

ALTERNATIVES TO DOMESTIC REVENUE MOBILISATION

*Leveraging Islamic Finance and Islamic Financial
Instruments to Curb Against the Rising Public Debt in
Kenya*

DATE: 16 SEPTEMBER 2023

VENUE: JAMIA Multipurpose Hall, Nairobi



Conference Report: Leveraging Islamic Finance for Public Debt Management

Introduction

The "Leveraging Islamic Finance for Public Debt Management" conference brought together experts, policymakers, academics, and practitioners to explore innovative and sustainable financial solutions to address rising public debt challenges. Hosted by the Committee on Fiscal Studies (CFS), the conference aimed to harness the principles and instruments of Islamic finance to promote responsible debt management and economic growth while adhering to ethical and socially responsible principles.

Conference Objectives

The primary objectives of the conference were as follows:

1. To explore the potential of Islamic finance principles and instruments in curbing rising public debt.
2. To facilitate discussions on integrating Islamic financial tools into existing fiscal frameworks.
3. To promote responsible debt management practices.
4. To foster economic growth in alignment with ethical and socially responsible principles.

Conference Themes

The conference revolved around three central themes:

- a) *Sukuk*: Sukuk, commonly known as Islamic bonds, were at the forefront of conference discussions. Sukuk were explored as an innovative avenue for debt financing that aligns with Islamic principles. Presentations and discussions emphasized how sukuk offer ethical means for governments and entities to raise capital while aligning with sustainable development goals.
- b) *Zakat*: Zakat, an integral aspect of Islamic finance, played a pivotal role in the conference. Experts delved into how zakat can be a potent tool for addressing social disparity, poverty, and responsible debt management. The integration of

zakat was discussed as a means to reduce public debt by redistributing wealth and promoting economic inclusivity.

- c) *Islamic Digital Coins*: Modern facets of Islamic finance, namely Islamic digital coins, also found a place in the conference agenda. These digital coins were analyzed for their potential to tackle public debt challenges while adhering to Sharia principles. Experts discussed how these digital coins can facilitate transactions, foster financial inclusion, and contribute to effective debt management, all while upholding ethical standards.

Conference Structure

The conference proceeded as follows:

Morning Session:

- Dr. Lyla Latif, Chair of the Committee on Fiscal Studies, opened the conference and set the stage for discussions on the relevance of Islamic finance.

During the keynote session on "The Relevance of Islamic Finance," moderated by Omar Mohammed Saleh, Dr. Chris K. Kiptoo, CBS, The National Treasury, Kenya Government, was expected to give a speech. However, as he couldn't attend in person, a substitute representative stepped in to deliver the session. The speaker shed light on the importance of Islamic Finance in Kenya's economic landscape.

During the session, the speaker highlighted the significance of exploring and integrating Islamic financial principles to tackle contemporary financial challenges and promote sustainable economic growth. Islamic Finance was deemed a promising alternative due to its principles of risk-sharing, ethical considerations, and focus on real economic activities.

The potential role of Islamic Finance in mitigating Kenya's increasing public debt was also discussed while upholding ethical and sustainable financial practices. The session concluded by stressing the importance of responsible debt management and economic inclusivity, aligning with the ethical principles embedded in Islamic Finance.

Although a substitute represented Dr. Chris K. Kiptoo, the session was successful in initiating an important conversation about the relevance of Islamic Finance in addressing Kenya's financial challenges while promoting sustainable development.

Presentations: Sukuk

Mr. Omar Mohammed (Chair of the session) introduced the speakers:

Sh. Badru-on Domestic Revenue Mobilization. Sheikh Badru highlighted the following key points in his presentation:

- Emphasized the necessity of robust domestic resource mobilization to alleviate debt-related issues and enhance debt servicing.
- Discussed how political regulations can sometimes impede the efficiency of tax collection and revenue generation.

- Stressed the importance of collaborative efforts among the government, civil societies, citizens, and non-governmental actors for sustainable national growth. The tax system plays a crucial role in facilitating such collaboration.
- Advocated for partnerships between international development organizations and local authorities as a vital means of achieving sustainable development in Africa.
- Emphasized the need for government transparency and equitable resource distribution to foster public confidence in the governance system.

Sh. Abdishakur's presentation on Sukuk-Shariah issues encompassed the following key points:

- **Sukuk Distinction:** Sh. Abdishakur began by elucidating the key differences between conventional public debt and Sukuk. He emphasized that Sukuk is a distinct Islamic financial instrument governed by Shariah principles.
- **Shariah Compliance:** A central theme of his presentation was the critical need for strict adherence to Shariah law in Sukuk issuances. He underscored the importance of a comprehensive framework that ensures full compliance with Islamic principles throughout the entire Sukuk process.
- **Ethical Foundations:** highlighted how Sukuk aligns with ethical principles, making it a viable option for raising capital while upholding responsible and moral financial standards.
- **Risk-sharing Model:** He discussed the concept of risk-sharing inherent in Sukuk structures, where both investors and issuers jointly share profits and losses. This risk-sharing approach was presented as a means to promote responsible debt management.
- **Sustainable Development:** emphasized Sukuk's potential to fund projects that align with sustainable development objectives. He explained how Sukuk can play a pivotal role in fostering economic growth and societal advancement.
- **Transparency and Accountability:** Throughout his presentation, the speaker stressed the significance of transparency and accountability in Sukuk issuances. He emphasized that maintaining high levels of transparency and accountability is crucial to instill confidence among investors and ensure ethical financial practices.

In summary, Sh. Abdishakur's presentation explored the Shariah issues related to Sukuk and highlighted its capacity to serve as an ethical and sustainable financing mechanism.

After the two presentations, the conference was adjourned for Tea Break at 11:10 am.

Mid-Morning Session

The members convened again at 11.25 am and Mr. Omar Mohammed welcomed everyone back.

Presentations: Zakat:

Dr. Lyla Latif: Zakat for Health Finance: Findings from the Field

In her presentation titled "*Zakat for Health Finance: Findings from the Field,*" Dr. Lyla Latif provided a comprehensive interdisciplinary analysis of the legal relationship between Zakat, commonly described as obligatory almsgiving and its potential role in financing public health in Kenya. Her presentation significantly contributed to human rights law, Islamic law, and constitutional law, as these three distinct legal frameworks converge in the debate surrounding Zakat's potential contribution to healthcare financing.

Key Contributions and Insights:

- **Interdisciplinary Approach:** Dr. Lyla's presentation underscored the complexity and fluidity of legal systems, especially when different legal frameworks interact. This complexity necessitates an interdisciplinary approach to understand the legal dynamics at playfully.
- **Influence of Legal Frameworks:** She demonstrated how legal frameworks can influence one another, providing innovative solutions to complex legal problems. Applying Islamic law on Zakat to finance public health in Kenya, for instance, offers new interpretations and understandings of human rights law's obligations related to providing essential health services.
- **Political Considerations:** Dr. Lyla's presentation also highlighted the significant implications of political considerations in conceptualizing and using law. It emphasized that political dynamics, cultural beliefs, religious influences, and political structures are pivotal in applying and interpreting legal principles.
- **Socio-Legal Scholarship:** The presentation emphasized the importance of understanding how power dynamics and political realities influence the application and interpretation of legal principles. It underscored the need for scholars to incorporate a nuanced understanding of these factors when examining constitutional and religious legal frameworks.

Dr. Lyla Latif's presentation went beyond the surface analysis of Zakat's potential in healthcare financing. It delved into the intricate interplay between legal systems, offering valuable insights into how these frameworks can influence each other and the broader socio-legal implications of such interactions. Her research and findings contribute significantly to the fields of human rights law, Islamic law, and constitutional law, offering a fresh perspective on the potential role of Zakat in addressing healthcare financing challenges.

Sh. Hassan Makokha: Zakat; Fulfilling an Obligation

In his comprehensive presentation on Zakat, Sh. Hassan Makokha covered various aspects of this essential Islamic practice, emphasizing its significance, obligations, and impact.

Key Points Discussed:

- **Significance:** Zakat is one of the five pillars of Islam, reflecting the principles of charity and generosity.
- **Status and Virtues:** Zakat is regarded as a means of purifying the giver's wealth, promoting social justice, and aiding the less fortunate.
- **Warnings from Allah:** Neglecting Zakat can lead to adverse consequences, both in this world and in the hereafter.
- **Historical Context:** Zakat dates back to the time of Prophet Muhammad (peace be upon him) and remains relevant today.
- **Obligation of Zakat:** Zakat is obligatory for eligible Muslims who meet specific financial criteria.

- **Islamic Ruling:** Zakat is classified as a religious duty in Islam.
- **Conditions for Obligation:** The conditions for Zakat obligation include ownership of specific types of property and meeting the Nisaab threshold.
- **Conditions for Acceptance:** Zakat must be given with sincerity and intention.
- **Types of Property:** Zakat is obligatory on certain types of property, such as currency, gold, silver, livestock, agricultural produce, and trade goods.
- **Ineligible Property:** Certain types of property are not subject to Zakat.
- **Nisaab Threshold:** The Nisaab represents the minimum wealth threshold for Zakat obligation.
- **Zakat on Trade Commodities:** Specific rules and guidelines apply to Zakat on trade commodities and merchandise.
- **Zakat on Lump Sum Payments:** Zakat is obligatory on lump sum payments, such as pension and provident funds.
- **Zakat on Real Estate Investments:** Zakat applies to real estate investments.
- **Zakat on Cryptocurrency:** Zakat on cryptocurrency is an emerging issue, considering the evolving financial landscape.
- **Recipients of Zakat:** Zakat must be distributed to those in need.
- **Ineligible Recipients:** Certain individuals or groups are ineligible to receive Zakat.
- **Impact of Zakat:** Zakat has the potential to significantly contribute to ending global poverty and hunger.

In closing, Sh. Hassan expressed gratitude for the audience's time and reiterated the importance of fulfilling the obligation of Zakat. His presentation provided a comprehensive understanding of Zakat's significance, obligations, and its potential to make a profound impact on alleviating poverty and improving the well-being of those less fortunate.

Mr. Omar Mohammed adjourned the session for a lunch break.

Afternoon Session

Presentations: Islamic Digital Coins & Fintech

Members gathered back in the conference room at 2:25 PM and Mr. Omar Mohammed welcomed everyone back for the afternoon session.

Ms. Farhiya Farahas chair of the session introduced the session and invited Dr. Shakeel Salyani to present on Islamic Digital Coins.

Key points from Dr. Salyani's presentation:

Dr. Salyani's presentation offered a comprehensive exploration of Islamic finance principles and their intersection with cryptocurrencies, shedding light on crucial aspects of these subjects. Here is a summary of the key highlights from his insightful presentation:

- *Islamic Finance Principles Unveiled:* Dr. Salyani initiated the discussion by unraveling the fundamental tenets of Islamic Finance. He emphasized the significance of adhering to principles like the prohibition of Riba (usury/interest), ethical investment practices, and the spirit of risk-sharing. Through his presentation, attendees gained a clear understanding of these foundational concepts.

- *Navigating the World of Cryptocurrencies:* In the following segment, Dr. Salyani drew a clear distinction between digital coins and cryptocurrencies, elucidating their defining characteristics. Attendees learned about the core attributes of cryptocurrencies, including decentralization, blockchain technology, immutable transactions, and their global accessibility. This segment provided a solid foundation for comprehending the subsequent discussions.
- *Challenges and Opportunities in Combining Cryptocurrencies with Islamic Finance:* Dr. Salyani skillfully navigated through the complexities of aligning cryptocurrencies with Islamic finance principles. He highlighted the critical concerns surrounding Riba, Gharar, and Haram activities and the absence of asset backing. Attendees gained valuable insights into the challenges posed by regulatory disparities, price volatility, and security risks within the cryptocurrency landscape. Concurrently, they were encouraged to explore promising opportunities, including financial inclusion, transparent blockchain technology, cost reduction, and the development of Sharia-compliant financial products.
- *Delving into Cryptocurrency Speculation:* With a focus on the speculative nature of cryptocurrencies, Dr. Salyani outlined the concerns stemming from price volatility and the absence of intrinsic value. He illuminated the audience on the prevalence of speculative trading behaviors and their consequences. Furthermore, he examined the risks associated with market manipulation, tax implications, and their impact on adoption. Attendees were provided with a well-rounded view of the speculative realm within cryptocurrency markets.
- *Exploring Islamic Digital Coins (IDCs):* Dr. Salyani expanded on the concept of Islamic Digital Coins (IDCs), showcasing their adherence to Shariah compliance and their role in preserving intrinsic value through asset-backed tokens. Attendees were presented with notable examples of IDCs, including OneGram, iDinar, and others. Furthermore, the incorporation of blockchain technology to support IDCs was explained in detail.
- *Unveiling Benefits and Debt Management Strategies:* Attendees were enlightened on the manifold benefits offered by IDCs, such as financial inclusion, reduced transaction costs, and borderless transactions. Dr. Salyani also touched upon innovative debt management strategies facilitated by IDCs, including interest-free financing and transparent lending through smart contracts. The potential for Zakat distribution and its significance within this context were emphasized, contributing to a holistic understanding of IDCs' applications.
- *Addressing Challenges and Concerns:* Dr. Salyani acknowledged the existing challenges, including regulatory uncertainties, the evolving nature of the crypto space, price volatility, and security risks. Attendees were encouraged to take these challenges seriously while considering the future of Islamic Finance and cryptocurrencies.
- *Emphasizing Regulatory Compliance:* In this segment, Dr. Salyani underscored the paramount importance of regulatory compliance, elucidating its role in providing legal clarity, investor protection, and market credibility. Attendees left with a profound appreciation for the necessity of operating within regulatory boundaries to foster innovation and global expansion opportunities.

- *Glimpsing into the Future of IDCs and Innovations:* Dr. Salyani concluded the presentation by projecting a vision of the future, one with increased regulatory clarity, broader IDC adoption, global expansion, and enhanced IDC technology. He challenged attendees to confront the challenges ahead, including market competition and evolving regulations, while staying committed to responsible innovation.

In summary, Dr. Salyani's presentation dissected the intricate world of Islamic Finance and cryptocurrencies, equipping attendees with a comprehensive understanding of the subject matter. His insightful analysis of challenges and opportunities paved the way for attendees to engage thoughtfully with these evolving financial landscapes.

Suad Hamid Bafagih: Fintech

Suad Bafagih's presentation on Fintech was an illuminating exploration of how modern financial technology aligns with Islamic finance principles. Her comprehensive discussion covered a wide range of topics and applications within Islamic Fintech, providing valuable insights into the evolving landscape. Here are the key highlights from her insightful presentation:

- *Understanding Islamic Fintech;* Suad Bafagih commenced her presentation by introducing the audience to the dynamic world of Islamic Fintech. She emphasized its growing significance as a means to harmonize financial technology with Islamic finance principles.
- *Application of Islamic Fintech;* the presenter delved into various applications of Islamic Fintech, offering attendees a detailed look at how it is being integrated into the financial ecosystem:
 - **Crowdfunding:** Attendees gained an understanding of how crowdfunding platforms are facilitating ethical and Shariah-compliant fundraising endeavors.
 - **Mobile Wallets and Payment Gateways:** Suad Bafagih shed light on the convenience and compliance offered by mobile wallets and payment gateways in the context of Islamic finance.
 - **Islamic Peer-to-Peer Financing:** Attendees learned about the emergence of Islamic peer-to-peer financing platforms, enabling transparent and Shariah-compliant lending and borrowing.
 - **Blockchain in Islamic Finance:** Suad Bafagih highlighted the transformative potential of blockchain technology within Islamic finance, emphasizing its role in enhancing transparency, security, and traceability.
 - **Digital Banking:** The audience was presented with insights into digital banking solutions that align with Islamic finance principles, offering efficient and Shariah-compliant banking services.
 - **Insurtech:** Suad Bafagih explored the world of Insurtech, showcasing how technology is revolutionizing the insurance industry while ensuring compliance with Islamic finance guidelines.
 - **Robo Advisors:** Attendees gained valuable insights into the benefits of Robo Advisors in Islamic finance, emphasizing their role in ethical and automated investment management.

- Digital Sukuk: Suad Bafagih elucidated the concept of Digital Sukuk, highlighting its role in simplifying the issuance and trading of Shariah-compliant bonds.
- Zakat and Charity Platforms: The audience was introduced to innovative platforms that facilitate the collection and distribution of Zakat and charitable contributions in a transparent and accountable manner.
- Regulatory and Compliance Solutions: Suad Bafagih concluded her presentation by emphasizing the importance of regulatory compliance in Islamic Fintech. Attendees were made aware of solutions aimed at ensuring that Islamic Fintech platforms operate within the legal and ethical boundaries of Islamic finance.

Suad Bafagih's presentation provided attendees with a comprehensive understanding of the multifaceted world of Islamic Fintech. Her insights into various applications and technologies demonstrated how Islamic finance principles can be seamlessly integrated into the digital age, paving the way for innovative and ethical financial solutions.

After the last presentation, Mr. Khalfan chaired the discussion session.

Under the adept chairmanship of Khalfan, the conference's discussion segment proved to be an engaging and insightful session. Participants were treated to a lively exchange of ideas and perspectives, enhancing the overall conference experience. Here are the key takeaways from this illuminating discussion:

- Khalfan skillfully steered the discussion by encouraging diverse viewpoints and opinions. This inclusive approach allowed for a well-rounded examination of the topics under consideration. The discussion segment facilitated in-depth analysis of critical issues in Islamic finance. Participants had the opportunity to delve into complex subjects, enabling a deeper understanding of the challenges and opportunities within the field.
- Participants actively discussed emerging trends and innovations in Islamic finance. This forward-looking perspective is crucial for staying relevant and adaptable in the ever-evolving financial landscape. Regulatory matters were a central theme in the discussion. The importance of harmonizing Islamic finance practices with evolving regulatory frameworks was emphasized, ensuring compliance and ethical conduct.
- The discussion not only provided a platform for knowledge exchange but also fostered collaboration and networking among conference attendees. This collaborative spirit is essential for driving positive change within the Islamic finance industry. Practical insights and real-world experiences were shared during the discussion. These anecdotes and case studies offered valuable lessons and inspiration for those in attendance.
- Khalfan skillfully managed the question-and-answer sessions, allowing participants to seek clarification, offer additional insights, and engage in fruitful dialogue with the speakers and fellow attendees.

In conclusion, the discussion segment was a resounding success, adding significant value to the conference. It provided a forum for robust debate, knowledge sharing, and collaboration within the Islamic finance community. Participants departed with enriched perspectives and a renewed

commitment to advancing the principles and practices of Islamic finance in a rapidly changing world.

Outcome

The conference resulted in several key outcomes:

- The establishment of collaborative initiatives and training workshops.
- The creation of mentorship programs.
- The establishment of a dedicated Working Group on Islamic Financial Mobilisation.

These outcomes are poised to reshape the future of responsible debt management and economic growth by leveraging Islamic finance principles and instruments.

Conclusion

The "Leveraging Islamic Finance for Public Debt Management" conference provided a platform for insightful discussions on addressing rising public debt challenges. By tapping into the ethical and sustainable principles of Islamic finance, the conference outlined practical solutions that promote responsible debt management, economic inclusivity, and sustainable development. The collective efforts of experts, policymakers, and practitioners are expected to drive positive change in public debt management practices.

Attendees: The conference brought together a diverse group of participants, including fintech startups, Islamic finance practitioners, representatives from the Ministry of ICT, Kenya Development Corporation, finance and accounting experts, faith-based organizations, and leading Shariah experts from East Africa.

The Committee on Fiscal Studies (CFS) extends its gratitude to all participants for their commitment to the conference's objectives, and the conversations initiated during this event will continue to shape the landscape of public debt management and ethical fiscal practices within Islamic finance principles.

Accompanying documents

- The conference programme and concept
- Attendance list (morning and evening sessions)
- Pictures
- Budget and expenditure report (excel document)
- Receipts

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