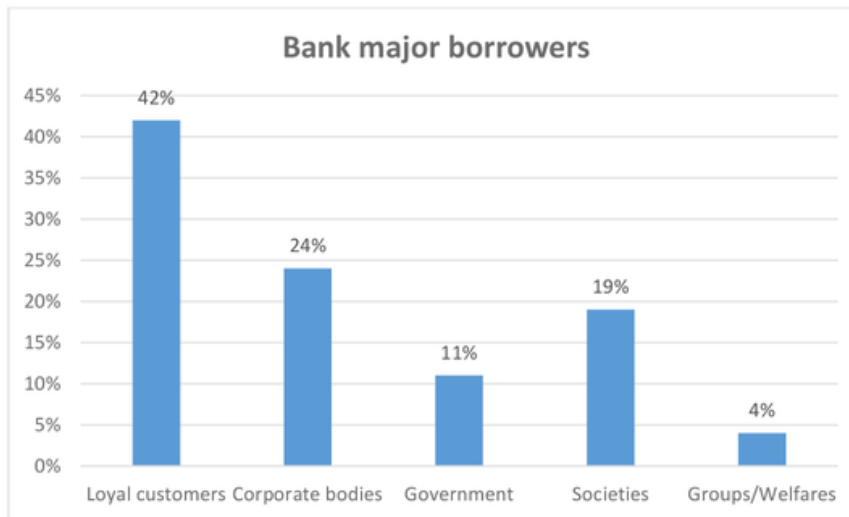


Figure 4.5: Major Bank borrowers

4.4 Determinant of Borrowings

4.4.1 Interest Rate Policy

The study in this part aimed at identifying the extent at which the following factors affect interest rate policies and its influence on the level of borrowing in the respective banks. Data was collected using Linkert scale of ³² No extent (1), little extent, (2), Moderate extent (3), large extent (4) and Very large extent (5). The table below shows the research findings.

Table 4.1: Interest Rate Policy

Determinant of Borrowings	Std.	
	Mean	Deviation
Central bank's lending guidelines influence individual banks policies	3.8372	.37097
Exceptions to the lending policy affects the loan portfolio performance	3.0442	.48961

Lending policies within the bank are tailored to the pre-dominant business activity	3.2419	.33356
Lending policies influences the borrowing behavior of consumers	3.1628	.47372
There exists a relationship between the interest rate and loan take-up rate	3.0465	.34548
Bank's deposit level affect the loan portfolio	2.9302	.43269
Competition in the commercial banks leads to differences in loan policies	3.2500	.38680

Respondents were requested that give replies on everything that was measured by a five point Likert scale running from 1 (low) to 5 (high). From Table 4.1, mean and standard deviation were utilized to test respondent thoughts where Standard deviation is the square base of the distinction. It evaluates the spread of a game plan of recognitions. The greater the standard deviation is, the more spread out the discernments are, while mean is the number juggling over discernments, most widely used gauge of central tendency. Commonly known as average. From Table 4.1, the statement on the Central bank's lending guidelines influence individual banks policies was found out to be the most significant factor of interest rate policies, as supported with a mean of 3.8372.

Other significant factors were the statement that competition in the commercial banks leads to differences in loan policies and lending policies within the bank are tailored to the pre-dominant business activity, which was supported with a mean of 3.2500 and

3.2419 respectively. The least significant factor was the statement that Bank's deposit levels affect the loan portfolio, which was supported with a mean of 2.9302.

4.4.2 Islamic financing

Respondents were asked their views on how Islamic financing influences the level of borrowing in commercial banks in Kenya. They were requested to rate with a degree of agreement/ disagreement using a scale of 1-5, by ticking their appropriate choice. The table below shows the research findings.

Table 4.2: Islamic financing

Factors Under Consideration	Mean	Std. Deviation
The Islamic financing attracts customers since they don't charge interest	4.4419	.29589
Islamic lending policies can lead to over lending by commercial banks	3.3953	.25971
Setting of credit targets lead to poor loan portfolio performance	3.0930	.31760

From the study findings, most respondents strongly agree that Islamic financing attracts customers since they don't charge interest with a mean of 4.4419. The statement on Islamic lending policies can lead to over lending by commercial banks was also highly supported with a mean of 3.3953 and setting of credit targets lead to poor loan portfolio performance was supported with a mean of 3.0.

4.4.3 Client Inputs

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Respondents of the study were asked to rate the extent at which the following factors conform to Islamic financing law level of borrowing in commercial banks in Kenya. The table below shows the research findings.

Table 4.3: Client Inputs

Factors Under Consideration	Mean	Std. Deviation
Income from loans influence bank profitability	3.2558	.38961
Changes in disposable income for the borrower influences the repayment ability	3.3953	.30357
Lack of proper information on customer influence loan repayment ability	2.9302	.29589
The individual banks' lending policies influences the levels of Non-performing loans	3.4419	.35971

From the respondent's view, the statement that individual banks' lending policies influences the levels of Non-performing loans was agreed with a mean of 3.4419, this was found to be the most significant factor of client inputs. Other significant factors are; changes in disposable income for the borrower influences the repayment ability, which was supported with a mean of 3.3953 and income from loans influence bank profitability (mean= 3.2558).

4.5 Regression Analysis

An analysis of regression of relation among Islamic financing and level of borrowing in commercial banks as shown below.

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Table 4.4: Model Summary for Goodness of fit

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
dimension0	1	.796 ^a	0.633	0.594

a. Predictors: (Constant), interest rate policy, Client inputs and Islamic financing law

Determination of Coefficient is explained by variation percentage in dependent variable (determinants of borrowing in Kenya) explained by (interest rate policy, Client inputs and Islamic financing law). The three variables studied, show 63% in determinants of borrowing represented by the R². Research shows positive significant relation among Islamic financing with the level of borrowing in Kenya Commercial Banks.

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Table 4.5: Results of ANOVA of Regression Analysis

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	5.976	1	1.494	16.377	.000 ^a
Residual	3.466	10	.091		
Total	9.442	11			

a. Predictors: (Constant), interest rate policy, Client inputs and Islamic financing

3^w
 b. Dependent Variable: determinants of borrowing

ANOVA findings (P- value of 0.00) in Table 4.5 show that there is correlation between the predictor's variables (interest rate policy Client inputs and Islamic financing law) and response variable (determinants of borrowing). A F proportion is ascertained which speaks to the fluctuation between the gatherings, isolated by the difference inside the

gatherings. An extensive F proportion demonstrates that there is more changeability between the gatherings (brought on by the free factor) than there is inside every gathering, alluded to as the blunder term. A huge F test demonstrates that we can dismiss the invalid speculation, which expresses that the populace means are equivalent. The P esteem is 0.000, which is under 0.005 hugeness level.

Computed F-proportion concerning variety between segments is equivalent to or more noteworthy than its table esteem, then the distinction among sections means is viewed as critical. So also, the F-proportion concerning variety between columns can be deciphered.

From the ANOVA table, it's found that differences concerning interest rate policy and Islamic financing law is significant at 5% level as the calculated *F*-ratio of 16.377 is greater than the value 0.00, but interest rate policy, client inputs and Islamic financing law are significant as the calculated *F*-ratio of 16.377 is more than its table value of 0.00.

2
Table 4.6: Coefficients of Regression Equation

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	26.123	1.947		13.414	.006
1 Islamic financing law	.012	.394	.213	.030	.979
Client inputs	.187	.445	.236	.044	.965
Interest rate policy	.118	2.108	.395	.056	.960

The analysis was conducted. The regression equation was as $(Y = \beta_0 + \beta_1X_1 + \beta_2X_2)$

$$Y = 26.123 + 0.012X_1 + 0.118X_2 + 0.187$$

Whereby Y = determinants of borrowing;

X₁= Islamic financing law;

X₂ = Interest rate policy;

X₃= Client inputs.

Equation of regression made (interest rate policy, Client inputs and Islamic financing law) constant at zero, determinants of borrowing of commercial banks will be 26.123%.¹² The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in Islamic financing law will lead to a 0.012 increase in the level of borrowing. A unit increase in interest rate policy will lead to a 0.118 increase on the level of borrowing of commercial banks.² This notwithstanding, the study shows that there is a positive significant correlation between independent variables and the level borrowing in Kenya. Therefore, it can be deduced that Islamic financing and the level of borrowing on commercial banks has a significant effect on banks performance.

4.6 Discussion

From the findings presented above, it is evident that proper adherence to the lending policies can increase the level of borrowing in commercial banks in Kenya. This concur with Ranjan (2003) who opined that skyline of improvement of credit, better credit culture, macroeconomic positivity and conditions of business prompt declining advances interests. The level of borrowings of banks are an essential paradigm to survey the budgetary strength of managing an account segment. It mirrors the benefit worth, credit hazard and skill in the allotment of assets to the beneficial divisions.

Ahmed (2010) noticed that since the change administration there have been different activities to contain the level of getting to enhance the benefit nature of the keeping

money area. Banks imagined good redesign in their activities with presenting of ideas which were new bringing down of like loan fee arrangements, pay acknowledgment and Islamic financing law which have put them in new stage.

The study discovered that, it could be unsafe practice to expand loaning period beyond valuable existence of advance evaluation. Advance loaning to borrowers with overburden obligations can open banks to pointless hazard. To diminish these dangers, banks need to contemplate a few normal candidates' particulars, for example, obligation to knowing the loanee, guiding principle in loan administration, competitive pricing, business and credit history and availability of adequate security and for individual loan applicants their time on the job or length of time. This is likely to affect the performance of loan, the finding agreed with. ²⁴ To arrive at this, credit information is required on how well the applicant has honored past loan obligations.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**5.1 Introduction**

Summary of findings, conclusions and recommendations are found here. Limitations and study are also here.

5.2 Summary of findings

Research showed many participants were working for the banks shown had high level of education, compounded with the positions they held in the institutions and thus were tailored to meet the local needs. The major guiding principles in lending were reported as the ability to pay and borrowers' credit history.

The study also found that, it could be dangerous practice to amplify loaning term past the valuable existence of the comparing advance evaluation. Advance loaning to borrowers with over-burden obligations can open banks to pointless hazard. Keeping in mind the end goal to diminish these dangers, banks need to think about a few normal candidates' particulars, for example, obligation to knowing the loanee, guiding principle in loan administration, competitive pricing, business and credit history and availability of adequate security.

The Islamic financing law and lending policies were found to be very beneficial in that they guide the lending process and that it rings uniformity with the commercial bank network. From the main factor that lead to bad loans is loaning to borrowers with faulty characters, high financing costs that make it hard for some to pay and preoccupation of

assets by borrowers from what they had planned to chip away at not being unveiled to the lender. Lending policies help in ascertaining the credit worthiness of the borrowers. Insuring the loan portfolio and stopping advancement of loans to risky sub-sector are also some measures in mitigating risks.

5.3 Conclusions

There is a significant positive relation among Islamic financing and level of borrowing. It is seen to three variables. Interest rate policies, helps prudently lending of the bank and lower the risk level to the banks. Strict adherence to lending policies therefore has led to increased levels of borrowings. The study also concludes that proper assessment of creditworthiness of a borrower, listing some risky sectors and insurance services are some of the measures being adopted to increase the level of borrowings.

The study also concludes that, its dangerous practice to expand loaning period beyond valuable existence of the relating advance evaluation. Advance loaning to borrowers with over-burden obligations can open banks to pointless hazard. With a specific end goal to diminish these dangers, banks need to contemplate a few basic candidates' particulars, for example, obligation to knowing the loanee, guiding principle in loan administration, competitive pricing, business and credit history and availability of adequate security.

The study concludes that as the Islamic financing law continues to penetrate the market, the level of borrowing increases. The banks' lending policies are modified in meeting market that is foreign.

The study concludes that emergence of many competitors such as micro finances; FOSAs and changing customer profiles could threaten the future growth of the commercial

banks' lending. The banking industry is therefore faced with the challenges of abandoning the tradition and conventional methods of lending and embracing the growth of Muslim population, the development of modern technology and innovations such as Internet lending to include more borrowers.

5.4 Policy Recommendations

Central bank and other policy makers should encourage Islamic financing policies to more conventional banks based on the prevailing economic environment, as this will ensure uniformity in administration of credit borrowing facilities.

The study recommends that the commercial banks of Kenya will come up with Islamic financing laws by portioning the clients in light of their needs, size and sort of business and planning items that meet the one of a kind needs of these client sections furthermore making a valuing procedure for every fragment. The banks should consider more products and services, which can appeal to the women and youth who form the bulk of the Kenyan population.

2

5.5 Limitations of the Study

The principle restrictions of this study were: the accessibility of the senior administration who were excessively caught up with amid available time, making it impossible to fill the surveys. To alleviate this, issue the specialist gave a long time of information gathering further the scientist made various telephone calls to build the reaction rate.

The study is collected exclusively on commercial banks of Kenya but there are other financial institutions like Sacco's which is not covered by this study.

The respondent may have had a nonexistent dread of giving the data to contenders because of the approach of privacy. This impediment was countered by guaranteeing the respondents that data is only for scholarly purposes and would be treated with a considerable measure of secrecy. A presentation letter ¹ from the University of Nairobi, School of Business was appended to the polls to certify classification.

5.6 Suggestions for Further Studies

The research has looked the impact of Islamic financing on the levels obtaining by business banks in Kenya. The research suggests different examination ought to be worked on hence increase finding in this study; it in this way prescribes a study be done on the impact loaning arrangements have on acquiring conduct for the buyer in order to take a gander at how loaning approach impacts borrower's basic leadership.

Increasing exploration research on findings, this research prescribes different examination on acquiring strategies ought to be done yet incorporated all credit suppliers to be specific; smaller scale fund organizations, contract organizations, procure buy organizations and service organizations on a more extensive topographical range.

The analyst suggests that a study be done in the keeping money industry in order to discover the distinctive methodologies embraced by business banks while reacting to rivalry in the business. This research prescribes different examination done to assess the manageability of large loan books, bad debt provision and their effects on overall performance of the Commercial Banks in Kenya.

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APPENDICES

Appendix I: Questionnaire

1

Please respond each question by putting a tick (✓)

36

1. Name of your Bank? (Optional)

2. Gender

a) Male

b) Female

3. What is your Position in the bank?

Head of SMEs

Head of Asset finance

Head of Mortgage

Head of Personal Banking

Head of Credit

Other

23

4. Highest level of education

a) Secondary level

b) College level

c) University level

d) Post graduate level

Section B

5. Does your bank have a credit borrowing policy?

Yes

No

6. What principles guide your bank on the level of borrowing?

Repayment ability

Adequate security

Borrowing history Competitive pricing

Knowing the loanee Risk management

7. Who are the majority borrowers in your bank?

Loyal customers Walk in customers

Corporate bodies Government

Societies Groups/Welfares

Others

8. Rate on a scale of 1 to 5 the extent to which lending policies influence level of borrowing in your bank based on the criteria listed on the first (left) column of the matrix presents below. The numbers represent the following: 1- not at all, 2- To a less extent, 3- to a moderate extent, 4-to a great extent and 5- to a very great extent.

Determinant of Borrowings	1	2	3	4	5
Interest Rate Policy					
Central bank's lending guidelines influence individual banks policies					
Exceptions to the lending policy affects the loan portfolio performance					
Lending policies within our bank are tailored to the pre-					

dominant business activity					
Lending policies influences the borrowing behavior of consumers					
27 There exists a relationship between the interest rate and loan take-up rate					
Bank's deposit level affect the loan portfolio					
Competition in the commercial banks leads to differences in loan policies					
Islamic financing Law					
The Islamic financing low attracts customers since they don't charge interest					
Islamic leading policies can lead to over lending by commercial banks					
Setting of credit targets lead to poor loan portfolio performance					
Client Inputs					
Income from loans influence bank profitability					
Changes in disposable income for the loanee influences the repayment ability					
Lack of proper information on customer influence loan					

repayment ability					
The individual banks' lending policies influences the levels of Non-performing loans					

**Appendix II: List of Commercial Banks that Offer Full or Partial Islamic Products
in Kenya as at Jan 2016**

1. Barclay's banks
2. Chase Bank
3. Diamond Trust
4. First Community Bank
5. Gulf African Bank
6. Imperial Bank
7. National Bank
8. Standard Chartered Bank

Source: Central Bank of Kenya (2016)

islam

ORIGINALITY REPORT

% **11**

SIMILARITY INDEX

% **8**

INTERNET SOURCES

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PUBLICATIONS

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STUDENT PAPERS

PRIMARY SOURCES

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erepository.uonbi.ac.ke

Internet Source

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2

chss.uonbi.ac.ke

Internet Source

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3

Submitted to Saint Paul University

Student Paper

<% **1**

4

Submitted to University of South Australia

Student Paper

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5

Submitted to University of Leicester

Student Paper

<% **1**

6

etheses.dur.ac.uk

Internet Source

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7

www.licenstore.com

Internet Source

<% **1**

8

Submitted to Higher Education Commission
Pakistan

Student Paper

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9

Submitted to University Of Tasmania

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10

Submitted to Africa Nazarene University

Student Paper

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11

www.antiessays.com

Internet Source

<% 1

12

www.ejobm.org

Internet Source

<% 1

13

Submitted to National Research University
Higher School of Economics

Student Paper

<% 1

14

Submitted to London School of Commerce -
Dhaka

Student Paper

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15

Submitted to University of Nairobi

Student Paper

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Submitted to KIIT University

Student Paper

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www.slideshare.net

Internet Source

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18

Submitted to University of Wales central
institutions

Student Paper

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19

Submitted to Strathmore University

Student Paper

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20 Submitted to Kenyatta University <% 1
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21 ezproxy.kca.ac.ke:8010 <% 1
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22 arabianjbmr.com <% 1
Internet Source

23 Submitted to University of Greenwich <% 1
Student Paper

24 Submitted to Midlands State University <% 1
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25 Submitted to University of Bradford <% 1
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27 ccenet.org <% 1
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28 scholarsresearchlibrary.com <% 1
Internet Source

29 Submitted to Sunway College <% 1
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30 islamic.scwilliam.com <% 1
Internet Source

Submitted to Buckinghamshire Chilterns

31

University College

Student Paper

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32

www.schools.lth5.k12.il.us

Internet Source

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33

Submitted to University of Calabar

Student Paper

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34

Submitted to University Der Es Salaam

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Submitted to Mancosa

Student Paper

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36

Submitted to Laureate Higher Education Group

Student Paper

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37

Submitted to Universiti Teknologi MARA

Student Paper

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38

uir.unisa.ac.za

Internet Source

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www.ejov.org

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Publication

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International Journal of Manpower, Volume 33, Issue 7 (2012-10-20)

Publication

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42 www.pakinsight.com Internet Source <% 1

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