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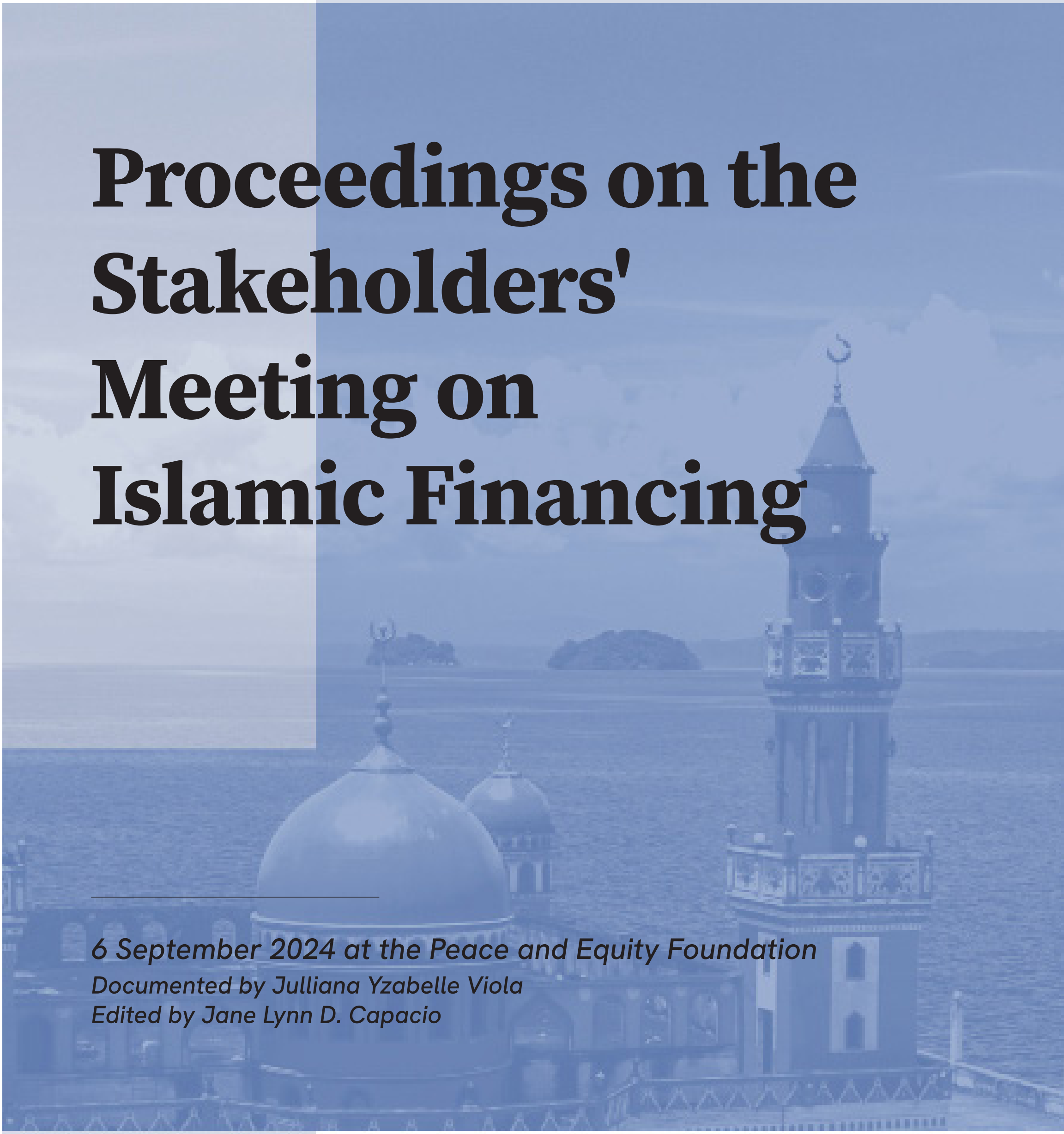

# Proceedings on the Stakeholders' Meeting on Islamic Financing

*6 September 2024 at the Peace and Equity Foundation*

*Documented by Julliana Yzabelle Viola*
*Edited by Jane Lynn D. Capacio*

UNIVERSITY OF THE PHILIPPINES
CENTER FOR INTEGRATIVE AND DEVELOPMENT STUDIES

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"Linuk Masjid a mosque beside the Lake Lanao in Lanao del Sur. Blue sky and clouds. Mindanao, Philippines."

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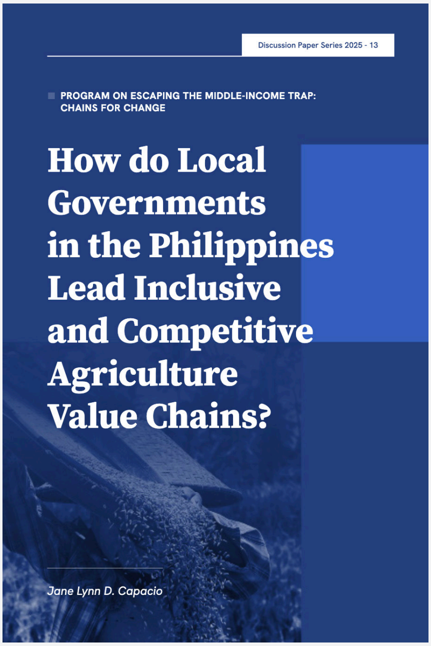


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Policy Brief 2025-09

PROGRAM ON ESCAPING THE MIDDLE-INCOME TRAP: CHAINS FOR CHANGE
PROGRAM ON DATA SCIENCE FOR PUBLIC POLICY

## Islamic Finance: Needed, Wanted, but Unavailable

### How Can Government Promote Islamic Finance in the Philippines?[1]

*Jane Lynn D. Capacio[2] and Juan Carlos Rodriguez[3]*

#### Abstract

We overlaid sentiment analysis onto our ongoing project on Islamic finance and discovered that the sentiments toward Islamic finance are generally positive. However, there are a number of negative sentiments, such as concerns about "risks," which suggest that the literature perceives risks either in the design or implementation of Islamic financing. The preliminary findings of our project, combined with the results of the sentiment analysis, underscore the important role of government agencies in disseminating information and enhancing public knowledge on Islamic finance. Successful models of Islamic finance could be supported to scale up or expand. More importantly, the government, particularly the Bangsamoro Autonomous Region for Muslim Mindanao (BARMM), is encouraged to take a proactive role in developing industry plans and promoting investments and entrepreneurship. This would help attract Islamic financial institutions to set up operations in the region. With these measures in place, Islamic finance, which is much needed and highly sought after, may become more available and accessible.

1 The sentiment analysis of this policy brief is an output of the Webinar on Spatial and Text Data Mining Analytics organized by the UP Center for Integrative and Development Studies (UP CIDS) Data Science for Public Policy (DSPPP) held on 29-31 July 2024. Prior to the conduct of sentiment analysis, the data, review of literature, and analysis on Islamic finance were outputs of the Islamic Finance Project of the UP CIDS Escaping the Middle-Income Trap: Chains for Change (EMIT C4C) Program and the Peace and Equity Foundation (PEF). This policy brief is part of a more comprehensive forthcoming publication of EMIT C4C and PEF. Funding for the Islamic Financing Project came from PEF and UP CIDS.

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*Islamic Finance: Needed, Wanted, but Unavailable: How Can Government Promote Islamic Finance in the Philippines?*

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# About the Proceedings

This document serves as the proceedings for a meeting of stakeholders on the initial findings of an Islamic Financing landscape study conducted by the Escaping the Middle-Income Trap: Chains for Change Program (EMIT C4C) of the UP Center for Integrative and Development Studies (UP CIDS). Held on 6 September 2024 at the Peace and Equity Foundation (PEF) office, the meeting brought together participants from varying backgrounds, including Philippine Islamic finance experts, interested stakeholders from banks and academic institutions, and key contributors from the PEF and EMIT C4C. It aimed to foster a collaborative environment where experts and stakeholders could engage in meaningful discussions about the current state of Islamic finance in the Philippines, explore the challenges and opportunities that come with its implementation, and propose actionable initiatives and policy recommendations to drive growth and development in Islamic finance, particularly in the context of the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM).

In line with this goal, the meeting was segmented into several key sections. First, members from the EMIT C4C Program presented insights from their ongoing study on Islamic financing in the BARMM. This was followed by an open forum, allowing participants to share their initial thoughts and pose questions about the study's findings. A more comprehensive discussion then ensued, where experts and stakeholders deliberated on the opportunities and obstacles affecting the growth of Islamic finance in the BARMM. The meeting culminated in an open-ended brainstorming session, where participants exchanged ideas on advancing Islamic finance not only in the BARMM, but across the Philippines as well.

This meeting was documented by Julliana Yzabelle Viola, under the UP CIDS - EMIT C4C Program. Jane Lynn Capacio edited the proceedings.

■ Some of the participants of the Stakeholders' Workshop on Islamic Financing held on 6 September 2024 at the Peace and Equity Office. Photo: Peace and Equity Foundation.

# PARTICIPANTS

Ms. Jane Lynn Capacio from the UP Center for Integrative and Development Studies (UP CIDS) opened the group meeting with a round of introductions. The meeting included 15 participants, consisting of Islamic finance experts, organizers from PEF and UP CIDS, and interested stakeholders.

1. **Nikki Along** (Area Manager for Mindanao of the Peace and Equity Foundation)
2. **Maharlika Alonto** (Consultant with the Development Advisory Group specializing in Islamic finance, halal initiatives, and economic development programs in BARMM; consultant at ASA Philippines, and faculty of the Islamic Institute, UP Diliman)
3. **Marivic Austria** (President and CEO of CARD Bank)

4. **Margeaux Azada** (Executive Assistant, Peace and Equity Foundation)
5. **Assad Abdullah Baunto** (Consultant with the Development Advisory Group specializing in economic policies, BARMM area development)
6. **Roberto Calingo** (Executive Director of the Peace and Equity Foundation)
7. **Jane Lynn Capacio** (Senior Research Analyst of EMIT C4C program of UP Center for Integrative and Development Studies and senior researcher of the Islamic Finance Project)
8. **Rio Marie Delgado** (Senior Project Associate of EMIT C4C and administrative and finance lead of the Islamic Finance project)
9. **Shalom Floro** (Specialist in fisheries and agriculture development focusing on projects in the island provinces of BARMM and co-researcher of the Islamic Finance Project)
10. **Almajoy Ilao** (Co-researcher for the agriculture and fisheries case study of EMIT C4C)
11. **Annette Balaoing-Pelkmans, Ph.D**. (Convener of the Escaping the Middle-Income Trap: Chains for Change Program at the UP Center for Integrative and Development Studies, faculty at the UP School of Economics, and project lead of the Islamic Finance Project)
12. **Anwar Radiamoda, Ph.D.** (Director of the Shari'ah Center at Mindanao State University – Iligan Institute of Technology)
13. **Danica Marra Soliman** (Senior Knowledge Management Specialist of the Peace and Equity Foundation)
14. **Omairah Usman** (Specialist in area development and peace specially in Lanao del Norte and Lanao del Sur and co-researcher of the Islamic Finance Project)
15. **Maria Pia Villapando** (Manager of Knowledge Management of the Peace and Equity Foundation)
16. **Jose Dax Evaristo Tibus** (PEF Consultant)
17. **Julliana Yzabelle Viola** (Proceedings Writer of EMIT C4C for the Islamic Finance project)

# Introduction

## ON THE PEACE AND EQUITY FOUNDATION AND ITS INITIATIVES ON ISLAMIC FINANCE

Mr. Roberto Calingo officially opened the discussion by noting the significant 7.9 percent growth rate in the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) from 2017 to 2019, which surpassed the national growth rate. He also called attention to the significant drop in poverty in the BARMM—from approximately 52 percent in 2018 to 23.5 percent in 2023—partially attributing this improvement to ongoing peace initiatives, including peace counseling efforts. Despite this, he emphasized that many households in the region remain in challenging circumstances, with the BARMM holding one of the highest poverty incidences in the country. These statistics, Mr. Calingo explained, heighten the importance of PEF's partnership with the Escaping the Middle-Income Trap: Chains for Change Program of UP CIDS to do action research on development initiatives such as Islamic finance.

Mr. Calingo reiterated PEF's commitment to supporting the aspirations of the Bangsamoro people, particularly through advocating for economic development as a key driver of the peace process. In this regard, PEF has undertaken partnerships with institutions like Ateneo de Davao University's Al Qalam Institute to facilitate microfinance projects in the BARMM. They also collaborated with the Ramon Magsaysay Award Foundation (RMAF) to learn from its Indonesian members about the principles, products, and services under Islamic finance.

Mr. Calingo explained that the pandemic unfortunately interrupted their efforts to explore Islamic finance models applicable to the BARMM. However, once operations resumed, PEF partnered with EMIT C4C to reassess the Islamic financing landscape in the region. Moving forward, studies and initiatives on Islamic finance will focus on identifying scalable models and understanding possible policy directions to shape PEF's strategy.

In explaining the rationale behind these efforts, Mr. Calingo emphasized the pressing need for financial development in the BARMM, which is the least banked region in the country. He noted that without formal financial systems to complement existing informal ones, social and economic growth in the BARMM would remain constrained. Therefore, PEF's primary objective in conducting discussions like this is to gather insights from stakeholders in financially underserved areas of the BARMM, develop and propose relevant policies, and implement Islamic financing solutions tailored to the region's specific needs.

# Presentation

## ISLAMIC FINANCING: SCOPING THE LANDSCAPE IN THE PHILIPPINES AND THE BARMM

Dr. Annette Balaoing-Pelkmans began the discussion by modestly describing her presentation as offering a “beginner’s perspective” on Islamic finance. She said that EMIT C4C has yet to fully grasp the intricacies of Islamic finance, particularly because it is deeply rooted in Islamic faith. Dr. Balaoing-Pelkmans then outlined EMIT C4C’s engagement in the BARMM, which began with their “Business for Peace” initiative. The initiative is grounded in the idea that business can serve as a catalyst for peace, challenging the prevailing notion that peace must first be achieved before business development can thrive. She emphasized that creating jobs and attracting investments are crucial for sustaining peace and ensuring that its benefits reach the people of the BARMM.

Dr. Balaoing-Pelkmans then discussed EMIT C4C’s natural progression into research on Islamic finance, noting that limited access to financing remains a major barrier to economic growth in the BARMM. The program’s current research takes an action-oriented approach, collaborating closely with local partners on the ground. These efforts, Dr. Balaoing-Pelkmans expressed, are aimed at developing practical and collaborative solutions to drive meaningful progress in the region.

Transitioning to the core of her presentation, Dr. Balaoing-Pelkmans offered an overview of the financial services landscape in the BARMM, confirming with data that it remains one of the most financially underserved regions in the Philippines. She cited that as of 2018, the region had only 1.6 bank branches and 4.4 automated teller machines (ATMs) per 100,000 adults, in contrast to the national average of 17 branches and 29 ATMs. She further mentioned that despite improvements in Islamic financial infrastructure since 2017, a significant portion of the BARMM remains unbanked; in 2018, 110 municipalities in the region had no banking offices, accounting for 23 percent of all unbanked municipalities nationwide.

To contextualize the development of Islamic financial infrastructure, Dr. Balaoing-Pelkmans presented a timeline of key developments in Islamic finance in the Philippines. She began with the establishment of the Amanah Finance Bank in 1973, which initially held a monopoly on Islamic banking. By 1989, it was replaced by the Philippine Amanah Bank, which was later acquired by the Development Bank of the Philippines (DBP) in 2008. The year 2014 marked a shift towards more inclusive Islamic financial services when ASA Philippines introduced Islamic microfinance.

In 2019, Republic Act 11439 broke Amanah Bank's monopoly and opened the Islamic banking sector to non-Muslims and conventional banks. This law sharpened the Bangko Sentral ng Pilipinas's (BSP) focus on Islamic finance, transforming its previous task force into a dedicated unit for Islamic banking. Concurrently, the Bangsamoro Revenue Code was being developed, which, Dr. Balaoing-Pelkmans adds, is a critical step in shaping a regulatory framework that supports the intricacies of Islamic finance and creates a level playing field with conventional banks.

By 2023, two significant milestones were achieved: the progress toward establishing a Shariah Supervisory Board and the issuance of one billion *sukuk* bonds, which utilized real estate assets under *ijara* and *wakala* structures, along with a commodity *murabaha* component. In 2024, CARD Bank opened its first Islamic banking window in Cotabato and Maybank followed suit by opening an Islamic banking window in Zamboanga City in August. Dr. Balaoing-Pelkmans also mentioned the appointment of the BARMM finance deputy minister as CEO of Amanah Bank, speculating that this might signal a shift toward more direct supervision and governance of the institution by the BARMM.

Upon concluding her discussion on the timeline of Islamic finance, Dr. Balaoing-Pelkmans addressed the challenges in implementing Islamic finance in the Philippines, highlighting gaps in the regulatory framework. Although there are existing BSP circulars regarding shariʿa governance and liquidity management, she noted a need for more comprehensive implementation guidelines, including capacity-building and specialized training for Islamic banking staff, given the distinct nuances of Islamic finance.

She then explored the principles of Islamic finance, emphasizing the importance of "mainstreaming" it for both Muslims and non-Muslims. She explained how shariʿa-compliant principles, such as *risk-sharing* and *social responsibility*, could attract international investors. Additionally, Islamic finance's resilience during financial crises, due to its avoidance of speculation and risky assets, has helped fuel its projected growth from US$3.96 trillion in 2023 to US$5.95 trillion by 2028. While these projections reflect a global trend, Dr. Balaoing-Pelkmans expressed optimism for the future of Islamic finance in the Philippines. She noted that neighboring countries like Malaysia and Indonesia, despite their predominantly Muslim populations, account for only 12 percent and 2 percent of global shariʿa-compliant assets, respectively, suggesting room for growth in the Philippines.

Next, she compared the views of money in Islamic and conventional finance. In Islamic finance, wealth is viewed as a trust bestowed upon by Allah, and individuals are accountable for how they earn, spend, and share their money. Rooted in the principles of social justice and purposeful economic activity, Islamic finance resonates with earlier Christian conceptions of economic exchange, contrasting sharply with conventional finance's view of money as a commodity. Islamic finance forbids usury (excessive interest) and encourages risk-sharing. Dr. Balaoing-Pelkmans found the flexibility of Islamic financial instruments like *murabaha*, *ijara*, and *musharakah* particularly noteworthy, as they allow for a more context-driven, relational approach to finance.

Turning to social finance, Dr. Balaoing-Pelkmans discussed the unique ability of Islamic finance to pinpoint where individuals or instruments lie on a spectrum, ranging from "impact only" to "finance first." However, she also identified several obstacles, including difficulties in measuring social impact, a tendency to focus on legal compliance rather than broader ethical goals (known as the "Formalist deadlock"), and capacity and trust issues within Islamic social finance institutions.

Dr. Balaoing-Pelkmans also presented findings from a study on barriers to Islamic finance in the BARMM, where the most commonly identified issues were insufficient funds, high banking costs, and distance from financial institutions. Secondary barriers included a lack of trust in financial providers and lack of documentation. Despite these hurdles, regulatory advances such as the Bangsamoro Revenue Code and the creation of a Shariah Supervisory Board have occurred.

Dr. Balaoing-Pelkmans noted the increasing demand for Islamic finance in the BARMM, where significant progress has been made. ASA Philippines, an early leader in the field, introduced *qardh al-hasan* financing in 2014 and expanded to the BARMM by 2016. As of June 2024, ASA had established 37 branches, employed 269 staff, and served 38,112 clients in the region. Its financing portfolio increased from ₱541 million in 2021 to ₱15 billion in 2024, demonstrating the growing interest in Islamic financial products.

ASA's portfolio performance also improved, with the repayment rate rising from 87.13 percent in 2021 to 89.27 percent in 2024, while portfolio risk fell from 6.23 percent to 3.49 percent in the same period. Remarkably, around 50 percent of the financing portfolio, equivalent to ₱7.5 billion, came from borrowers' savings. This amount is significant given that total savings in BARMM banks amounted only to ₱22 billion. This strong reliance on internal savings underscores a promising level of internal sustainability for Islamic finance in the region.

Dr. Balaoing-Pelkmans concluded her presentation on a hopeful note, expressing optimism about the continued expansion of Shariah-compliant financial services in the BARMM.

Jane Lynn Capacio supplemented Dr. Balaoing-Pelkmans' presentation by discussing the fieldwork that EMIT C4C had undertaken to gather data and enrich the analysis. She emphasized the importance of fieldwork across different provinces in the BARMM, given the cultural differences that exist among Muslim communities. The fieldwork involved case studies across three communities: (1) former combatants from the Northwestern Mindanao Front of the Moro Islamic Liberation Front in Lanao del Norte and Lanao del Sur, (2) key stakeholders in the Basilan Province, including Mayor Hanie Bud of the Municipality of Maluso, and (3) organizations in Cotabato City and General Santos City, such as the Kadtabanga Foundation, Katiyakap Inc., and the Bangsamoro Women Commission/Federation.

In Lanao del Norte and Lanao del Sur, Ms. Capacio discussed the support EMIT C4C provided to Northwestern Mindanao Front base camps in developing their enterprises. She observed a reluctance to borrow funds, primarily due to risk aversion. Although informal finance and Islamic microfinance mechanisms have emerged to bridge this gap, previous negative experiences with microfinance institutions (MFIs) and the inability to repay loans contribute to this aversion. Moreover, strict loan conditions yield high transaction costs, further discouraging borrowing. Ms. Capacio also called attention to the high interest rates prevailing in these provinces. These conflict with the economic, cultural, and religious values of the residing communities. Consequently, these communities turn to self-reliance and reliance on community contributions rather than seeking funds from financial institutions.

Ms. Capacio then referenced discussions with Ms. Omairah Usman, another participant, regarding informal finance practices in the provinces. One such practice is pawning, known as *rahn* in Arabic. This system, also utilized by Kadtabanga Foundation and Katiyakap Inc., allows individuals to use assets as collateral for loans without interest charges. The collateral must be legal, valuable, and transferable, with examples including jewelry, land, and vehicles. While ownership of the asset remains with the borrower, the lender can sell the asset if the debt is not repaid, returning any excess proceeds from the sale to the borrower. Learning about this, Ms. Capacio raised concerns about moral hazard and the practice's potential non-adherence to equitable risk-sharing principles.

In Basilan and Zamboanga City, the EMIT C4C team discovered that registered lenders typically charge an average interest rate of 10 to 12 percent per month, while informal lenders reportedly impose interest rates as high as 30 percent, which are viewed as inconsistent with the principles of Islamic finance. Ms. Capacio introduced another informal lending practice known as *pagsanda*, which operates without formal interest rates or collateral. This practice is commonly conducted within families or among close acquaintances, relying on trust and social ties for adherence to the terms of repayment. When an individual borrows through *pagsanda*, the family is informed of the obligation, with failure to pay consequently inducing social costs. Nonetheless, the terms of repayment are usually flexible to accommodate the borrower's circumstances. This feature in particular resonates with Islamic finance models and the principles they are rooted in.

In Cotabato City and General Santos City, Ms. Capacio found that Kadtabanga has carried out initiatives to promote Islamic finance principles among women, farmers, and local cooperatives. Most notably, they introduced *mudharabah* and *musharakah* to the local communities, which are equity-based Shariah-compliant modes of financing. Kadtabanga not only provides loans but also offers capacity-building support to local organizations and individuals. To ensure adherence to Islamic principles, a Shariah Advisory Council monitors and approves all loan transactions. Prior to loan approval, borrowers are obligated to attend orientation sessions. Ms. Capacio added that many partners and borrowers still struggled to understand the concept of halal income, prompting Kadtabanga to require the presence of witnesses and comakers before granting loans.

Similarly, Katiyakap has also implemented several sharīʿa-compliant financing instruments, including *mudharabah*, *musharakah*, and *ijara*. A notable initiative Ms. Capacio brought up involves the use of *mudharabah* to finance motorcycle purchases for individuals with regular income who cannot afford them outright. Katiyakap has established a Shariah Advisory Board that emphasizes compliance with loan agreements and provides guidance on loan mechanisms and assistance programs. In some cases, the board has authorized the repossession of motorcycles used as collateral, which are subsequently sold, with any surplus proceeds returned to the borrower. Katiyakap conducts thorough background checks and requires borrowers to provide a loan guarantor and witness.

In Cotabato City and General Santos City, Ms. Capacio discussed a project among the Bangsamoro Women, which involved teaching women to produce the Palamanis Whitening Soap. Despite lacking an FDA permit due to the difficulty to obtain one, this product has gained popularity, attracting repeat customers from various regions of the Philippines and abroad. As a result, the Bangsamoro women plan to expand their business by selling their products online through platforms. However, they face challenges sourcing raw materials, particularly chemicals, from Manila.

Concluding her presentation on the findings of their fieldwork, Ms. Capacio drew attention to the increasing demand for Islamic finance products. Many Muslims interviewed expressed a preference for Islamic finance over conventional finance, citing concerns about high interest rates and potential conflicts with Islamic principles.

Several cooperatives also reported successful pilot tests of Islamic microfinance among their members. However, challenges remain in implementing these models, particularly in screening, formalizing the business models, and enforcing agreements. Interestingly, Ms. Capacio noted that these issues are common in business and credit transactions. In fact, Islamic finance mechanisms have helped address the challenges through the use of reputation and social capital. The Shariah Supervisory Council/Board of the MFIs do not only provide policy guidance to the MFIs, they also help in screening, entering into contracts, and enforcing them.

Many Filipino Muslims also still lack a clear understanding of the principles and practices of Islamic finance, which hinders the sector's growth and development. She said that there is a serious need to roll out information and education campaigns to enable financial inclusion particularly the use of Islamic finance.

Marking the end of her report, Ms. Capacio invited initial comments from participants before proceeding with the remaining agenda.

## COMMENTS ON THE PRESENTATION

Revisiting the discussion on informal finance practices among Filipino Muslim communities, Mr. Assad Abdullah Baunto points out that particularly in the Lanao del Sur area, "labor bondage" is common. Labor bondage occurs when individuals, often due to financial constraints, agree to provide labor services as a form of repayment for loans, especially those borrowed from family or close acquaintances. Such behaviors are rarely present in conventional finance, Mr. Baunto adds, where loaning cash usually means paying back in cash.

Mr. Baunto then steered the discussion into the domain of moral hazard and adverse selection within Islamic finance. He explained that adverse selection tends to be a more prominent issue. For instance, a borrower might compare Islamic finance with conventional banking. In Islamic finance, there is no interest rate, but administrative costs are typically added to cover operational expenses. However, Islamic finance seekers may become critical of these administrative costs, perceiving them as an implicit form of interest, despite their role in maintaining the financial institution. Mr. Baunto noted that in such cases, borrowers might opt for conventional banking, where interest rates are more transparent. This perception leads to an adverse selection problem, where it becomes difficult to identify trustworthy Islamic financial institutions. Given this issue, some borrowers may prefer conventional finance over Islamic finance, even when seeking shariʿa-compliant financial services.

Mr. Baunto also brought up an example involving the pawnshops, or *padjak*, common in some Muslim communities. He noted that while it claims not to charge interest, it still essentially involves interest-like mechanisms, especially when risk is factored in. He raised the question of whether this system could be equated to usury (*riba*), which pertains to the prohibition of interest under Islamic law.

At this point, Ms. Maharlika Alonto responded by clarifying that *padjak* is not equivalent to *riba* in Islamic finance. *Riba* is essentially rent on money, an addition or increase on amount lent. Instead, she explained that the *padjak* system involves attaching a security value to the asset that is pawned, which stems from a conventional finance mindset. She compared it to conventional finance and banking where, for example, one would not receive a loan based solely on their demand but would have their collateral weighed against the financing amount applied for. This practice of *padjak* mirrors the mechanism of conventional banking because it is still essentially a micro loan with *riba*, on top of having security of the pawned asset, even if the outward appearance seems different.

Ms. Alonto went on to discuss a more genuinely Islamic finance model, known as *rahn* (sometimes referred to as "rahnah" or "rahnu"). This model, which is used in smaller communities in countries like Malaysia and Indonesia, aligns more closely with the principles of Islamic finance, as it provides a Shariah-compliant alternative to current system of *padjak*.

Following this, Mr. Baunto drew attention to a prevailing misconception in the Bangsamoro Autonomous Region in Muslim Mindanao regarding financial institutions. Unlike the broader economy, where financial literacy emphasizes the growth potential of financial institutions, in BARMM, there is an oversimplified belief that just having money will immediately lead to economic growth.

He illustrated this with an example: people in the BARMM might observe an increase in the number of tricycles (locally called “padyak”) and rush to buy more, without considering demand. The region often neglects critical elements like market feasibility studies and demand-side analysis, focusing instead on supply.

He also responded to the discussion on why former combatants in the Northwestern Mindanao Front might hesitate to access loans despite having businesses. He said it might be due to the crowding-out effect of government dole-outs. Financial institutions face the challenge of competing with these government support programs, which further complicates the development of Islamic finance in the region.

With Mr. Baunto concluding his initial comments, Ms. Alonto went on to discuss the controversial nature of *tawarruq*, which is a form of commodity *murabaha* (cost-plus financing). While widely used in countries like Malaysia for liquidity, *tawarruq* has been criticized globally for its potential to manipulate the commodities market, especially since Islamic finance involves real assets and economic activity.

Ms. Alonto expressed concern about using such instruments in underbanked areas like BARMM, where the community might not fully grasp their economic implications. Although the Philippine government recently utilized *tawarruq* in its *sukuk* issuance for budgetary support, Ms. Alonto highlighted the lack of transparency regarding how the funds would be used. She argued that if Islamic finance is to be introduced, it must be done organically, with the community’s involvement and understanding.

Ms. Alonto also mentioned that the Philippine government plans to raise US$3 billion by either the fourth quarter of 2024 or the second quarter of 2025, potentially through *sukuk*. She stressed the need for clear communication about how the funds would be allocated, especially if they are intended for regions like the BARMM.

Instead of *tawarruq*, Ms. Alonto explained that the use of *salam* contracts, which are widely utilized in agriculture, might be more appropriate to the Philippines. In a *salam* contract, the buyer pays in advance for a future delivery of goods at a predetermined price. Ms. Alonto noted the discipline this model brings to financial institutions, as it requires them to manage commodity trading. She moreover expressed excitement about the potential for *salam* contracts in the Philippines, particularly in agricultural sectors in the BARMM, as they offer a viable alternative to traditional financing methods.

Ms. Alonto also introduced the concept of *rahn* (Islamic pawn broking), which Muslims in the Philippines may be familiar with due to their cultural affinity for gold. Under *rahn*, gold, for example, can be used as collateral, with a contract (*qardh al-hassan*) stipulating that if the loan is not repaid, the collateral is auctioned off, but ownership remains with the borrower. She then iterated the importance of written contracts in Islamic finance, as it aligns with Islamic principles of fairness and trust. However, challenges emerge, particularly in rural areas, where safekeeping of assets can be difficult. Moreover, the lack of financial literacy and aversion to formal contracts in the Philippines further complicates the adoption of *rahn* and other Islamic financial products.

Mr. Calingo inquired about Islamic modes of financing for government projects, particularly in infrastructure. Ms. Alonto responded that *sukuk* is one option, especially for projects like roads, electricity, and water infrastructure. She noted that *sukuk* issuance is often oversubscribed, making it a popular financing tool globally. However, in the Philippines, *sukuk* is not fully explored, despite the potential demand and suitability for government-backed projects.

She added that *sukuk* is versatile and can be used for a range of projects beyond infrastructure, including livelihood and green finance initiatives, as seen in Indonesia's issuance of green *sukuk* aligned with the United Nations Sustainable Development Goals (UN SDGs).

Dr. Anwar Radiamoda echoed Ms. Alonto's call for a gradual implementation of Islamic finance, particularly in the BARMM, where knowledge of Islamic finance is still in its infant stages. He raised the need for financial literacy and awareness, especially among Filipino Muslims who are unfamiliar with the different Islamic contracts available, such as *mudharabah*, *musharakah*, *salam*, and *ijara*.

He pointed out that the Philippines has made limited progress in institutionalizing Islamic finance, despite laying the groundwork more than a decade ago with the creation of Amanah Bank, the country's first Islamic bank. The primary issues, according to Dr. Radiamoda, are management inefficiencies and a lack of widespread dissemination of Islamic finance principles.

Dr. Radiamoda also discussed the importance of *halal* (permissible) and *tayyib* (good) in Islamic finance, emphasizing that the two concepts must go hand-in-hand. He mentioned that *halal* does not just apply to food but to all financial and economic transactions. Islamic finance, he asserted, is a part of the halal ecosystem and must be aligned with both ethical and practical standards. Dr. Radiamoda added that there is an overemphasis on *halal* with insufficient focus on *tayyib*. He called for stronger efforts to institutionalize Islamic finance and its underlying principles.

Building on this call for institutional development, Ms. Marivic Austria, Chief Executive Officer (CEO) and President of CARD Bank, a microfinance-oriented rural bank, provided a more concrete example of Islamic finance implementation in the Philippines by sharing CARD Bank's experiences in opening an Islamic banking window. Before launching their services, the bank sent staff to Indonesia and Malaysia to learn from more developed Islamic finance systems, given the lack of guiding principles locally. Addressing Dr. Balaoing-Pelkmans' earlier question, Ms. Austria explained that Islamic finance is not limited to Muslim clients; their experience has shown that Christians can also adhere to its principles.

Understanding the importance of financial education in conventional microfinance, Ms. Austria shared that CARD Bank has recognized its even greater significance in delivering Islamic finance services effectively. As a result, the bank actively conducts awareness programs to educate clients about the principles and nuances of Islamic finance. Ms. Austria also reiterated the need for a Shariah Advisory Council to ensure that their practices are appropriate, noting that ongoing guidance and learning are necessary for the successful implementation of Islamic finance. Moving forward, she noted the need for a national Shariah Advisory Council to provide more consistent guidance beyond current regional efforts.

A recurring theme throughout the remainder of the discussion was the need for a Shariah Supervisory Board to oversee and guide the implementation of Islamic finance in the Philippines. The invited experts agreed that such a body would streamline the interpretation of Islamic finance principles and ensure that products and services offered are shariʿa-compliant.

Ms. Alonto pointed out that different Islamic schools of thought influence the interpretation of Islamic financial laws, making it important for the Philippines to clearly define which school of thought will guide its policies. She and Dr. Radiamoda emphasized the importance of having Filipino scholars and experts on the board to ensure that the local context is taken into account.

## OPPORTUNITIES AND LIMITATIONS

Ms. Alonto opened the discussion on opportunities for Islamic finance by drawing attention to the growth and resilience of global Islamic finance. She pointed out that despite significant challenges, including the 2008 financial crisis and the COVID-19 pandemic, the industry has grown to around US$4 trillion. Even though its growth rate has slowed down compared to a decade ago (from 16  to 9 percent), Islamic finance remains robust, outpacing conventional banking in terms of growth.

She described Islamic finance as a "blue ocean" of opportunity, noting its alignment with global trends and values. The term *halal*, once primarily associated with food, has evolved into a globally recognized "brand," increasing its appeal and adding further growth potential for Islamic financial products. According to Ms. Alonto, Islamic finance can benefit from this expanding recognition, growing alongside the broader halal industry.

In discussing capital markets, Ms. Alonto noted that the Philippines has fallen behind its Southeast Asian neighbors like Indonesia and Malaysia, both of which have successfully issued *sukuk* (Islamic bonds) to finance various projects. Malaysia, in particular, has become a global leader in Islamic finance, although Saudi Arabia is currently leading in terms of Islamic financial assets. She asserted that the Philippines has the potential to reach similar heights, especially given its substantial Muslim population.

Ms. Alonto then clarified that Islamic finance, at its core, is not complicated. It is anchored in fundamental ethical principles that resonate with contemporary values, including the SDGs. She noted that Islamic finance aligns with these objectives by focusing on the protection and preservation of five key values known in *maqasid al-sharīʿa*—life, religion, intellect, lineage, and wealth. These principles ensure that Islamic finance remains a socially responsible and ethical form of financing, making it particularly appealing to investors. Another area of significant potential that Ms. Alonto brought up was Islamic social finance, which inherently includes redistribution mechanisms like *zakat* (charitable giving) and *waqf* (endowments).

Mr. Baunto then asked an important question regarding the role that Islamic finance could play in the BARMM. He observed that BARMM's economy is currently lacking substantial production and value-added industries, particularly in manufacturing. He asked how Islamic finance could help "grow" these sectors and encourage innovation and production. Mr. Baunto also raised another question: How might Islamic education, or values-based education, be integrated into the costs of financing?

In response to the questions and ideas that have been raised thus far, Dr. Radiamoda states that one of the key challenges in pushing for the growth of Islamic finance in the BARMM is the absence of a Ministry of Religious Affairs or a similar institution. He argued that at a minimum, the establishment of a Department or Bureau of Religious Affairs is necessary to protect and oversee religious matters in the region. This bureau would not only serve the Muslim population but also provide a broader mandate to ensure the protection of life and religion for all people within the Bangsamoro region. Such an institution could also monitor and regulate Islamic financial activities, including *zakat* (obligatory charity), to ensure compliance with Islamic principles.

The discussion then shifted to the role of the National Commission on Muslim Filipinos (NCMF) in coordinating Islamic finance activities. Dr. Balaoing-Pelkmans asked why the NCMF should be responsible for handling coordination with BARMM, as this does not seem to fall directly within its mandate. In response, Ms. Alonto explained that the NCMF has relevant structures in place, including a Bureau of Hajj and a Bureau of Endowments, which deal with various Islamic mechanisms. The challenge, she noted, lies in the constitutional separation of church and state in the Philippines. This prevents the government from creating a fully government-run entity that oversees religious affairs.

Thus, Ms. Alonto suggested that the BARMM should work closely with the NCMF, similar to the model used in Singapore. In Singapore, their ethnoreligious organizations have government participation but are largely managed by the private sector. Such an approach could be adapted to the Philippine context, allowing Islamic finance to thrive while respecting the constitutional limitations on religious matters.

Following this suggestion, she began discussing the limitations in implementing Islamic finance in the Philippines, particularly in the BARMM. One of the foremost challenges, according to her, is financial literacy. She explained that for Islamic finance institutions to thrive, the fundamental requirement is for people to fully understand them. Otherwise, they will have an aversion to using them. She further asserted that partners and community leaders must play a role in raising financial awareness to remedy this.

Another issue, Ms. Alonto noted, is the people's aversion to formal business registration and taxation. Many businesses in BARMM operate informally and are unregistered, which makes it difficult for them to participate in formal financial systems. There is also a lack of data regarding which sectors to prioritize for financial investments. Ms. Alonto pointed out that without clarity on sectors, Islamic finance efforts can be unfocused and ineffective.

The security situation in BARMM was also cited as a limitation, possibly due to how investments in the region are contingent on a stable and secure environment. Ms. Alonto remarked that while election-related instability has slightly decreased, it still impacts business confidence. She also clarified a common misconception; beyond social finance, Islamic finance is ultimately a business model. It is important for stakeholders to understand that Islamic finance is based on real assets and economy activity, and should aptly not be viewed solely as charitable or goodwill transactions, even though goodwill plays a role in its philosophy.

Ms. Alonto identified the lack of understanding of property rights in the region as another obstacle to the implementation of Islamic finance. Islamic finance is heavily reliant on assets, and uncertainties around land ownership and asset management complicate transactions. She also warned against conflating social finance with real finance structures, stressing that Islamic finance activities, such as charity, must be clearly monitored and reported to ensure that they benefit the intended communities.

In response to a question from Mr. Calingo regarding the role of the government in Islamic finance, Ms. Alonto focused on the responsibilities of BARMM, noting that the regional government needs to create a clear roadmap for economic activities. She mentioned that if the BARMM continually relies on the "halal" brand without a concrete plan, it could hinder the region's economic growth. The government's role, she argued, is to facilitate economic activities and encourage private investment by providing the necessary infrastructure and policy support.

Mr. Baunto added that the government needs to step in when there are market failures or when the local economy does not understand aspects of Islamic finance. Ms. Alonto agreed, articulating that the government must not only offer a roadmap but also acknowledge existing constraints and adjust their approach accordingly.

During the discussion, Ms. Alonto also critiqued the idea that the mere entry of institutions such as Amanah Bank would lead to the automatic flourishing of Islamic finance. She cautioned that this belief overlooks deeper structural issues, and that simply injecting funds into industries is unlikely to result in exponential growth. She again stressed the need for local leadership to cultivate a strong understanding of financial operations to ensure Islamic finance initiatives are sustainable.

Dr. Radiamoda echoed Ms. Alonto's sentiments, calling for step-by-step planning and a clear understanding of the community's needs in Islamic finance. He asserted that private sector involvement is critical to complement government efforts, but there is also a need for regulatory frameworks to ensure proper implementation. He noted that although the frameworks exist, there is a lack of active involvement from relevant authorities to make Islamic finance a reality on the ground.

Toward the end of the session, Dr. Balaoing-Pelkmans reflected on the need to address these problems at the grassroots level. She emphasized the need for deliberate learning to be “injected” into the implementation of Islamic finance, making information as accessible as a public good. In addition, she asserted that institutionalizing Islamic finance could reduce transaction costs and create a more efficient system comparable to conventional banking.

The session concluded with participants discussing future steps, such as the need for Islamic finance awareness programs, the establishment of key regulatory bodies like the Shariah Board, and a more localized development of halal industries. Participants also reiterated the importance of stakeholder engagement, advocating for small-scale technologies and models that could be replicated in local communities before addressing broader issues.

Dr. Balaoing-Pelkmans then closed the discussion with optimism, suggesting that while countries like Malaysia and Indonesia took several years to mainstream Islamic finance, the Philippines may be able to do so in a shorter time frame with the right strategies and plans in place.

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