

ADFJ ISSN 2522 – 3186.

African Development Finance Journal

VOLUME 8 (VIII)

*Testing the Awareness and Attitude towards Sukuk
Bonds in the Kenyan Market: A Policy Brief*

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Date Received: April, 10, 2025

Date Published: September, 18, 2025

Testing the Awareness and Attitude towards Sukuk Bonds in the Kenyan Market: A Policy Brief

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Abstract

The survey sought to establish the level of awareness and attitude of investors towards Sukuk bonds. Data was collected using questionnaires among investors in the Kenyan market. A response rate of 80% was obtained from the targeted 200 respondents. In terms of awareness, 55% were aware of sukuk bonds as investment options while 45% were unaware of the Sukuk bonds. The investors' knowledge of sukuk bonds was tested and the findings depicted that Ijara bonds were rated the highest at 32%, Mudarabah (28.7%), Musharakah (32.8%), Murabaha (25.4%), Salam (19.7%), Istisnah (14.8%), Wakala (21.3%) and 41% had no knowledge of the types of sukuk bonds. The investors also identified factors which would influence their investing in sukuk bonds: unique features of sukuk (25.2%), transparency of investments (44.4%), religious/ethical factor (62.9%), expected returns (42.4%), and sustainability (27.2%). This research investigated the awareness and attitude of Kenyan investors towards sukuk bonds with a view of coming with a policy framework which will guide issuance of Sukuks in Kenya.

Keywords: Sukuk bonds, Shariah, conventional bonds

1. Introduction

This policy brief is based on a research conducted among investors in Kenya between August – October 2024. The research was necessitated by the need to establish the readiness of Kenyan market to invest in Sukuk bonds when they are issued. Sukuks are basically Islamic bonds which are Shariah compliant. Sukuk bonds as a financing tool provide more diversified financing for government and also private sector. It is an avenue to mobilize financing and savings for a segment of population that would be excluded by conventional finance vehicles. The rationale behind the creation of Sukuk is to provide an alternative to conventional bond in a Shariah complaint manner. There is a growing interest in Sukuk bonds among several countries in the recent past. Sukuk bonds have been issued in more than 20 countries in Europe, Asia, Middle East and Africa. In East Africa, Tanzania issued sukuk bonds to raise TZS 2 billion but received a total of TZS 2.72 billion in bids, with an oversubscription of 36%, showing the country's appetite for this product. In Kenya and Uganda the regulatory framework is still being developed. The findings from this study will enable the government to assess the readiness of the Kenyan market for the issuance of Sukuk bonds.

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The findings from this study depicted that the investors had invested in real assets (53.9%) and financial assets (37.5%). However, in terms of awareness of Sukuk bonds as investment options, only 48% were aware of their existence. Familiarity with sukuk bonds was supported by 13.1% of the investors while 30.8% were very unfamiliar. There was also limited knowledge on the types of sukuk bonds which are available for investors. Investors were tested on their knowledge of Ijara bonds, Mudarabah, Musharakah, Murabaha, Salam, Istisnah, and Wakala bonds. 32% of the investors had knowledge of Ijara bonds, Mudarabah (28.7%), Musharakah (32.8%), Murabaha (25.4%), Salam (19.7%), Istisnah (14.8%), Wakala (21.3%), However, 41% of the investors had no knowledge of any of the sukuk bonds. In terms of factors which would influence investing in sukuk bonds include: unique features of sukuk (25.2%), transparency of investments (44.4%), religious/ ethical factor (62.9%), expected returns (42.4%), and sustainability (27.2%).

The survey also sought to establish whether the investors would be interested in obtaining more information about sukuk bonds. The findings showed that there is a huge interest in sukuk bonds, both in terms of obtaining information, and appetite for investment. 91% of the investors expressed interest in obtaining more information. Out of the 91%, a large proportion (87%) was interested in choosing sukuk bonds as their investment options after obtaining all the information.

2. Key Recommendations

The key recommendations from the study are:

- a) Investors lack information on sukuk bonds. They are not aware of the risk-return expectations, how the Shariah compliance will be achieved, maturity, types of sukuk bonds and their distinguishing features
- b) There is need for a clear regulatory framework to guide issuance of sukuk bonds. Regulations will reduce information asymmetry between the investors and issuers and also boost confidence among the investors.

3. Policy Implications

- a) Awareness campaigns: Intensive awareness programmes should be promoted to educate the public on sukuk bonds and how they are different from conventional bonds. Knowledge on

the various types of bonds should also be provided. This will improve on the transparency of the trading which will eliminate the perception of high risk on sukuk bonds.

- b) Regulatory support: A simplified regulatory framework should be put in place to guide the issuance of sukuk bonds. One of the challenges facing the uptake of Islamic Financial Products in Kenya has been lack of regulatory frameworks to govern it. This for the longest time has hindered the development of more products thus investors have limited options for their portfolio.
- c) Education integration: Introduce Islamic finance topics in school and university curricula. This will equip people with Islamic financial literacy from an early age which will guide their investment decisions.