



SDG PARTNERSHIP PLATFORM

SDG PARTNERSHIP PLATFORM ISLAMIC FINANCE RAPID SCOPING STUDY

**Submitted by
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THE SDG PARTNERSHIP PLATFORM AND THE PRIMARY HEALTHCARE ACCELERATOR

Achieving the Sustainable Development Goals (SDGs) will be as much about the effectiveness of development co-operation as it will be about the scale and form that such co-operation takes. There is a lot of talk about partnerships, but not enough practical, on-the-ground support to make partnerships effective in practice, especially at scale.

In September 2017, The Government of Kenya announced at the UN General Assembly the establishment of the SDG Partnership Platform. The Platform has since received global recognition from UN Headquarters as one of three most promising practices to accelerate SDG financing and has become a flagship programme under the 2018-2022 Government of Kenya - United Nations Development Assistance Framework.

The Platform brings together leadership from Government, development partners, the private sector, philanthropy, civil society, and academia, to create diverse SDG accelerator windows to catalyze and unlock carefully selected private sector and philanthropic investments, partnerships and innovations to drive impacts. To date, the Platform has valuable collaborations with Kenya national, regional and county stakeholders, UN agencies, the World Bank, USAID, the Governments of the Netherlands, Sweden and Switzerland; Philips, Merck for Mothers, AstraZeneca, Huawei, Safaricom, Philips; Conrad N. Hilton Foundation, Rockefeller Foundation, and Ford Foundation; Amref, PATH, PharmAccess; and the Universities of Berkeley, Stanford, and Arizona State Thunderbird.

Primary Healthcare (PHC) - contributing to SDG 3 – is the first Platform window aiming to contribute to the Universal Health Coverage (UHC) pillar under Kenya's "Big Four" agenda. Subsequently, the Platform will open new SDG accelerator windows for Kenya's "Big Four" agenda such as food & nutrition security, affordable housing, and manufacturing & skills training.

The PHC Window is governed by its Steering Committee which is co-chaired by the Cabinet Secretary for Health, Chair of the Council of Governors Health Committee and UN Resident Coordinator. Furthermore, in addition to the Kenya Private Sector Alliance, all PHC Window investors are represented in the Steering Committee to collectively discuss and agree on the window's strategic workplans and budgets.

The implementation of the SDG Partnership Platform strategic workplans is coordinated by its Secretariat housed at the United Nations Resident Coordinator's Office for Kenya. The Secretariat closely collaborates with key partners, in particular the Ministry of Health and Council of Governors, to ensure national ownership over the design and implementation of all approved strategies and plans.

The Platform's PHC window aims to scale up transformative primary health care interventions to improve health and well-being of Kenyans and support the attainment of Kenya's Universal Healthcare agenda. The goal is to utilize the SDG Partnership Platform as a vehicle for galvanizing more private sector, philanthropy and intellectual support.

ACRONYMS

AAOFI	Accounting and Auditing Organization for Islamic Financial Institutions
AfDB	African Development Bank
CBK	Central Bank of Kenya
CIDP	County Integrated Development Plan
CMA	Capital Market Authority
DIB	Dubai Islamic Bank
DRM	Domestic Resource Mobilization
ESG	Environment, Social and Governance
FCB	First Community Bank
FCDC	Frontier Counties Development Council
FfD	Financing for Development
GAB	Gulf African Bank
GoK	Government of Kenya
IFSB	Islamic Financial Services Board
IF	Islamic Finance
MIGA	Multilateral Investment Guarantee Agency
MoH	Ministry of Health
MPTF	Multi-Partner Trust Fund
MTP	Medium Term Plan
NHIF	National Hospital Insurance Fund
NIFC	Nairobi International Financial Centre
OECD	Organization for Economic Cooperation and Development
OIC	Organization for Islamic Cooperation
PHC	Primary Healthcare
PMO	Project Management Office
PPP	Public-Private Partnership
RCO	Resident Coordinator Office
SDG	Sustainable Development Goal
SDGPP	Sustainable Development Goals Partnership Platform
SIB	Social Impact Bond
TOR	Terms of Reference
UHC	Universal Healthcare
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNHCR	United Nations High Commissioner for Refugees

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INTRODUCTION

1.1 The Kenya Context: Vision 2030 and the Big Four Agenda

Kenya has demonstrated its commitment to good global citizenship through its endorsement of the international 2030 Agenda and the Sustainable Development Goals (SDGs). The time line for Kenya's long-term development plan, the Vision 2030, coincides with the 2030 Agenda, and it offers a unique opportunity for the country to blend its efforts to realize the SDGs with its progress towards its national development priorities. Those priorities are articulated in the *Vision 2030*, as well as in the Government's current five-year plan, the 2018-2023 *Medium Term Plan* (MTP) III. Four of Kenya's national development priorities, namely, affordable housing, Universal Healthcare (UHC), manufacturing and food security, constitute the pillars of its Big Four Agenda.

The Vision 2030 also presents Kenya's aim to graduate from its current lower middle-income country (LMIC) status¹ to a middle-income country (MIC) by 2030. The country has already made notable progress towards this goal: between 1990 and 2017, Kenya's HDI value rose from 0.468 to 0.590, which is a remarkable increase of 26.1%. Nonetheless, significant development challenges remain, including high under- and unemployment, particularly among youth and women, and regional inequities in access to basic services.

Moreover, since it is assumed that middle income countries are able to finance their own development priorities, Kenya's attainment of LMIC status also has implications for the bilateral and multi-lateral assistance it still receives. Consequently, the Government is developing strategies to increase domestic resource mobilization (DRM) / own source revenue for additional financing to realize its Big Four Agenda. For example, one DRM strategy supporting the UHC Pillar of the Big Four Agenda involves a pilot launched in four counties in December 2018², whereby each county will receive KSH 800 million from Government, primarily for the purchase of drugs and basic medical equipment; these funds are to be matched by the counties' own investment. Other DRM strategies proposed include levying additional taxes³; issuing social impact bonds and, for the Big Four Infrastructure Pillar, exploring Islamic financing instruments such as *sukuk*, Shariah-compliant bonds.

1.2 The United Nations Kenya SDG Partnership Platform and its SDG 3 Accelerator Window for Primary Healthcare.

The SDG Partnership Platform (SDG PP), a flagship programme under the 2018-2022 Kenya-United Nations Development Assistance Framework (UNDAF)⁴, aims to convene and connect leadership from Government, the UN, development partners, private sector, philanthropy, civil society, academia, and faith-based organizations to create accelerator windows to catalyze private sector and philanthropic investments, public-private partnerships and innovations to drive SDG impacts aligned with Kenya's Big Four agenda. The first window launched by the Platform is Primary Healthcare (PHC). This window supports the delivery of the UHC pillar of the Big Four Agenda; and it contributes to the SDG 3 "Health" cluster, including SDG target 3.8: *Achieve universal health coverage (UHC), including financial risk protection, access to quality essential health care services, and access to safe, effective, quality, and affordable essential medicines and vaccines for all*. The Platform intends to open additional accelerator windows to support the other Big Four Agenda pillars.

¹ Kenya was reclassified from a lower income country to a lower middle income country in September 2014 when, as a result of the statistical re-basing exercise, its per capita GDP was calculated to have increased from \$994 to \$1,256, which is above the World Bank threshold for middle income status: World Bank, *Kenya: A Bigger, Better Economy*, 30 September 2014: <http://www.worldbank.org/en/news/feature/2014/09/30/kenya-a-bigger-better-economy>

² The four pilot counties are Isiolo, Kisumu, Nyeri and Machakos.

³ Government of Kenya Ministry of Health and The Global Fund, *Domestic Resource Mobilization for Health: National Health Financing Dialogue for Implementation of the Health Sector Domestic Financing Sustainability Plan* (Issue Paper), September 2018: <https://nacc.or.ke/wp-content/uploads/2018/11/UHC-Delivery-for-Kenya-PRINT.pdf>

⁴ The 2018-2022 Kenya UNDAF presents the United Nations System's intended areas of collaboration with national, sub-national and local stakeholders for this period.

The PHC Window includes three interlinked outcomes through which the SDG PP and the UN Development system in Kenya can support the Government's UHC goal:

1. Enhanced institutional, organizational and staff capacities at national and county government to advance public private collaboration and innovation for PHC.
2. Innovative financing mechanisms advanced in support of the Kenya's domestic resource mobilization agenda for health.
3. Innovative solutions and partnerships catalyzed to strengthen the delivery of PHC systems.

The Platform's primary national, regional and county partners for its PHC Window are the Ministry of Health (MoH), the Frontier Counties Development Council (FCDC) and the Council of Governors (CoG).

1.3 The SDG PP Islamic Finance Rapid Scoping Study.

The Islamic Finance Rapid Scoping Study (the study) was commissioned by the Platform towards its PHC window outcome on innovative financing in support of DRM, noting that Islamic finance is considered to be an innovative development financing modality by the UN⁵. The objective of this assignment was to explore strategic Islamic finance options in Kenya which would be relevant to the Platform's PHC window and, ultimately, to its other planned SDG accelerator windows (see **Annex 1, Terms of Reference**). The study considers Kenya's current context for Islamic finance; describes various Islamic social and corporate finance instruments relevant to PHC; notes challenges and opportunities for Islamic financing to support investment in PHC in Kenya; and presents actionable recommendations for follow up by the SDG PP. Although several studies and initiatives on Islamic financing for SDG achievement have been undertaken by various country, regional and global UN entities⁶, the SDG PP Islamic finance scoping study is the first to be undertaken for a UN programme in a country which does not have a Muslim majority population.

The SDG PP scoping study is timely, as it coincides with Government's current focus on DRM for realizing the Big Four Agenda, as well as with increased attention in Kenya to Islamic financing as an alternative source of funding for infrastructure and service provision. Moreover, Islamic finance will also feature in the soon-to-be launched Nairobi International Financial Centre (NIFC)⁷.

The primary audiences for whom the study is intended are the SDG PP and its national, regional and county partners, and UN, donor and private sector stakeholders. It has been informed by a document review (see below, **Select Bibliography**), key informant interviews (see **Annex 3, List of Persons Interviewed**), and feedback from the consultant's presentation of preliminary findings to a multi-stakeholder workshop (see **Annex 4, List of Workshop Participants**). The scope and depth of the study have been limited by its timeframe of five days. Moreover, the scheduling of the study coincided with Ramadan and the Eid holiday; and some intended key informants were not available for consultation during those times.

STRATEGIC ISLAMIC FINANCING OPTIONS FOR PRIMARY HEALTHCARE

2.1 The Kenya Context for Islamic Finance

Islamic finance is guided by several basic principles of Shariah (Islamic law), including ethical screens⁸. Its Shariah-compliance is ensured through oversight from Islamic scholars and Shariah Advisory Boards. Islamic finance differs from conventional banking and finance in that, among others, it is asset-linked, and it is based on profit and risk-sharing, rather than on the generation and payment of interest. The two main

⁵<https://www.un.org/esa/ffd/ffdforum/events/event/innovative-financing-for-the-sdgs-the-role-of-islamic-finance.html>

⁶ See, for example, the partnership between UNDP Indonesia and BAZNAS, the national *zakat* collection agency, for renewable energy in marginalized communities; and the Global Islamic Finance and Impact Investing Platform created in 2016 by the UNDP Istanbul International Centre for Private Sector in Development in partnership with the Islamic Development Bank Group, among others.

⁷ The NIFC was signed into law in 2017, and it is expected to launch in late 2019. It is intended to be a hub for both conventional and Islamic financing.

⁸ Shariah prohibits financial transactions based on, among others, gambling, alcohol, tobacco and prostitution. It also forbids interest-based transactions, and instead offers profit- and risk-sharing.

categories of Islamic finance are social finance, which has traditionally been considered as “faith-based charity”, and corporate finance, which is ethically informed.

Although Islamic social finance, including the establishment and management of private and public endowments (*wakf*) has been recorded in Kenya from at least as early as the nineteenth century, the first Islamic banks in Kenya were not licensed until 2007. Kenya’s Islamic finance sector now includes three Islamic banks⁹ and at least eleven conventional banks with Islamic windows offering Shariah-compliant banking, insurance and investment services, as well as two Shariah-compliant pension funds. However, the country’s policy and regulatory framework for Islamic finance is still emerging. Although the Kenya Finance Act was amended in 2017 to provide clarity on the taxation of Islamic banking products and to recognize Islamic financial products such as Shariah compliant bonds, current regulations are still based upon conventional banking and investment structures. Islamic banking in Kenya therefore operates on an exemption basis¹⁰.

Islamic social and corporate financing options to support the delivery of PHC in Kenya are considered below; and they are summarized in **Table 1, “Islamic Financing Options to Support the Delivery of PHC”**, according to the nine key sub-markets for private sector investment opportunities in PHC in Kenya identified in the 2018 McKinsey report¹¹.

2.2 Islamic social finance

2.2.1 *Wakf*, pl. *awakaf* (endowment, trust)

Wakf, according to the Kenya Wakf Commissioners Act (1951), is a “...religious, charitable, or benevolent endowment or dedication of any property in accordance with Islamic Law.” *Awkaf* may be either public or private endowments or trusts; and they are often local in nature, for example, *awkaf* may be dedicated to the establishment and maintenance of a village irrigation system, an orphanage or a community clinic. *Awkaf* are inherently sustainable, as they are perpetual endowments backed by tangible assets.

Following the launch of the 2030 Agenda, *wakf* has received greater attention as a means to support sustainable investments in infrastructure, healthcare, food security and other SDG focus areas. Among UN entities, UNDP Indonesia in particular has demonstrated how *wakf* can be used as a social impact financing tool¹²; and this is an area also currently being explored by UNHCR.¹³

Wakf has already been proposed as a means of supporting social infrastructure, including healthcare, in Kenya.¹⁴ Among the nine PHC sub-markets proposed for private sector investment in the McKinsey report, “medical education” and “outpatient and maternal care” appear initially to be the two most appropriate for *awkaf*, based on their traditional use to support communal education and public healthcare. Moreover, as studies by UN-Habitat¹⁵ and others have demonstrated, *awkaf* would also be relevant either as financing vehicles or for tangible guarantees for investments in other pillars of the Big Four Agenda, such as affordable housing and food security.

As there is at present no nation-wide system to collect data on Islamic social finance, the current value of land and property *awkaf* in Kenya is unknown. However, it is likely not an insignificant amount: the *wakf* properties managed under the Wakf Commissioners of Kenya, which operates only in the coastal

⁹ Gulf African Bank, First Community Bank and Dubai Islamic Bank.

¹⁰ Exemptions are granted by the Capital Market Authority (CMA).

¹¹ McKinsey & Company, *Private Sector Investment Opportunities in Primary Healthcare in Kenya*, USAID, November 2018, pp. 2-3.

¹² http://www.id.undp.org/content/indonesia/en/home/presscenter/pressreleases/2018/1/promoting-waqf-for-sdgs--bwi-undp-signed-an-mou.html?cq_ck=1516970682583

¹³ United Nations High Commissioner for Refugees, *UNHCR Zakat Programme: 2019 Launch Report*, n.p., 2019, p. 55

¹⁴ Saad S. Yahya, “Financing social infrastructure and addressing poverty through *wakf* endowments: experience from Kenya and Tanzania”, vol. 20 (2), 2008, pp. 427-444.

¹⁵ See, for example, United Nations Human Settlements Programme, *Waqf (Endowment) And Islamic Philanthropy*, Islam, Land and Property Research Series, Paper No. 7, 2005; United Nations Human Settlements Programme, *Finance for City Leaders Handbook*, 2017.

areas of Mombasa, Malindi and Lamu, are estimated to be worth some KSH 10 billion¹⁶. Information on *awqaf* in other parts of the country, for example in the Muslim majority counties of the Northeast, was not readily available to the consultant, and it is therefore not included in this study. The Wakf bill, which was presented to the Attorney General in June 2018, proposes a country-wide Wakf Commission which would both systematize the collection of *wakf* data as well as intentionally contribute to "... the attainment of the Vision 2030 and the Sustainable Development Goals (SDGs)"¹⁷. This bill has not yet been approved.

2.2.2 Zakat (wealth tax)

Zakat, a wealth tax which is usually estimated at 2.5% of the accumulated wealth of an individual or institution, is traditionally donated for charitable purposes, often for education and medical care. However, the productive, rather than the customary consumptive, use of *zakat* for SDG financing, for example, in Indonesia by UNDP as a wealth re-distribution mechanism for renewable energy¹⁸; and by UNHCR MENA as a means of supporting cash transfers for refugees¹⁹ suggests how it might also be employed for the delivery of PHC in Kenya. Indeed, *zakat* has recently been proposed as a domestic health financing strategy in Kenya²⁰ and, more generally, as a vehicle for poverty reduction and economic growth and development²¹.

Among the nine PHC sub-markets proposed for private sector investment in the McKinsey report, "medical education" and "outpatient and maternal care" appear initially to be the two most appropriate for *zakat* funds, based on its traditional use for educational and medical costs.

However, as the collection of *zakat* is not institutionalized in Kenya, there is no readily available data on the amounts which are collected nationwide and which could be available to support investment in PHC. Moreover, there are theological and legal matters that would need clarification before *zakat* could be for PHC delivery: Shariah scholars would have to authorize *zakat* for these purposes through a *fatwa* (decree); and Treasury approval would also be required.

2.3 Islamic corporate finance

Shariah-compliant investment structures currently available in Kenya include *sukuk* (bonds); *takaful* (mutual insurance); *ijarah* (asset-lease financing) and Shariah-compliant pension funds.

2.3.1. Sukuk, pl. of *sakk* (Shariah-compliant asset-linked bonds)²²

Sukuk have recently received attention in Kenya as an alternative source of financing for infrastructure, including the affordable housing pillar of the Big 4 Agenda. In addition, under its Financial Services and Structural Reforms sections, the 2018-2023 MTP III mentions Government's intention to develop a *sukuk* framework for investments.²³ *Sukuk* are also referenced in some counties' County Integrated Development Plans (CIDPs) as a potential source of financing.²⁴ Beyond infrastructure, *sukuk* can also be used as financing instruments in other sectors such as environment, e.g. Indonesia's \$1.25 billion green

¹⁶ Patrick Beja, "Wakf Commissioners Tussle Over Muslim Millions in Bank", *Standard Digital*, 5 September 2015: <https://www.standardmedia.co.ke/article/2001294566/muslim-charity-heads-wrangle-over-sh100m>

¹⁷ "Wakf Commission Submits Report to AG", 3 July 2017: <http://www.statelaw.go.ke/wakf-commission-submits-report-to-ag/>

¹⁸ For renewable energy in Indonesia's Jambi province.

¹⁹ <https://zakat.unhcr.org>.

²⁰ See, for example, Laila Abdul Latif, "Framing the Argument to Broaden Kenya's Limited Fiscal Space for Health Financing by Introducing Zakat", *Biomedical Journal of Scientific & Technical Research*, 2018, p. 9

²¹ <https://www.businessdailyafrica.com/analysis/ideas/Try-Islamic-ideals-of-giving-to-poor-in-reducing-inequality/4259414-4283428-10a013m/index.html>

²² "The basic difference between *sukuk* and conventional bonds is that *sukuk* are asset linked which means that specific underlying assets generate the income to *sukuk* holders. In contrast, conventional bonds are not linked to any asset that serves as a source of non-interest income to bondholders", Elliane Kavosa Assava, "Islamic Finance: Sukuk in Kenya's Securities Market", October 2016,

²³ MTP III, section 4.6 "Financial Services", p. 87, and section 2.3 "Structural Reforms", p. 13

²⁴ E.g. County Government of Bungoma, *Transforming Bungoma County (2018-2022 County Integrated Development Plan)*, 2018, p. 149.

sukuk,²⁵ and PHC, e.g. the 2014 and 2019 GAVI vaccination *sukuk* for OIC countries.²⁶

Kenya's regulatory framework does not yet allow the issuance of sovereign, that is Government-issued, *sukuk*. However, corporate, or bank-issued, *sukuk* are permitted, for example, the *sukuk* component of the 2010 GoK infrastructure bond was issued by First Community Bank and Gulf African Bank. Corporate *sukuk* issuance requires an exemption from the CMA.

Sukuk could be an appropriate financing solution for PHC delivery in the "outpatient and maternity care", "pharmaceutical manufacturing" and "prevention" sub-markets, as well as an instrument to finance the affordable housing pillar of the Big Four Agenda.

2.3.2 *Ijareh* (asset lease financing)

Ijareh is the Shariah-compliant equivalent of asset lease financing, through which capital goods can be procured through leasing rather than through immediate purchase. In Kenya, *ijareh* products are offered by both Islamic and conventional banks.

Conventional asset lease financing has already been suggested as one means of delivering PHC in Kenya²⁷. Moreover, the initial exploration by Gulf African Bank with Philips for the provision of medical equipment to remote villages through *ijareh*²⁸, indicates that it is a feasible investment vehicle for at least two PHC sub-markets, namely, "diagnostics" and "outpatient and maternal care"; and it is an Islamic financing solution which the SDG PP could quickly take forward. A third sub-market for which *ijareh* for capital goods could potentially be utilized is "Pharmaceuticals (manufacturing)".

2.3.3 *Takaful* (mutual insurance)

Takaful is a Shariah-compliant alternative to conventional insurance products. It is a type of cooperative insurance in which participants/policy holders pool funds for reimbursement or repayment in the event of loss or damage. *Takaful* premiums are invested according to Shariah principles and guidelines; and the policy holders, rather than shareholders, share in any resulting profits. Various kinds of *takaful* have been available in Kenya since 2011, e.g. medical *takaful* is a product offered through the country's Islamic banks.²⁹

Among the nine PHC sub-markets identified in the McKinsey report, "risk pooling/group insurance" is one which appears to be highly appropriate as a focus for *takaful* funds (see also Shariah-compliant pension funds, below). Beyond healthcare, *takaful* is also relevant to the Food Security pillar of the Big Four Agenda; and it has already been used as a vehicle through which to reimburse pastoralists in Kenya for drought-related losses³⁰.

2.3.4 Shariah-compliant Pension Funds

In conventional financing, pension funds usually represent the largest single investment blocks. As of June 2018, the assets under management in Kenya's pension funds were valued at KSH 1.2 trillion (approximately \$1,200,000,000). Pension funds thus constitute a significant source for potential investments in the Big Four pillars and for overall SDG financing.

In 2013, the Retirement Benefits Authority (RBA) licensed Kenya's first Shariah-compliant pension product; and in November 2018, it licensed *Salih*, Kenya's Shariah-compliant counties' pension fund. *Salih* targets

²⁵ UNDP Indonesia, "Indonesia Tackles Climate Change Through the Issuance of Green Sukuk (Islamic Bond)",

²⁶ <https://www.gavi.org/library/news/gavi-features/2015/iffim-sukuk-recognised-by-financial-times/>

²⁷ Intelcap, *Innovative Health Financing Models For Universal Health Coverage In Kenya*, Nairobi, 2019, pp. 25-26.

²⁸ Interview with Mr. Abdalla Abdulkhalik, Managing Director, Gulf African Bank, with Dr. Annette Ittig on 6 June 2019.

²⁹ <http://www.gulfafricanbank.com/index.php/32-gab-takaful/201-gab-takaful-insurance-agency-ltd>

<https://www.firstcommunitybank.co.ke/about-us/fcb-takaful>

³⁰ "Takaful Insurance pays Sh87m for drought damages", 6 March 2019: <https://www.genghis-capital.com/newsfeed/takaful-insurance-pays-sh87m-for-drought-damages/>

and

both Muslims as well as non-Muslims who want to invest ethically. In its first month, *Salih* gained a fund value of KSH 850 million, demonstrating that there is a demand for this type of product. As an investment vehicle, the PHC sub-markets for which the Shariah-compliant pension funds appear to be most suitable are “risk pooling/group insurance” and “outpatient and maternal care”.

Table 1: Islamic Financing Solutions to Support PHC Delivery (By PHC Sub-market)

PHC Sub-markets	Islamic Financing Solutions					
	Wakf	Zakat	Sukuk	Takaful	Ijareh	Salih
Medical education	X	X				
Distribution						
Diagnostics (lab & imaging)	X				X	X
Retail						
Pharmaceuticals (manufacturing)	X		X		X	
Outpatient and maternity care	X	X	X		X	X
Prevention	X		X			
Nutrition						
Risk pooling (group insurance)				X		X

CHALLENGES AND OPPORTUNITIES

3.1 Challenges

Challenges to scaling up Islamic finance as a funding modality for PHC delivery in Kenya include:

- **A lack of standardization:** as there is not yet a National Shariah Advisory Board in Kenya which could provide oversight, guidance and convergence on Islamic finance and financial products, each institution offering Shariah-compliant products has its own Shariah Advisory Board.
- **Legal impediments:** Kenya’s framework for Islamic finance is still developing; its current regulations are based on conventional banking, not Islamic banking.
- **Insufficient awareness** of Islamic finance and Shariah-compliant products among policymakers and other stakeholders.
- **A paucity of readily available data** on Islamic social finance in Kenya, including the value of *zakat* donations and of *wakf/awqaf* properties nationwide
- **Due diligence and risk management issues**, including investor perception concerns.
- **A lack of metrics to measure impact** to inform investors’ decisions

3.2 Opportunities

Islamic financing solutions for PHC delivery offer several opportunities to the Platform and its partners, including:

- **Support to the GoK’s DRM strategies:** Islamic financing solutions align with and can support Government’s DRM strategies, including its strategy for DRM for the delivery of UHC.
- **An option for county-level Own Source Revenue**, particularly in counties with large Muslim populations that will have familiarity with Islamic finance and funding structures. It also provides an opportunity to further build upon the SDG PP’s 2018 county co-creation workshop results.³¹
- **South-South Cooperation:** There are opportunities for South-South cooperation activities for learning, knowledge exchange and capacity building on Islamic finance for PHC stakeholders with UN and other

³¹ SDG Partnership Platform, *SDG Partnership Platform Primary Healthcare Co-create Workshop*, Nairobi, 13-15 March 2018.

development and private sector partners, for example, with UNDP Indonesia and UNHCR MENA, among others.

- **Compatibility with other SDG PP resource mobilization activities:** Islamic financing solutions are compatible with and complementary to other SDG PP resource mobilization activities in PHC, for example, the Health Social Impact Bond (SIB) that the Platform is currently preparing.
- **New technologies to support due diligence processes:** There are already solutions from other countries which can address due diligence issues related to Islamic financing. New technologies such as blockchain are currently used as tools to support due diligence processes, e.g. *wakf* blockchain to reduce financial risk³²; and this would be a relevant area for exploration by the Platform's planned SDG Innovation Lab, once it is operationalized.
- **Risk management solutions:** Risk management solutions, including political risk coverage and credit guarantees for investments, are offered by various IFIs and MDBs, including MIGA, ADB, AfDB and IBRD, to high risk countries which have significant impact potential³³, including for Islamic financing for PPPs³⁴. Such risk management solutions would also be appropriate to support Islamic as well as any other development financing brokered through the SDG PP.
- **Impact Measurement:** There are several international monitoring and evaluation (M&E) standards for impact investing, including the Global Impact Investment Rating IRIS system³⁵. While there is not yet a single system used by either the UN or the private sector, systems used by the private sector such as the Global Reporting Initiative (GRI), for example the GRI/UN Global Compact impact measurement system,³⁶ could provide an impact measurement framework that works for both public and private sector partners of the Platform.
- **Growing SDG PP's network of partners:** The exploration of strategic Islamic financing options and alliances offers the SDG PP an opportunity to grow its network of partners and to further strengthen its comparative advantage as a convener, facilitator and partnership broker.

CONCLUSIONS

The exploration of Islamic financing options in Kenya by the SDG PP is both timely and relevant: it supports the Government's strategies for DRM as further source of financing for its Vision 2030 and Big 4 Agenda, and it may also provide a vehicle for county-level own source revenue efforts. Moreover, it also offers an additional innovative financing modality through which to realize the SDGs. Under Kenya's current regulatory framework, there are several Islamic social and corporate financial instruments through which investments in PHC can be made, including *wakf/awqaf* (endowments), *ijarah* (asset lease financing), *takaful* (mutual insurance), *sukuk* (bonds) and Shariah-compliant pension funds. Some of these financing modalities may also be appropriate for investments in other Big Four Agenda pillars.

Although there are still challenges to scaling up Islamic finance in Kenya, including regulatory gaps, a lack of awareness among banking professionals, and due diligence and risk management concerns, at least some of these issues can be addressed through new technologies such as blockchain, and by securing financial guarantees and political risk insurance for investors through IFIs, MDBs or other development partners. Islamic finance also presents opportunities to increase the Platform's options for blended financing; for additional learning and partnerships through South-South cooperation, and for further strengthening the SDG PP's comparative advantage as a convener, facilitator and partnership broker.

³² For example, UNHCR has used blockchain in its Refugee Zakat programme for zakat tracing; see also Finterra's blockchain-based solution to crowdfund waqf charity, Islamic investments, and peer-to-peer financing: https://finterra.org/waqf_chain/ ; and the waqf blockchain which was developed by UNDP Indonesia in collaboration with the Indonesian Waqf Agency and launched in April 2019: <http://www.id.undp.org/content/indonesia/en/home/presscenter/pressreleases/2019/undp-and-badan-waqf-indonesia-join-forces-to-launch-waqf-blockch.html>

³³ See, for example, Chris Humphrey and Annalisa Prizzon, *Guarantees for Development: A review of multilateral development bank operations*, Overseas Development Institute, London, December 2014, Table 5, "Summary (of Guarantees Offered) by MDBs".

³⁴ See, for example, World Bank Group, *Mobilizing Islamic Finance for Infrastructure Public-Private Partnerships*, 2017, pp. 72-27: https://ppiaf.org/documents/5369?ref_site=ppiaf

³⁵ <https://b-analytics.net/content/giirs-fund-rating-methodology> and <https://iris.thegiin.org>

³⁶ <https://www.sustainability-reports.com/new-guidance-for-companies-to-report-their-impact-on-the-sustainable-development-goals/>

RECOMMENDATIONS AND WAYS FORWARD

Recommendations and next steps for the SDG PP to build on the findings of the Islamic Finance Rapid Scoping Study are presented below.

Area	Recommendation	Parties Responsible
De-risking Islamic finance investments	Take forward discussions with IFI and MDB partners on support structures for Islamic financing, including financial guarantees and political risk insurance for investors	SDGPP, IFI and MDB partners, Treasury, CMA, CBK,
Widening strategic partnerships for Islamic financing solutions for PHC	<ol style="list-style-type: none"> 1) Follow up with RBA on ways in which Shariah-compliant pension funds can support investments in PHC 2) Follow up on the preliminary GAB discussion on medical equipment <i>ijareh</i> (asset lease financing) for remote villages to determine the feasibility of linking it to county-level PHC delivery through the UHC pilot counties and Own Source Revenue initiatives 	SDGPP, RBA, MoH SDGPP, Philips, GAB, county partners
Advocacy and Awareness Raising	<ol style="list-style-type: none"> 1) Present the case for Islamic finance to National Government: Convene a half day workshop(s) for Ministry of Health, NHIF, CMA, and other GoK National Institutions and partners to provide them with a basic level of understanding of Islamic finance and strategic Islamic finance options for PHC and UHC in Kenya; how Islamic finance can be leveraged towards financing the SDGs and the Big Four Agenda, as well as how it can support DRM and Own Source Revenue strategies. 2) Present the case for Islamic finance to the Council of Governors, FDCD County Governments and other relevant regional and county partners: Convene a half day workshop(s) or webinar(s) for county partners to provide them with a basic level of understanding of Islamic finance and strategic Islamic finance options in Kenya; how Islamic finance can be leveraged towards financing the Big Four Agenda, as well as how it can support their DRM and Own Source Revenue strategies 	SDGPP, MoH, CMA, COG, FDCD County Governments, NHIF, CMA, and other relevant GoK, regional and county stakeholders and development partners
Domestic Resource Mobilization/Own Source Revenue	In consultation with Treasury, MoH and county partners and local Shariah scholars, develop strategies and action plans on the use of Islamic financing for PHC, and the implementation of the Big Four agenda more broadly	SDGPP, Treasury, MOH and other relevant line-ministries, County Partners, Shariah scholars
South-South Cooperation	Explore South-South cooperation activities for learning, knowledge exchange and capacity building on Islamic finance for PHC stakeholders with UN and other development and private sector partners, and formulate activities accordingly	SDGPP, AFDB, UNDP Indonesia, UNHCR MENA, UNDP ECIS RH, Development Partners, Private Sector
Innovative technologies	Upon operationalization of the SDG Innovation Lab as the innovation engine for the SDG PP, explore Islamic financing solutions driven by blockchain and other technologies	SDGPP, Kenya Blockchain Taskforce
Impact Measurement	Select and use a common framework for impact measurement that works for both the public and private sector partners of the Platform	SDGPP, GRI, UN Global Compact, other relevant parties

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ANNEX 1: TERMS OF REFERENCE

Background

In September 2017, The Government of Kenya announced at the UN General Assembly the establishment of the SDG Partnership Platform (SDGPP). The Platform has since received global recognition from UN Headquarters as one of three most promising practices to accelerate SDG financing and impact and become a flagship programme under Kenya's new UN Development Assistance Framework 2018-2022 (UNDAF).

The Platform convenes and connects leadership from Government, UN, development partners, private sector, philanthropy, civil society, academia, and faith-based organizations to create SDG accelerator windows to catalyze partnerships, investments, and innovations to drive SDG impacts in alignment with Kenya's "Big Four" agenda.

Primary Healthcare (PHC) - contributing to the SDG 3 cluster – is the first window established. Subsequently, the Platform will open additional windows to support thematic SDG clusters in support of Kenya's "Big Four".

The SDG Partnership Platform's overall goal contributes to the Government of Kenya's efforts to attain the SDG target 17.17: *Effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships encouraged and promoted in Kenya.*

More specifically the SDG3 Primary Healthcare Accelerator Window's support contributes to the Government of Kenya's efforts in attaining the SDG target 3.8: *Achieve universal health coverage (UHC), including financial risk protection, access to quality essential health care services, and access to safe, effective, quality, and affordable essential medicines and vaccines for all.*

SDG3 Primary Healthcare Window's planned results are articulated in the following three sub-outcomes:

1. Enhanced institutional, organizational, and staff capacities at national and county government to advance public private collaboration and innovation for PHC.
2. Innovative financing mechanisms advanced in support of the GoK's domestic resource mobilization agenda for Health.
3. Innovative solutions and partnerships catalysed to strengthen the delivery of PHC.

Towards its PHC window's innovative financing outcome, the Platform intends to explore Islamic financing options which would be relevant and appropriate to its PHC window and, in due course, to its other planned SDG accelerator windows in Kenya.

In this connection, the Platform will engage a consultant to undertake a rapid, preliminary scoping study to explore strategic Islamic financing options which could support the Platform's work in Kenya; their feasibility in the current Kenya context; and the SDGPP's potential role(s) and value added in these processes. The scoping study will add to the SDGPP's partnership strategy for its SDG 3 PHC window, as well as to those in its other three planned SDG windows

Objectives of the Assignment

Provide the SDGPP and its membership with key insights on the potential of Islamic financing options for the Delivery of the Big Four agenda in Kenya, in particular its UHC pillar, detailing especially

- Specific financing modalities would depend upon the Kenya context, including its legal framework and the appropriateness/feasibility for those modalities to support the achievement of the SDGs and the Big Four Agenda priorities (agriculture; manufacturing; affordable housing; UHC) through the SDGPP
- The compatibility/synergy of selected Islamic financing modalities with current and planned SDGPP partners
- Potential partners with whom the SDGPP could work in this area
- Due diligence concerns and the mechanisms to address them, including examples from other countries
- Impact measurement options

Scope of Work

Based on the objectives mentioned above, the consultant will

- Conduct a desk-review of global, regional and national best and promising practice.
- Carry out preliminary stakeholder mapping
- Conduct key stakeholder interviews/focus group discussions with banks, fintech firms and other financial service providers, legal experts, philanthropies, UN agencies and others as agreed with the SDGPP
- Produce study report including description of:
 - the current context for Islamic finance in Kenya; including its legal framework and the appropriateness/feasibility for those modalities to support the achievement of the SDGs and the Big Four Agenda priorities (agriculture; manufacturing; affordable housing; UHC) through the SDGPP
 - The compatibility/synergy of selected Islamic financing modalities with current and planned SDGPP partners initiatives
 - Potential partners with whom the SDGPP could work in this area
 - Due diligence concerns and the mechanisms to address them, including examples from other countries, and potential application of innovative technologies such as blockchain
 - Impact measurement options
 - Recommendations for next steps
- Facilitate workshop to promote knowledge exchange and learning, and to identify action for taking the report findings forward

Expected Deliverables

- SDG Partnership Platform scoping study report on Islamic Finance in Kenya with key insights on the potential of Islamic financing options for the Delivery of the Big Four agenda in Kenya, in particular its UHC pillar, and as per the objectives of this assignment and scope of work.
- Facilitation of workshop to promote knowledge exchange and learning, and to identify action for taking the report findings forward.

Organizational setting

- The Consultant will perform her/his tasks with daily supervision and support of the SDGPP Primary Healthcare Window Coordinator, under the oversight of the SDGPP Coordinator.
- The consultant is expected to provide for its own working space, and utilities. No travel is expected for the assignment as well.

Required expertise, qualifications and competencies, including language requirements

Education:

- An advanced university degree in Islamic, or oriental studies, or a combination of education and relevant experience.

Work Experience:

- At least 15 years' experience in UN, donor and private sector clients, including complex stakeholder mapping and consultation.

Skills and competencies

- Demonstrated knowledge of 2030 Agenda; multi-stakeholder partnerships; UN mandate and financing frameworks; innovative finance for development, including Islamic finance.
- Strong, demonstrated research, analytical, writing and presentation skills;
- Extensive cross-sector engagement and partnership experience
- Good interpersonal skills and ability to establish and maintain effective working relations in a multi-cultural, multi-ethnic environment with sensitivity and respect for diversity, as well as to provide clients with information on progress made and setbacks on related issues.
- A strong command of the English language is required.
- Excellent ICT skills

ANNEX 2: PROFILE, ISLAMIC FINANCE SCOPING STUDY CONSULTANT

Dr. Annette Ittig is the SDG PP Islamic Finance Scoping Study Consultant. Dr. Ittig is a project management and partnership expert with extensive experience in both staff and contractor roles in donor, UN agency and private sector assignments, including the World Bank, UNDP, UNICEF, ILO, the UN Department of Peacekeeping and the MasterCard Foundation, in Kenya, Ghana, Zimbabwe, Tanzania, the Gambia, Ethiopia, Iran, Indonesia, Iraq, Afghanistan, the UAE and elsewhere. Her expertise in innovative financing for development includes corporate philanthropy, corporate community investment, public-private partnerships, pro bono services and South-South Cooperation, as well as Islamic finance, including documentation of *awqaf* (endowments) for agricultural production and religious buildings in Egypt and Iran; design of the concept for the Kurdistan Education Trust Fund for sector infrastructure as a Kurdistan Regional Government- international oil companies PPP; and production of the business analysis for the United Nations Volunteers' Lebanon corporate volunteer pilot project. Dr. Ittig received her doctorate from the University of Oxford, England.

ANNEX 3: LIST OF PERSONS INTERVIEWED

Institution	Name	Title
Government		
Frontier Counties Development Council	The Hon. Mohamed Guleid	Chief Executive Officer
Retirement Benefits Authority	Dr. Shem Ouma	Chief Manager Research and Development
Retirement Benefits Authority	Mr. John Mutisya	Actuarial Officer
UN Agencies		
UNRCO	Mr. Ruben Vellenga	SDGPP Lead for Primary Healthcare Window
Donors		
FSD Africa	Mr. Vimal Parmar	Capital Markets Development Specialist
African Development Bank	Mr. Mohamed Agrebi	Financial Sector Development Department- PIFD
Private Sector		
Gulf Africa Bank	Mr. Abdalla Abdulkhalik	Managing Director
Busit Advocates and Legal Consultants (Dubai)	Mr. Shahid Khan (by telephone)	Senior Legal Consultant
Aqeel Consulting Limited	Mr. Jaafar Sheikh Abdulkadir	Managing Director

ANNEX 4: Agenda, Islamic Finance Scoping Study Validation Workshop, Friday, 7 June 2019, at the African Development Bank

10.00 - 10.20: Welcome, opening and introductions

- Welcome remarks: Arif Neki, SDG Partnership Platform Coordinator
- Opening remarks: Joseph Coompton, Manager, Agriculture, Human and Social Development, African Development Bank
- Opening remarks: Hon. Guleid, Chief Executive Officer, Frontier Counties Development Council

10.20 - 11.00: Presentation by Dr Annette Ittig, Lead Consultant: Preliminary findings of the SDG Partnership Platform rapid scoping study on the potential of Islamic Financing for the implementation of the Big Four Agenda, in particular Universal Health Coverage (30 minute presentation with 10 minutes Q&A).

11.00 - 11.15: Coffee break

11.15 - 11.25: Presentation by Mohamed Agrebi, Financial Sector Development Department- PIFD, African Development Bank, on Islamic Financing and Microfinance

11.25 - 11.35: Presentation by Houssam Chahine, Head of Private Sector Partnerships for UNHCR MENA, on the UNHCR Zakat Global Fund: productive uses for Islamic social finance

11.35 - 11.45: Presentation by Jaafar Sheikh, Aqeel Consultants

11.45 - 11.55: Presentation by Retirement Benefits Authority on Shariah-compliant pension funds in Kenya

11.55 - 12.25: Plenary discussion

12.25 - 2.30: Conclusions and way forward

12.30: Vote of thanks and closure of meeting

ANNEX 5: LIST OF PARTICIPANTS, SDGPP ISLAMIC FINANCE VALIDATION WORKSHOP

1. Dr Alice Wangui Githumbi, Ministry of Health
2. John Muli, Retirement Benefits Authority
3. Mugambi Muthuri, Retirement Benefits Authority
4. Stephen Mutuku, NACC
5. Hon Mohamed Guleid, FCDC
6. Cynthia Kimilu, Global Compact Network Kenya
7. Jaafar Sheikh Abdulkadir, Aqeel consulting limited
8. Namaan Geda, Renovatio Capital
9. Ezekiel Macharia, Kenbright Holdings Limited
10. Edna Gathigia, Africa Enterprise Challenge Fund
11. Christine W. Gachui, Intellectap
12. Jahanara Rahemtulla, WEF Global Shapers Nairobi
13. Houssam Chahine, UNHCR
14. Amina Rai, UNHCR
15. Philip Odary, UNHCR
16. Martin Chabi, WHO
17. Joseph Coompson, AfDB
18. Mohamed Agrebi, AfDB
19. Mona Sharan, AfDB
20. Mulle Chikow, AfDB
21. Arif Nky, UN SDG Partnership Platform
22. Ruben Vellenga, UN SDG Partnership Platform
23. Eddine Sarroukh, UN SDG Partnership Platform
24. Aleesha Peermohamed, UN SDG Partnership Platform
25. Annette Ittiq, Islamic Financing Consultant

ANNEX 6: VALIDATION WORKSHOP PHOTOS

