

Islamization Issues In The Philippines From Economical Aspects: Islamic Banking and Halal Food

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ABSTRACT

The coming of Islam through Islamization in the Philippines gave a chance for revival of Islamic philosophy as important agendas of Muslim society, making the issues relevant to be discussed and studied for the sake of knowledge development. This paper aims to determine the contemporary issues on economical aspects mainly in Islamic banking and halal food upon the Muslim societies as a result of Islamization in the Philippines. This research highlights the history of the existence of Islamic Banking and halal food industry in the Philippines, the implementation and some important reports on the current practices. A library research approach is applied in this study which mainly involved the contents critical analysis based on contemporary issues regarding economic development. Research findings have shown that Islamic banking was implemented to liquidate *riba* practices and establishments of halal food policy as a part of Islamization impact in the country.

Keywords: Islamic Banking, Challenges, Republic Act No. 6848, Halal Food

ABSTRAK

Kedatangan Islam melalui pengislaman di Filipina memberi peluang untuk kebangkitan semula falsafah Islam sebagai agenda penting dalam masyarakat Islam, menjadikan isu-isu ini relevan untuk dibincangkan dan dikaji demi perkembangan ilmu. Kertas kerja ini bertujuan untuk meneliti isu-isu semasa berkaitan aspek ekonomi terutamanya perbankan Islam dan makanan halal terhadap masyarakat Islam sebagai kesan daripada pengislaman di Filipina. Kajian ini mengetengahkan sejarah kewujudan perbankan Islam dan industri makanan halal di Filipina, pelaksanaan dan beberapa laporan penting mengenai amalan semasa. Pendekatan penyelidikan perpustakaan digunakan dalam kajian ini yang melibatkan analisis kandungan secara kritikal berdasarkan isu-isu semasa mengenai pembangunan ekonomi. Hasil kajian telah menunjukkan bahawa perbankan Islam telah dilaksanakan untuk memansuhkan amalan *riba* dan pertubuhan polisi makanan halal sebagai sebahagian daripada kesan Islamisasi di negara ini.

Kata kunci: Perbankan Islam, Cabaran, Akta Negara No. 6848, Makanan Halal

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Introduction

Islamization process in the Philippines begun since 13th century before the time of Spaniards era. At first place, Islamization in the Philippines because of the coming of Arab merchants as traders at the same time their main objective was to fulfill their obligation on Islam as it was commanded in the Holy Quran chapter 3 verse 104. It is supported by the discovery of a tombstone on the slope of Bud Datu of Jolo. Issues of Islamization in the Philippines face a lot of difficulties especially related to the Islamic da'wah activities which involve many aspects such as social, economy, politics, education, laws, values, knowledge and so on. According to Mohd Yusof Hussain (2006) concludes Islamization is to systematically move from the Western ontology and epistemology to the Islamic ontology and epistemology in an attain certainty of the truth about concepts, principles, ethics, models and theories. Sometimes instead of using the term Islamization, other words in place such as desecularization, dewesternization, desacralization, resacralization and integration of holistic knowledge.

Based on the idea given by Mohamed Aslam Haneef (1997) in his article entitled, "Islam, the Islamic Worldview and Islamic Economics", stated that correct understanding of the fundamental elements in the Islamic economic vision is a pre-requisites for the development of Islamic economics. The main problems of Islamization in the Philippines are the government biased policies in establishing a conducive Islamic environment in order to advance the message of Islam in entire people in the whole country. From the economic development, Islamic banking system and halal food policy went through some stages of Islamization before being implemented within the country. Banking is one of the main support and backbone of country economic income and none is able to escape from banking system which offers *riba* policy (interest). Therefore, one way to escape from unlawful act such as *riba* (interest) from the Islamic perspective, then it is necessary to Islamize the banking systems in the country. However, the Islamic banking in the Philippines are still unknown to the Filipinos especially Christian society. This might be driven by the lack of publicity due to high cost, lack of support from the secular government of the Philippines, limited branches, and unaware of the existence of Islamic banking among the Filipinos.

The essential feature of Islamic banking is that it is interest-free. Although it is often claimed that there is more to Islamic banking, such as contributions towards a more equitable distribution of income and wealth, and increased equity participation in the economy (Chapra 1982). It nevertheless derives its specific rationale from the fact that there is no place for the institution of interest in the Islamic order. Islam prohibits Muslims from taking or giving interest (*riba*) regardless of the purpose for which such loans are made and regardless of the rates at which interest is charged. To be sure, there have been attempts to distinguish between usury and interest and between loans for consumption and for production. It has also been argued that *riba* refers to usury practiced by petty money-lenders and not to interest charged by modern banks and that no *riba* is involved when interest is imposed on productive loans, but these arguments have not won acceptance. Apart from a few dissenting opinions, the general

consensus among Muslim scholars clearly is that there is no difference between *riba* and interest. In what follows, these two terms are used interchangeably. The prohibition of *riba* is mentioned in four different revelations in the *Qur'an* (*al-Rum:39; al-Nisa':161; Ali 'Imran: 130-132; al-Baqarah: 275-281*).

The needs to exert extra effort in the economic development is highlighted by the halal food policy in the present situation in the Philippines as a whole to pursuit harmony among different faiths. This is supposedly to be made as one of the government priority programs because of their business foresight and religious sensitivity. In fact, according to Merican (1995) the Halal products should be recognized as a symbol of cleanliness, safety and high quality. Meanwhile, it is the realm of business and trade and become a global symbol for quality assurance and lifestyle choice (Lada et.al. 2009). This religious issue which is a viral in the Philippines stating that the government should not support the construction of halal industry, because it is a religious activity of the Muslims community. Further, it is proven in some non-Muslim countries, Halal transcend beyond religious obligation (Abdurajim, et.al. 2014). Due to this misconception, the author believes that the only way to preserve the Islam and the homeland of Muslims Filipino in the Philippines are no other than Islamization through economic development in the whole country. Thus, this study highlights the history of the existence of Islamic Banking and halal food industry in the Philippines, the implementation and some important reports on current the practices.

Research Methodology

This study embarks on specific objectives to be analyzed through a library research approach which mainly involved the contents critical analysis based on contemporary issues regarding economic development in the Philippines. This study covers the background, existing knowledge and understanding of the research aspects, conclusion and recommendation section.

Research Findings

The Existence of Islamic Banking In The Philippines

The elementary concepts of modern Islamic banking date back to the mid 1940s. Models for Islamic banking appeared in the mid-1950s, but comprehensive and detailed concepts for interest-free banking only appeared in the late 1960s (Siddiqi 1981: 29-31). The second Islamic Conference of Foreign Ministers in 1973 adopted a document on the Institution of an Islamic Bank, Economics and Islamic Doctrines. In 1974, the Islamic Development Bank was established as a result of this conference. The member states of the OIC became members of the IDB. Later, the IDB helped to establish a number of Islamic banks in various countries (Siddiqi 1988). It was primarily an inter-governmental bank aimed at providing funds for development projects in member countries. The IDB provides fee-based financial services and profit-sharing financial assistance to member countries. Its operations are free of interest and are explicitly based on (Mohamed Ariff 1988).

The seventies and eighties of the present centuries has witnessed the emergence of a number of Islamic banks and financial institutions whose modes of operation are distinct from those of conventional banks. The establishment of these institutions is one of the several manifestations of the back of religion movement which is fast gaining strength in present day Muslim societies (Abulhasan et. al 1991).

The Philippine Amanah Bank (PAB) was established in 1973 by Presidential Decree as a specialized banking institution without reference to its Islamic character in the bank's charter. The establishment of the PAB was a response by the Philippines Government to the Muslim rebellion in the south, designed to serve the special banking needs of the Muslim community. However, the primary task of the PAB was to assist rehabilitation and reconstruction in Mindanao, Sulu and Palawan in the south. The PAB has eight branches located in the major cities of the southern Muslim provinces, including one in Makati (Metro Manila), in addition to the head office located at Zamboanga City in Mindanao. The PAB, however, is not strictly an Islamic bank, since interest-based operations continue to coexist with the Islamic modes of financing. It is indeed fascinating to observe that the PAB operates two 'windows' for deposit transactions, i.e., conventional and Islamic. Nevertheless, efforts are underway to convert the PAB into a full-fledged Islamic bank (Mastura 1988).

In 1988, the charter of the Al Amanah Islamic Investment Bank of the Philippines was also drafted. By this time, the Philippine Amanah Bank was already perceived to be a total failure. Actually, it was already bankrupt. To abolish and replace the PAB with a Sharia' compliant bank, a special law, Republic Act No. 6848 was enacted in 1989. In the formulation of this law, the international Muslim bankers were consulted. Dr. Abdullah Omar Nasseef, then Secretary General of the World Muslim League, was among those consulted. Prominent Muslim bankers like Shaykh Hassan Kamel and the Al Baraka Group had also been asked for advice. The enactment of RA 6848, the charter of the Al Amanah Islamic Investment Bank of the Philippines was a very important development in the area of international banking. On January 26, 1990, President Corazon C. Aquino signed into law R. A. No. 6848, otherwise known as the Charter of the Al Amanah Islamic Investment Bank of the Philippines. On June 25, 1991, I was designated by the office of the President of the Philippines to organize this bank pursuant to the provisions of its charter. Republic Act No. 6848 repealed Presidential Decree No. 264, the charter of the Philippine Amanah Bank. Hence, this old bank was abolished. The services of its board of directors and all its employees were not terminated outright but they were reclassified by section 49 of the new law, RA 6848, to continue as personnel compliment "in the interim" until the Islamic Bank shall have been properly organized (Dimapunong 2009).

The Islamic Bank is a chartered bank. This means that its Articles of Incorporation is not a mere agreement among corporators and incorporators. It means that the charter is a law, i.e. RA 6848. In the Philippines, there are only two banks with charters of their own. These are: 1) *The Bangko Sentral Ng Pilipinas* (Central Bank of the Philippines) that is chartered by the New Central Bank Act, RA 7653, and 2) the Al Amanah Islamic Investment Bank of the Philippines

that is chartered by RA 6848. Like other legislative acts, charters have the full force of the law. Violation of the Central Bank Act is a violation of law. In like manner, violation of the charter of the Islamic Bank is a violation of law. No one is exempted from the law, not even the governor of the *Bangko Sentral*. The Islamic Bank charter shall remain to be a law even now that the Islamic Bank has been privatized. This is an explicit official opinion of the Secretary of Justice in the Philippines [Opinion No. 42, Opinion of the Secretary of Justice 2001. Confirmation that RA No. 6848, the Charter of Al-Amanah Islamic Investment Bank of the Philippines (Islamic Bank), remains in effect if the bank is privatized, unless said law is repealed by Congress]. This is another guarantee to the stockholders, domestic and foreign investors (Dimapunong 2006).

a. Approval of Republic Act No. 6848

The Republic Act 6848, the charter of the Al Amanah Islamic Investment Bank of the Philippines was very important development in the area of national banking. It is believed to be a model legal framework for Islamic banking and finance that could be adopted by other countries. The principles of Islamic banking now reverberate not only in the global banking industry but also in many sectors of the business world and some academies of higher learning. The charter of the Islamic Bank provides for a Sharia' Advisory Council (SAC) to review transactions of the bank in accordance with the *shari'ah* standards. The law also provides that the Board of Directors shall sit as a Board of Arbitration to settle intra-corporate disputes among shareholders and investors. To implement this mandate, the Board of Directors was authorized by this law to set the rules and procedure that it shall follow in the arbitration while the Monetary Board was mandated to formulate the rules and regulation (Dimapunong 2006).

Conducting of Islamic banking operations in consonance with *shari'ah* principles which includes profit-loss sharing, sale and purchase, fee-based, free service and ancillary service. Its characteristics are prohibits interest or a fixed pre-determined rate of return or *riba*, prohibits the undertaking or financing of antisocial and unethical businesses such as gambling, prostitution, alcoholic liquor, nightclubs and narcotics. Lastly, the most important thing is it requires compliance with *shari'ah* (based on equitable distribution of wealth).

b. Major Challenges of Islamic Banking in the Philippines

The major challenges of Islamic Banking in the Philippines includes lack of a clear legal and regulatory framework for Islamic banking and finance which laws are not able to anticipate the need for a system engaging many Islamic banking players, Republic Act No. 6848 is limited to Al Amanah Bank only, tax laws and regulations create tax disparities which Islamic finance products are subject to more taxes and become more costly. Second, lack or scarcity of experts on Islamic banking and finance in the Philippines- regulators and industry alike. Third, lack or very low investor awareness and acceptance of Islamic banking. Lastly, lack of clear information on demand for Islamic banking products in the Philippines (Ala 2014).

In addition to that, according to Tetangco Jr (2014) stated that in creating a truly responsive system of Islamic banks, from a Central Bank of the Philippines standpoint, certain principles will be important. First, the system must allow for a critical mass of market players under a competitive but well regulated environment. The public must be provided with appropriate choices to suit their risk appetite and financial needs. Second, appropriate linkages, including inter-bank markets that cater to the unique characteristics of Islamic banking, must be present. Third, the regulatory and supervisory framework must encourage a level playing field where the Islamic banking system can operate alongside conventional banking. There must be a coherent, consistent and comprehensive set of regulations and standards that would appropriately apply to all banks. In other words, the privileges that are available for conventional banks must also be available to Islamic banks. In the same vein, the prudential requirements that cover conventional banks, must also apply to Islamic banks. The design and implementation of standards, of course, would need to take into account, the particular characteristics of Islamic finance. Fourth, the regulatory environment must encourage the provision of innovative products and services to address the distinctive needs of Islamic finance. Islamic financial players should be encouraged and not inhibited from introducing Islamic finance products. The regulatory framework could consider the substance of the Islamic products, assess the economic risks involved and use that assessment as basis for regulation. To support this approach, the system must allow for the development of a pool of experts on Islamic finance. Lastly, the regulatory framework must help build a broader customer and asset base by increasing investor awareness and acceptance, while ensuring consumer protection.

Development of Halal Food In The Philippines

In order to institute peace and assurance of life and property, to organize humans into ordered society capable of producing, processing, storing and distributing food to all in adequate quantities and quality, to provide shelter, warmth and comfort communication, to build and make the foods available, to realize these goals and, finally to furnish these opportunities for education and self-realization, for recreation and aesthetic enjoyment (Siddiqi 1988).

The formative event on Halal in the Philippines (HP) began in 1998. From then, numerous approaches and programs had been designed. Along the way, there were hurdles have had encountered that cause the realization of Halal stagnated. Few years after the Republic Act 9997 were created to replace the Office on Muslim Affairs with the National Commission on Muslim Filipinos. One of the mandates of this agency is to empower and support the halal programs in the country. As a country showing interest in Halal Industry, the Philippines through its agencies had crafted the Philippines National Standards. The creation of these standards evidently to guide all stakeholders in the Halal food production particularly the farmers and the Halal certifiers (Abdurajim, et.el. 2014).

Local Government Unit (LGU) is one of the important players in the promotion of Halal in the Philippines. As it has the power to legislate Halal ordinance and make use of it for the benefit

of all concerns. Through Halal ordinance, the malpractice of using signage, recently rampant in most cities in Mindanao, in the carenderias, restaurants and manufacturers can be stopped. Thus, there will be no business sectors counterfeiting the Halal logo. In return, those business want to get halal certification from the Halal certifier are obliged to pay their taxes the moment they apply for it. Although, there are numerous benefits that Halal can offer to us, the most important of all through this the inter-relations of cultures will be strengthened (Abdurajim, et.el. 2014).

According to Senator Ramon Bong Revilla Jr., implementing of Halal Act of 2007 is one way of showing the government genuine concern for the safety and welfare of Muslim populace but also our sensitivity as a nation to the desire to unite dl Filipinos (Senate S. B. No. 804, 2007).

a. Putting Up Halal Laboratory Some Part in the Philippines

Department of Science and Technology (DOST), Philippines putting up halal laboratory some part in the country such as Department of Agriculture Region 9, DOST Region 12, and other place in Basilan, Sulu, Tawi-Tawi and the rest of the country which is majority of the population is Muslim (Norodin Kuit 2011).

In line with Republic Act 9997 Sec. (8) Article 2 and in compliance to NCMF Office Order 2012-028 dated February 6, 2012 and in pursuance to the Interim Rules and Guidelines for the implementation of Article II Sec. 8 of Republic Act 9997, the following Halal Accreditation Scheme are hereby installed for the proper and smooth development of Philippine Halal Industry. Halal accredited Islamic religious organizations shall be recognized as bona fide halal certifying bodies. Halal accredited laboratory firms shall be recognized as a bona fide company competent to conduct chemical and ingredient specification test on food or non-food items (National Commission on Muslim Filipinos 2012).

b. Challenges of Halal Food in the Philippines

Despite, halal in the Philippines also has plenty of challenges. There is a religious issue which is viral to the society few months ago that the Government should not support the industry, because it is a religious activity of the Muslim. Further, it is proven in some non-Muslim countries, Halal transcend beyond religious obligation (Abdurajim, et.el. 2014). In fact, according to Merican (1995) the Halal products should be recognized as a symbol of cleanliness, safety and high quality. It is the realm of business and trade and is becoming a global symbol for quality assurance and lifestyle choice (Lada et.al. 2009).

In the national setting, the challenge on Halal is laid on the question which government agencies that have the capability to bring this industry at par with other ASEAN member countries. Recently, the National Commission on Muslim Filipinos is being challenged by the Bill 2831 crafted by Senator Cynthia Villar. If this bill approved by the President, automatically, the role of the NCMF on Halal cease. However, the NCMF secretary and other

secretaries in other government agencies have been included on the bill as part of the team to support the Halal industry in the country.

Conclusion

Islam introduced a new theological and ethical view of life in the universe. Islamization is a long process and it needs to elucidate da'wah in the light of al-Qur'an and al-Sunnah to achieve its main goal of creating an Islamic state and community. It is believed by most Muslim scholars that Islamization simply refers to returning back to the al-Quran and al-Sunnah as an absolute source, guidance and a way of living. Islamization in the Philippines went through some stages along with tremendous challenges. The existence of Islamic Banking in the Philippines, which provides Islamic products especially for the Muslim society as stated in Republic Act No. 6848 has shown great achievement for the Muslim Filipinos in particular. Also, the existence of halal food project within the country to maintain religious sensitivity has brought the justice and prosperity for the Muslim society in enhancing their Islamic faiths. The creation of Republic Act 9997 and Halal Act of 2007 are some of the evidence for this purpose. Deeper study of this topic is considered to be an essential effort because it may strengthen the bond of Muslim-Christian relations and ethnic mutual understanding in the country.

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