

The Establishment of Islamic Finance and Its Impact in the Bangsamoro as Perceived by Select Ulama and Professionals in Lanao del Sur

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Abstract: The aim of this research is to examine the influence of the establishment of Islamic Finance and its impact in the Bangsamoro¹ as perceived by select Ulama and professionals in Lanao del Sur. The idea behind establishing Islamic Finance, is to remove *riba* and *maysir* and from Traditional Financing system without disturbing and dividing the society economy, and how the whole society is conducting financing business in a unified way. The mean purpose of this study is to comprehend that Islam Finance emphasizes fair and equitable distribution of resources and meeting the needs of economically weak people as part of piousness, dedication, worship and faith. It encourages its followers to relate their piety (*Taqwa*) with social realities. It persuades a person to share the blessings and bounties of Allah with others as a matter of obligation by declaring that *Taqwa* encompasses not only the love of Allah, but also the love of fellow human beings, who should be treated as part of an extended human family. This refers in a way to the need to study the economic aspects of mankind free from scamming and harming. The major finding and recommendation to the Bangsamoro: the establishment of Islamic Finance requires rulers and various regulators in the system to protect the common people from non-Shari'ah compliance, scam, harm and hardship caused by dishonest factors in society through strong and effective laws, and they should be respected in the sense of fulfillment of all socio-economic rights. The parliamentary of Bangsamoro must also control institutional and other misconducts.

1 INTRODUCTION

Islamic Financing has become very important sector, as more and more economies of the world are adapting such finance methodology, in response to the growing need for such financing system. The Muslim must be financially ready to assume the task of home-building. A good life requires that a person has a good source of income to support his family and society. This is oftentimes misunderstood by some people by alleging that because Allah provides for their sustenance, there is no worry for a person to think about what he and his family needs.

Al-Qardawi (1980) mentioned that in Islam, two of the pillars of religion speak about good financial

standing. These are *zakat* and *hajj*. How can a Muslim perform these religious duties if he does not have the means to do so? Thus, a Muslim is always encouraged to seek a good livelihood so that he and his family and his society can fully enjoy the blessings of Allah on earth. Allah Almighty said:

﴿ يَا أَيُّهَا الَّذِينَ ءَامَنُوا إِذَا نُودِيَ لِلصَّلَاةِ مِنْ يَوْمِ الْجُمُعَةِ فَاسْعَوْا إِلَىٰ ذِكْرِ اللَّهِ وَذَرُوا الْبَيْعَ ذَلِكُمْ خَيْرٌ لَكُمْ إِنْ كُنْتُمْ تَعْلَمُونَ - فَإِذَا قُضِيَتِ الصَّلَاةُ فَانْتَشِرُوا فِي الْأَرْضِ وَابْتَغُوا مِنْ فَضْلِ اللَّهِ وَاذْكُرُوا اللَّهَ كَثِيرًا لَعَلَّكُمْ تُفْلِحُونَ ﴾

In English translation: "O you who believe! When the call is proclaimed for the Salah on Al-Jumu'ah (Friday), then hasten (Fas'aw) to the remembrance of Allah and leave off business. That is better for you

¹**Bangsamoro People.** The term refers to those who at the time of conquest and colonization were considered natives or original inhabitants of Mindanao and the Sulu archipelago and its adjacent Islands including Palawan, and their descendants, whether or mixed or

of full blood, shall have the right to identify themselves as *Bangsamoro* by ascription or self-ascription. Spouses and their descendants are classified as *Bangsamoro*. (BBL-Republic act No.6734)

if you did but know! Then when the Salah is complete, you may disperse through the land, and seek the bounty of Allah, and remember Allah much, that you may be successful. " (Holy Qur'an, 62:9-10)

The involvement in Islamic Financing among Bangsamoro is somewhat new, compared to conventional banking, after the creation of Bangsamoro Autonomous Region in Muslim Mindanao (BARMM), this individual constituents should be knowledgeable to Islamic Financing as it is part of Islamic Law. Living in a Muslim Community such the BARMM its economic stability should be financially instituted thru Islamic Law. The present constituents of Bangsamoro have a duty to be knowledgeable in Islamic Finance because they will be the successor of the present leaders.

This study attempts to find answers to the perception and awareness on Islamic Banking among college students in the Province of Lanao del Sur, Philippines. Specifically, this study, searched for answers to the following question:

1. What is the socio-economic profile of the respondents?
2. How the respondents knowledgeable in Islamic Financing?
3. What are possible impact and intervention program in learning Islamic Financing?
4. What are the implications of the study that can be drawn?

2 RELATED LITERATURE AND STUDIES

Many scholars today argue that Islamic Finance is a social science which studies the economic problems of people imbued with the values of Islam, which enables people to perform their obligation to Allah (peace be upon him) and to their society. Studying finances should support satisfy our interest about everything that happens around us. Conventional finances is about scarcity and shortage, choice and the effect of our choices on each other, Al-Qardawi, (1980).

It relays to every aspect of our lives, from the decisions we make as individuals or families to those developed by governments and firms. A theory without policy is of not much interest, but the right ideology will be important if the policy is implemented and its results scientifically analyzed. Moreover, the implication of declaring something Islamic when it is clearly rejected in the Qur'an and

the traditions of Prophet Muhammad (peace be upon him).

Therefore, Mannan (1986) has indicated some reasons or socio-economic imperatives for the study of Islamic Financing. They are, ideological, economic, social, ethical, political, historical and international. M. Umer Chapra (1970) stated that based on the study of the Qur'an and *Sunnah*, some basic socio-economic rights of human beings have been identified. These rights are: (1) The right to safety and security; (2) The right to be informed; (3) The right to choose; (4) The right to be heard; (5) The right to satisfaction of basic needs; (6) The right to redress; (7) The right to education; (8) The right to a healthy environment.

Islamic Finance is the knowledge and application of injunctions and rules of the *Shari'ah* that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah and the society, as defined by Mannan (1986)

M. Umer Chapra (1996) has listed the following functions of the State in the field of economics and finance: (1) Eradication of poverty; (2) Maintaining law and order; (3) Ensuring full employment; (4) Achieving an optimum rate of growth; (5) Economic planning; (6) Ensuring social and economic justice; (7) Stability in the value of money; and (8) Harmonizing international relations and national defence.

The concept choice in Islamic Finance is a guided by the basis values of Islam in imparting **just and equity** that focuses on the well-being of man, although conventional finance is typically based on capitalist finance framework that focuses on capital movement from point to another, such as from point C TO D, reflects the concept of unlimited wants, as explained by Ayub (2007). ISLAM recognized that human desires are unlimited, but also points out that man has limited needs. Allah the Almighty said;

﴿ يَا أَيُّهَا الَّذِينَ ءَامَنُوا لَا تَأْكُلُوا أَمْوَالَكُم بَيْنَكُم بِالْبَاطِلِ إِلَّا أَنْ تَكُونَ تِجَارَةً عَنْ تَرَاضٍ مِّنْكُمْ وَلَا تَقْتُلُوا أَنْفُسَكُمْ إِنَّ اللَّهَ كَانَ بِكُمْ رَحِيمًا - وَمَنْ يَفْعَلْ ذَلِكَ عُذْوَانًا وظُلْمًا فَسَوْفَ نُصَلِّيهِ نَارًا وَكَانَ ذَلِكَ عَلَى اللَّهِ يَسِيرًا ﴿

In English Translation: "O you who believe! Eat not up your property among yourselves unjustly except it be a trade amongst you, by mutual consent. And do not kill yourselves (nor kill one another). Surely, Allah is Most Merciful to you. And whoever commits that through aggression and injustice, We shall cast him into the Fire, and that is easy for Allah." (Holy Qur'an, 4:29)

The rules of Islamic finance follow to the comprehensive principles of avoiding *Maysir* and *Qimar* which are gambling and gossip along with *Gharar* which is uncertainty coupled with manipulation and unfairness. This closes the door to the concept of interest and prevents the use of unoriginal debt-based instruments. The Islamic financial system encourages risk-sharing, promotes free enterprise, discourages theoretical behavior, and emphasizes the sanctity of contracts, as explained by Chapra, (1996).

The central tenet of the Islamic financial system is the prohibition of *riba*, a term literally meaning "an excess" and interpreted as "any unjustifiable increase of capital whether in loans or sales". More accurately, any guaranteed increase in return tied to the maturity and the amount of principal, regardless of the performance of the investment, would be considered *riba* and is strictly prohibited as described by Ghazali.

Islamic finance offers different instruments to satisfy providers and users of funds in a variety of ways. Basic instruments include cost-plus markup financing (*murabaha*), profit-sharing (*mudharabah*), leasing (*ijarah*), partnership (*musharakah*), and forward sale (*bai' salam*). These instruments serve as the basic building blocks for developing a wide array of more complex financial instruments, suggesting that there is great potential for financial innovation and expansion in Islamic financial markets, as specified by Rashid (1989).

The economic problem in Islam turns around man's needs. Man is driven to produce the means to satisfy his needs. The economic problem lies in the possession of wealth and not in the creation of wealth and is thus a function of ownership (*milkiyyah*). Property implies ownership being a function of labor and capital, since property satisfies human needs, and labor is the means to obtain property or its benefits, then property is the basis of the benefit. Indeed, man strives to obtain property for possession. Hence, the combination of both labor and capital (*mal*), are both reflected in wealth (*mal*) for a man become prosperous.

In *fiqh mu'amalat*, labor and capital are required to satisfy needs, not just a production function, but when combined in the form of Islamic partnership. An examples: *musharakah* and *mudharabah* (trustee partner) or *rabb al-amal* (capital provider). Disposal and distribution of wealth should conform to rules pertaining to the *Bayt al-amal* (state treasury), although private ownership, disposal and distribution of wealth is governed by the rules of ownership, contracts and transactions with regard to business and trade (*tijarah*).

In essence, the finance problem in Islam is not in the area of production, but in the area of distribution.

Al-Zuhaili (1985) explained that from the perspective of Islamic economics, Man is the cause and object of creation, and to do facilitate our life in earth, Allah the almighty has subjected creation of our benefit. Adam (peace be upon him) was offered *Iman* (faith), *aql* (reason, intellect) or *haya* (shyness, modesty) he chose *aql* in order to discover *Iman* and thus obtain *haya*. Man as given a choice to determine the straight path to success.

Hence, any establishment and transactions should be in accordance with Islamic Law. The Prophet Muhammad (peace be upon him) said;

الضَّلْحُ جَائِزٌ بَيْنَ الْمُسْلِمِينَ إِلَّا ضَلْحًا حَرَّمَ حَلَالًا أَوْ أَحَلَّ حَرَامًا وَالْمُسْلِمُونَ عَلَى شُرُوطِهِمْ إِلَّا شَرْطًا حَرَّمَ حَلَالًا أَوْ أَحَلَّ حَرَامًا (رواه الترمذي عن عمرو بن عوف).

In English Interpretation: "Shulh (settlement of disputes through deliberation and consensus) can be conducted among the Muslims, except shulh which forbids something permissible or permits something forbidden, and the Muslims are bound by their terms and conditions unless the terms which forbid the permissible or justify the forbidden" (Narrated by Tirmidhi from 'Amr bin 'Awf).

Furthermore, in legal maxim says;

الأصل في المعاملات الإباحة إلا أن يدل دليل على تحريمها.

"Basically, all forms of *muamalah* (transactions) can be done unless there is a proof which forbids them."

2.1 Methodology

Research Design. The investigators used the descriptive research technique to categorize the outcomes of the study and possible conclusion that can be used by future successor in running the economics means of the BARMM. This study used a regulated survey questionnaire that was prepared by the researchers in five pages disseminated personally and send a softcopy over online to the respondents and personal and online interview. The facts in the inquiry form were checked, tallied and charted. The results provided treasured information about the problem that was deliberated. Ultimately, the outcomes aided as the basis for conclusion and recommendations.

Research Locale. Lanao del sur (Meranaw and Iranun: Pagabatan Ranaw), officially the Province of Lanao del Sur, is a province in the Philippines located in the Bangsamoro Autonomous Region in Muslim Mindanao (ARMM). The capital is the city of Marawi, and its border Lanao del Norte to the north,

Bukidnon to the east and Maguindanao and Cotabato to the south. To the southwest lies Illana Bay, an arm of the Moro Gulf.

Research Respondents. The respondents of the study were selected 200 individuals that were Ulama and Professionals either in a State University, State College and Private College located in the Province of Lanao del Sur.

3 DISCUSSION OF RESULTS AND FINDINGS

3.1 Socio Economic Profile of the Respondents

Table 1: Respondent Profile Based on Age.

Indicator	Frequency	Percentage
25 below	67	33.5%
26-30	23	11.5%
31-35	19	9.5%
36 above	91	45.5%
Total	200	100%

The data implies that the majority of the respondents are 36 above years old which is the average age of a respondents from Ulama and Professionals in the province of Lanao del Sur. Given that they can truly give a reliable response as they attain the age of maturity.

Table 2: Respondent Profile Based on Gender.

Indicator	Frequency	Percentage
Male	123	61.5%
Female	77	38.5%
Total	200	100%

The data indicated that the male (61.05%) were the majority respondents of the study which denotes that male should be the head of the family and has the responsibility of finding economics means under the Islamic concept of family supervision.

Table 3: Respondent Profile Based on Institution.

Indicator	Frequency	Percentage
State University	72	36%
State College	33	16.5%
Private Institution	95	47.5%
Total	200	100%

Majority of the respondents (47.5%) were Ulama and Professionals in Private Institution, which imply that this study communicated the right individuals whom have the access on every information and news globally.

Table 4: Respondent Profile Based on Educational Degree.

Indicator	Frequency	Percentage
Education	48	24%
Islamic Law	23	11.5%
Islamic and Arabic Studies	60	30%
Agriculture Social Sciences	44	22%
TOTAL	200	100%

The researcher decided at least 35 or more respondents on this study from every targeted department in Lanao del sur from different institutions. This implies that majority of the respondents are Ulama who have learned from Islamic Institutions both public private colleges.

3.2 Knowledge in Islamic Finance and Possible Intervention Program in Learning Islamic Finance

- 1) Majority of the respondents have good enough knowledge of the Islamic Finance and they were favor in implementing Islamic Finance in the Bangsamoro home-land because, it is a way to eradicate scam and usury. The Muslims in the Southern Philippines since time immemorial have been aspiring to become true faithful Muslims by living in accordance with Islamic teachings.
- 2) Majority of the respondents has no access of a Bank offering banking thru Islamic concept of financing, while most of them are more knowledgeable in conventional banking.
- 3) Majority of the respondents from private schools said that they hadn't ever watch an advertisement of Islamic Financing and Banking, and they have no idea to engage in investment thru Islamic financing
- 4) Majority of the respondents suggest the many ways in intervention program: A lecture Seminar from experts of Islamic Financing coming from Universities from Malaysia, Indonesia, Saudi Arabia, and other countries; exchange students program between the students from Lanao and Asian countries; symposium regarding Islamic

Finance conducted by some prominent professor of Islamic Law and Financing.

4 CONCLUSION

Based on the findings, results of this study, the researcher is wish to enumerate implication and conclusion and recommendations as follows:

- 1) Despite of different feedbacks among the respondents, this study concludes that among the people of Lanao del Sur is less knowledgeable of Islamic financing. Consequently the competent authority of the Bangsamoro people shall have an intervention programs to coup up to the result of this study. The researcher noted in this study that the economy of Province of Lanao de Sur is suffering from some structural problem due the conflict of ideas and information regarding what are the proper financial system to be engage with. The main problem of this conflict is the lack of information and ideas about Islamic Finance. Therefore, an intervention program is need by the Perople of Lanao del Sur.
- 2) The study concludes that the perceptions and awareness of the respondents need reinforcement thru an intervention program such as seminar, training, short course, exchange program and conference from the expert individuals and nations.
- 3) The major recommendation to the Bangsamoro, Islam requires rulers and various regulators in the system to protect the common people from non-Shari'ah compliance, scam, harm and hardship caused by dishonest factors in society through strong and effective laws, and they should be respected in the sense of fulfillment of all socio-economic rights. The parliamentary of Bangsamoro must also control institutional and other misconducts.
- 4) The establishment of Islamic financing industry in Bangsamoro must take advantage of opportunities, namely by providing innovative products based on Information and Communication Technology (ICT) to provide a variety of options and expand the reach of the public. However, until now Islamic financing products innovation is still very limited. In addition, another thing that is important to support the development of Islamic Financing in Bangsamoro is to take advantage of economic growth opportunities, and increase the availability of funds. By utilizing these

opportunities, the establishment of Islamic financing industry in Bangsamoro can grow and competitiveness.

- 5) It is further recommended for the need of Judicial System in the BARMM and in the High Court and District Court. Additional recommendation is for the Supreme Court to have representatives who are truly knowledgeable in the Qur'an and Sunnah of the Prophet Muhammad (S.A.W.), and in English or Secular law, those who are both cognizant in the areas of learning and teaching in both fields.

Finally, an emphasis on the establishment of Islamic Windows, Islamic Banking, Islamic Insurance, Islamic Cooperatives, Islamic Pawnshop and others in the recommendation of the incorporation of Islamic Finance in expanded Code.

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