

Sukuk Financing: A Viable Strategy to Finance the Recovery and Rebuilding of Marawi after the Siege

Abdulcader M. Ayo, Atty. Saaduddin M. Alauya Jr. and Minombao Ramos-Mayo
Mindanao State University, Marawi City, Indonesia
www.msumain.edu.ph

Keywords: Sukuk Financing, Viability, Strategy, Recovery, Rebuilding.

Abstract: This study aimed to determine the perception of Internally Displaced Persons (IDP's) who are professionals and Ulama in Marawi City with regards to Sukuk Financing, a viable strategy to finance the recovery and rebuilding of Marawi City after the Siege. The study made use of Cross-Sectional survey research design and utilized qualitative descriptive Approach in the interpretation of data gathered. Purposive sampling was used in selecting and limiting respondents to 400 who were provided answer to the survey questionnaire. Based on the gathered data of this study, the researchers arrived at the following findings: (1) The respondents of the study acknowledged positively that Sukuk Financing is more accommodating to them as compared to conventional bond. This is so because respondents believed that Sukuk is a Sharia-Compliant transaction. Likewise, respondents were convinced that Sukuk provides liquidity to the investors, rating agencies, lead arrangers, or financial market as well as it allows corporations to have direct access to funds. Thus, the study results led the IDP's to believe that Sukuk can be a viable strategy for the fast recovery of the people of Marawi City. These people can acquire certificates which reflect participation rights in an underlying asset which they will involve themselves. (2) Moreover, the respondents also have positive responses on the underlying concepts on key practice developments associated with Sukuk Financing towards building an efficient corporate Sukuk Market, in driving growth and helping finance infrastructures in several market in the world particularly the Philippines that can be adopted for the recovery and rebuilding of Marawi after the Siege. (3) Lastly, the respondents strongly agreed on the challenges and problems that may be encountered on establishing a Sukuk Mechanisms in terms of Muslim Cultural Heritage, Sharia Compliant and Sourcing of Monetary Support. Thus, from the findings of this study, the following recommendations provide direction for reform in response to the problems: (1) With the positive responses of the respondents, it is recommended to have the Sukuk Financing in the Philippines, and/or from Sukuk Financing institutions in abroad through BARMM initiative as a viable strategy to finance the recovery and rebuilding of Marawi City and for sustainable growth after the Siege. (2) Also, it is recommended to make use of the key practice development concepts in building an efficient corporate Sukuk Market which can be adopted for the recovery of Marawi (3) Lastly, it is recommended for all Muslims in the Philippines to support the implementation of Islamic Finance. This will surely help the country in solving problems associated with global industry, halal marketing and Islamic financing.

1 INTRODUCTION

Many educators and scholars at present unanimously believe that the structure of Sukuk is a viable strategy to finance sustainable development. It is always posited that the utility of the Structure of Sukuk is beneficial to the economy as a source of funds from new diverse investor base in financing development especially for third world developing countries like the Philippines. In addition, industry leaders and professionals had a high expectation

on structuring and marketing corporate Sukuk as an alternative project financing tool for infrastructure project.

On the basis of that premise, the Philippine government should consider the use of Islamic finance-backed scheme to raise funds for the fast recovery and in rebuilding Marawi City which has been severely damaged in the five months' violent clashes between the Philippine Army and Islamic State (IS)-linked terrorist groups. Such a scheme should allow reconstruction efforts mindful of the Muslim culture and Heritage of the City, and would

also open channels for monetary support and participation from Muslim countries like the Middle East and Malaysia. Destruction in Marawi City is now substantial as lot of buildings and large parts of the infrastructure lie ruined until now after two years. Around 400,000. Civilians are believed to have been displaced until at present.

Sukuk structuring where the legal right is conferred on the trustee and the beneficial right is given to the Sukuk holders on a basis of trust. There are types of Sukuk structures such as: asset-based sukuk structure, asset-backed, and a “passthrough” asset-based Structure.

2 REVIEW OF LITERATURE

Graduation Model. According to this model, in the fight against poverty, graduation models are gradually taking stage. These models involve a series of interventions that, when provided successively, are expected to reduce poverty.

One complex graduation model is the Challenging the Frontiers of Poverty Reduction: Targeting Ultra-Poor (TUP) model of BRAC, which utilizes a ladderized design (asset transfers, stipend, training, healthcare, and community mobilization) for the graduation of ultra-poor beneficiaries in a span of two years. 8 BRAC’s activities prior to the creation of the TUP have only benefitted the “middle” poor and not those who need the assistance the most (BRAC, 2013). The TUP model was then created in 2002 out of the initiative to help the ultrapoor in Bangladesh to graduate into a more stable economic and social situation; the ultra-poor are defined as households (1) with less than ten decimals of land; (2) which get their income from being beggars and day laborers, and/or from domestic aid; (3) with no productive assets; (4) whose school-aged children take up paid work; and (5) without an active male adult household member (Yasmin, n.d.). 9 BRAC targets these individuals through: (1) geographical area selection and (2) household selection. The geographical area selection involves identifying areas and specific villages with high ultra-poverty incidents, and conducting a survey. Meanwhile, the household selection involves a participatory rural appraisal (PRA) where the communities identify its poorest members, which is validated through the conduct of a door-to-door mini survey. Selected households are provided with weekly income stipend, asset transfers (e.g. cow, goat, etc.), training to capacitate them in increasing

the asset’s value, healthcare, and community mobilization.¹⁰

The households are also coached weekly by BRAC program organizers in health and financial aspects. The final months of the program are allotted to confidence-building. In 2015, a total of 1.6 million households in Bangladesh have been reached through the TUP program (Balboni et al., 2013). Overall, the initial outputs and outcomes of the TUP Program based on impact assessment are positive. Rabbani et al. (2006) have found that compared to nonparticipant ultra-poor households, the selected TUP households are: (1) more likely to have more assets regardless of those provided by BRAC, (2) more likely to have taken a loan, (3) more likely to be correctly informed about laws compared with nonparticipant households, (4) with larger incomes, (5) with fewer food shortages, and (6) almost certainly with savings. Likewise, Balboni et al. (2013) have found that there is an increase in earnings by 37% and an improvement in the consumption, savings, and asset accumulation of the targeted households.

2.1 Labor Market Programs and Social

Safety Net Programs Aside from the already mentioned graduation policies programs, there are those which integrate labor market policies (LMPs) with social safety net programs (SSNPs) ideally to reduce poverty. The combined effects of the SSNPs and LMPs to poverty in the long run are yet to be seen. Nevertheless, it can be said that the added value of LMPs to SSNPs could bring them even closer to reaching the poverty threshold. Getting employed would provide additional income to the beneficiaries on top of the incentives provided to them by the social safety net policies (e.g. cash grants). Additionally, the LMPs could lessen the risk of beneficiaries being too dependent on the incentives provided by the SSNPs. The key, therefore, is to find effective labor market policies which would result in an increase in employment among SSNP beneficiaries.

2.2 SLP Results Chain

The rationale for the SLP is taken from both the graduation model and labor market programs with social safety net. This can be presented in a results chain showing the inputs, activities, outputs and outcomes of the program and how these components are linked together. The results chain as provided in DSWD form was revised to reflect more accurately

the relationship of inputs, activities and outcomes based on program concept and field observation on program implementation. Funds are utilized for training and other employment support to the target participants. The personnel, meanwhile, are major players in guiding the projects towards the achievement of targeted outcomes.

Results chain of the Sustainable Livelihood Program particularly indicates that among the main activities are developing protocols for partnerships, project review, and project approval. Additionally, the activities to be conducted include developing targeting and partnership mechanisms. The outputs produced by these activities include the protocols, and the offer of partnerships and services. When clients and stakeholders respond to offers, the immediate outcomes would then include (1) partnerships formed with the other stakeholders coming from both the public and the private sector; (2) submitted, reviewed, and approved projects primarily for the MD track; (3) accessing of assets by the SLP participants; and (4) utilization of services by the participants. The immediate outcomes would lead to the intermediate outcome of SLP participants engaging in livelihood and/or jobs in the short-run. Ideally in the long run, the participants would already be engaging in sustainable livelihood and/or gainful jobs which would contribute to an improvement in the economic sufficiency of poor families.

2.3 Equity Financing and Debt Financing in Islam

Razi Pahlavi (2018) in his lectures to MSU officials crash program on Islamic Finance short course, he had explained that there are two Financial Financing (Equity Financing and Debt Financing in Islam) that can be utilized in on financial activities. He further explained the component of Islamic Financial System in which one of it is Capital Markets that involved Sukuk and equity.

2.4 Methodology

This study aimed to determine the perception of Internally Displaced Persons (IDP's) who are professionals and Ulama in Marawi City with regards to Sukuk Financing, a viable strategy to finance the recovery and rebuilding of Marawi City after the Siege. The study made use of Cross-Sectional survey research design and utilized qualitative descriptive Approach in the interpretation of data gathered.

The Purposive sampling and stratified random sampling were utilized in the study to get the respondents of the study. It is purposive because the respondents were selected professionals and Ulama from the 39 municipality and one city of Lanao Del Sur as well as the Provincial Development Council. The study result was also validated by select members of the Provincial Development council of Lanao del sur. Ethics consideration was also done by asking respondents who willingly participate in the study to fill up an informed consent form.

The Schema for the low of the conceptual framework is shown below (Figure1).

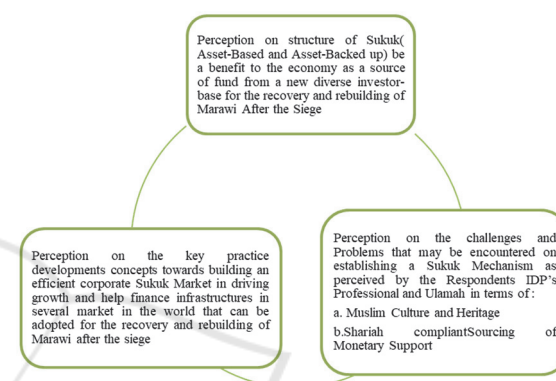


Figure 1: Schema for the low of the conceptual framework.

3 RESULTS AND DISCUSSIONS

The results show that more than a majority (70%) of the respondents select Ulama and professional in Lanao del Sur have a strong conviction that the recovery and rebuilding of Marawi City after the siege can greatly benefit to the economy if the structure of Sukuk particularly asset based and Asset-backed sukuk structure can be utilized as a source of fund from a new diverse investor –base. This was supported by Osman Sacarcelik in his article entitled, “ Overcoming the Divergence Gap Between Applicable State Law and Shariah Principles: Enhancing Clarity, predictability an Enforceability in Islamic Finance Transaction Within Secular Jurisdiction as cited Umar A. Oseni (2015) when he stated that, “ Asset-based Sukuk is a viable financing solution for corporations and Banks who are unwilling to dispose of their Physical assets by way of true sale to an SPV, inter alia due to risk management considerations. From an investor’s perspective, asset- based Sukuk is a Shariah compliant alternative bond. The Sukuk holder generally has no asset risk but credit risk”.

Another important finding is that a vast majority (87%) of the respondents select Ulama and professional in Lanao del Sur also opine that the practice of Malaysia towards building and Efficient Sukuk Market in driving the growth and help finance infrastructure is worth emulating and highly recommended to be adopted for the recovery and rebuilding of Marawi after the siege. Further, Marawi City Local Government Unit may want to benchmark some best practices of Islamic Countries in the world on Sukuk Structures Scheme to be adopted in the recovery and rebuilding of Marawi City. Again Umar A. Oseni (2015) article emphasized on AAOIFI standard gives preferences for equity-based Sukuk structures as the best for investors because it is Shariah compliant transaction. Likewise, also a very critical finding arrived that more than a majority (88%) of the respondents select Ulama and professional in Lanao del Sur forwarded that there is really challenges and problems encountered in adopting Islamic Debt Sale –Based Financing and the rebuilding of Marawi City after the siege. It is because of the low level of Islamic Legal documents knowledge and understanding among the people of the area coupled with the absence of Islamic Finance legal Framework in the place.

4 CONCLUSIONS

Based on the gathered data of this study, the researchers arrived at the following findings: (1) The respondents of the study acknowledged positively that Sukuk Financing is more accommodating to them as compared to conventional bond. This is so because respondents believed that Sukuk is a Sharia-Compliant transaction. Likewise, respondents were convinced that Sukuk provides liquidity to the investors, rating agencies, lead arrangers, or financial market as well as it allows corporations to have direct access to funds. Thus, the study results led the IDP's to believe that Sukuk can be a viable strategy for the fast recovery of the people of Marawi City. These people can acquire certificates which reflect participation rights in an underlying asset which they will involve themselves. (2) Moreover, the respondents also have positive responses on the underlying concepts on key practice developments associated with Sukuk Financing towards building an efficient corporate Sukuk Market, in driving growth and helping finance infrastructures in several market in the world particularly the Philippines that can be adopted for

the recovery and rebuilding of Marawi after the Siege. (3) Lastly, the respondents strongly agreed on the challenges and problems that may be encountered on establishing a Sukuk Mechanisms in terms of Muslim Cultural Heritage, Sharia Compliant and Sourcing of Monetary Support. Thus, from the findings of this study, the following recommendations provide direction for reform in response to the problems: (1) With the positive responses of the respondents, it is recommended to have the Sukuk Financing in the Philippines, and/or from Sukuk Financing institutions in abroad through BARMM initiative as a viable strategy to finance the recovery and rebuilding of Marawi City and for sustainable growth after the Siege. (2) Also, it is recommended to make use of the key practice development concepts in building an efficient corporate Sukuk Market which can be adopted for the recovery of Marawi. (3) Lastly, it is recommended for all Muslims in the Philippines to support the implementation of Islamic Finance. This will surely help the country in solving problems associated with global industry, halal marketing and Islamic financing.

ACKNOWLEDGMENTS

The researchers were very appreciative and recognized the contributions of several individuals and institutions who were involved in the study especially President Habib W. Macaayong, DPA and the entire officialdom of MSU Marawi for his encouragement in supporting this endeavor. Thank you all very much.

REFERENCES

- Alhabshi, S. (2018). Accounting for Islamic Financial Services. *Al-shajarah Journal*. 2015
- BaBankoff, G. (2007). Dangers to Going It Alone: Social Capital And The Origins Of Community Resilience In The Philippines. *Continuity and Change*, 22(02), pp.327-355.
- Bakar, M. D. (2016). Shariah Minds in Islamic Finance.
- Balboni, M. J., Sullivan, A., Amobi, A., Phelps, A. C., Gorman, D. P., Zollfrank, A., et al. (2013). Why is spiritual care infrequent at the end of life? Spiritual care perceptions among patients, nurses, and physicians and the role of training. *Journal of Clinical Oncology*, 31(4), 461-467. doi:10.1200/JCO.2012.44.6443
- Barton, Allen H. (1969). *Communities in Disaster: A Sociological Analysis of Collective Stress Situations*.

- Garden City, New York: Doubleday and Company, Inc.
- Baum, J. A. C., T. J. Rowley, A. Shipilov, H. Rao and H. R. Greve (2003), "Competing in groups," *Managerial and Decision Economic*. "
- BRAC (2013), Annual Report 2013. Bangladesh: BRAC Centre
- El-Asher, A. and Wilson R. (2006). *Islamic Economics A Short History*. Clearance Center, 222 Rosewood Drive, Suite 911, Danvers MA 01923, USA: Hotei Publishing, IDC Publishers, Martinus Nijhoff Publishers and VSP.
- Gineva, K. and Hamid A. (2015). *Property Finance An International Approach*. United Kingdom: John Willey and Sons Ltd, The Atrium, Southern Gate, Chichester, West Sussex, P0198SQ.
- Ketell, B.. (2011). *The Islamic Banking and Finance Workbook*. United Kingdom: John Willey and Sons Ltd, The Atrium, Southern Gate, Chichester, West Sussex, P0198SQ.

