

Alleviating Poverty in Mindanao through the Creation of Shariah-Compliant Credit Surety Funds: An Empirical Evidence

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Abstract

Mindanao, a Muslim-predominant island, represents 24 percent of the Philippines' population, yet there are no Shariah-compliant financial products offered by any domestic institution. The recently enacted "Philippines' Credit Surety Funds (CSF) Cooperative Act of 2015" offers an alternative financing arrangement for those Micro, Small and Medium Enterprises (MSMEs) experiencing difficulty in financing. The study determines the possibility of creating a Shariah-compliant CSF for Mindanao MSMEs. Further, the study investigates the existing Philippines' Shariah screening methodology for financial products and services and identifies the opportunities and challenges of the Islamization process of the financial product. Lastly, it also aims to offer information to the authoritative body and to industry players regarding domestic Islamic finance market by creating a proposed structure for a Shariah-compliant CSF. Meanwhile, its weakness will serve as preventive measures.

The pursuit of financial inclusion in Mindanao by employing the religious practices of the major inhabitant is one of the key drivers for its economic growth as it will address the peculiarities of the Muslim entrepreneurs. Since it is challenging to pursue peace and growth if the large sector of the society is financially and economically excluded, financial service providers should increase access of those in the informal and underserved economy and encourage support institutions with similar cultural and religious understanding. With the right combination of financial inclusion initiatives tailor fit to their religious beliefs, it is possible for the Mindanao to achieve peace and economic growth, simultaneously.

Keywords: Credit Surety Funds, Shariah, Philippines, Mindanao, Micro, Small and Medium Enterprises

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I. Introduction

The Philippine economy has experienced sustained and high growth as it grew by 6.5 percent in the second quarter of 2017. However, amidst economic growth, there are still people who are not able to feel the economic gains. As poverty headcount ratio remains high, the Philippines needs to pursue inclusive growth by including financial inclusion as part of the economic agenda. This will result to increase in productivity, reduction in poverty, and enhancement in the overall economic well-being of the country.

Financial inclusion is one of the key drivers for economic growth since it is challenging to pursue economic growth if a large sector of our society is financially excluded from active participation in the economy. Hansl et.al., (2017) noted that "unless there is development in Mindanao, it is hard to see how the Philippines can achieve sustained and inclusive growth."

Islamic finance has been a significant sector of the global economy as it shows unparalleled global success in terms of development, expansion, institutional and product variation. In the study entitled *Leveraging Islamic Finance for Small and Medium Enterprises* (2017), Islamic finance' compound annual growth rate is 17 percent. Hence, it becomes an effective tool to foster positive impact on the Credit Surety Fund (CSF) market as most interviewees emphasized that a Shariah-compliant CSF is essential to the Muslim community because it is suitable as an alternative financing model for Muslim entrepreneurs to engage in formal financial transactions. In an interview, religion-oriented Muslim customers avoided to use the current CSFs neither utilize any conventional financial services to prevent from excessive interest paying. Respondents favor personal loans due to convenience and accessibility.

II. Review of Related Literature

Features of Shariah-compliant CSF

The Need for Encouraging Surety Cover

Based on a working paper by Bank of International Settlements, credit risk is due to either idiosyncratic or systematic risk. Hence, banks and other lending institutions are uncertain to offer credit due to low profitability towards MSMEs' lending, and substantial risks as enterprise owners usually default as they usually lack experience, formal credit data and acceptable collateral among others. As those enterprises need assistance in the expansion, lending institutions seldom tone up their risk assessment. In countries with an underdeveloped financial market, there is a need to encourage access to credit for entrepreneurs and provide a variety of facilities to help entrepreneurs deal with credit risks. This boosts participation of traditional investors and allows microfinance portfolio creation as it is necessary to offer additional comfort through several forms of credit enhancement such as surety cover provision for entrepreneurs.

KPMG (2011) denoted that 80 to 90 percent of customers would not have been able to use credit without the guarantee players' support. If the guarantee scheme refutes a

borrower, lending institutions are unlikely to issue the loan or they tend to enforce harsher conditions, by increasing interest rates and requiring more documentary requirements.

Compared to the traditional lending process, this mechanism lessens transaction costs and increases cost efficiency. It supports MSMEs in enhancing their contribution to the economy. In Malaysia, some firms were not able to get bank financing without the help of the surety guarantee. According to Green (2003), credit guarantee scheme is instrumental to promote private sector growth.

How Does the Philippines Fair?

Bangko Sentral ng Pilipinas (BSP) started the CSF program in August 2008. It serves as a security in lieu of the hard collaterals required by banks, thereby helping MSMEs access to finance. On February 2016, this scheme became a law known as the Republic Act No. 10744 or also known as “The Credit Surety Fund Cooperative Act of 2015.”

As of September 2017, there is forty-nine (49) CSFs established in the Philippines, an 8.9 percent grew from the same period in 2015. As of 2017, Mindanao has the lowest number of establishments with approved loans from CSF, while the establishments in the retail trade industry received the highest number of surety covers as seen in figures 1 and 2.

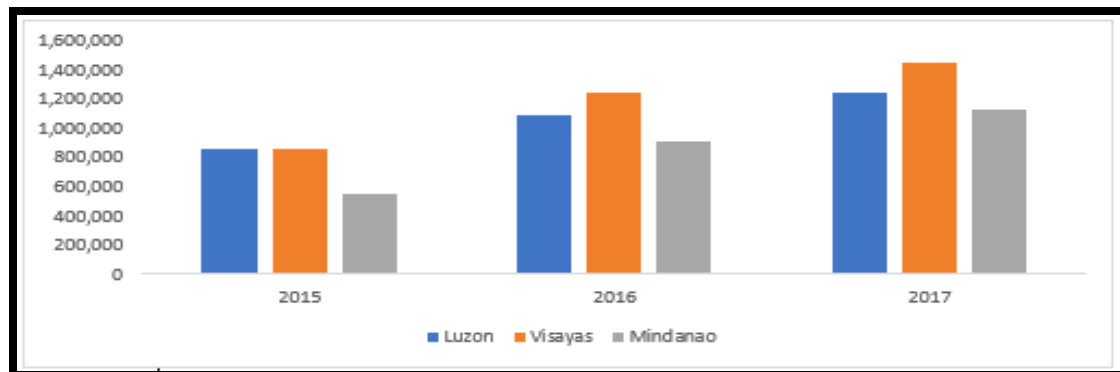


Figure 1: Amount of Approved Loans, Per Major Island (Source: BSP)

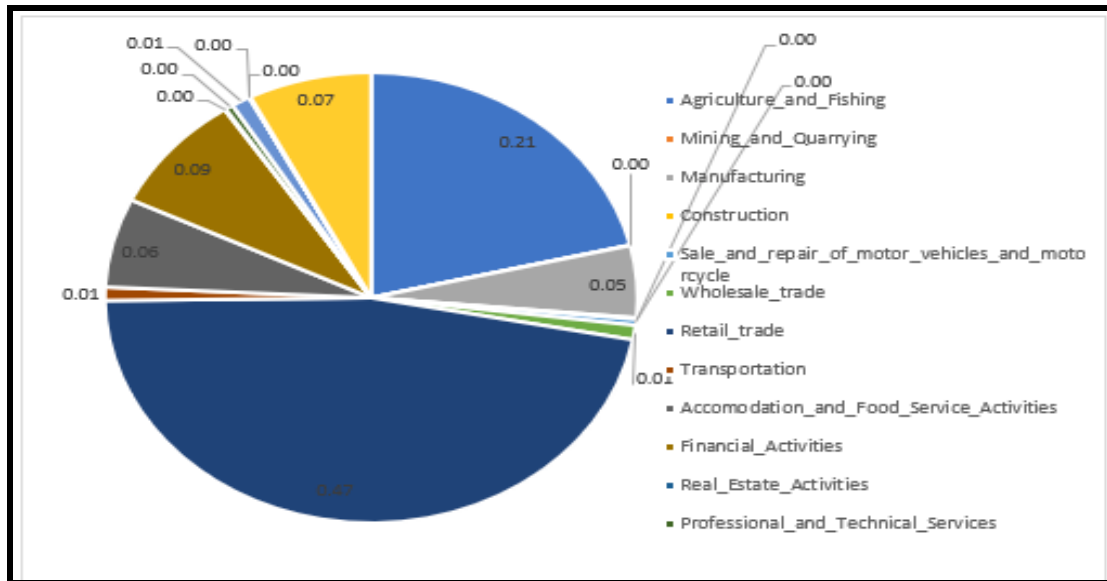


Figure 2: Surety Cover Per Industry, 2017 (Source: BSP)

In 2017, the Philippines' Government Owned and/or Controlled Corporations (GCG) decided to merge the functions public guarantee institutions such as Agricultural Guarantee Fund Pool, Industrial Guarantee and Loan Fund, Home Guaranty Corp., and Small Business Corporation into PhilExim as it will have a primary mandate to facilitate guarantees among enterprises. However, there are no specific programs to promote CSF to Mindanao MSMEs. In Mindanao, the Mindanao Development Authority is in the process of enabling Islamic finance in the region. It recognizes that Islamic finance has a wider context regulatory-wise, instrument-wise, and geographical-wise. A report showed by Allen (2014) showed that Islamic finance will create a satisfactory business and investment climate, surrounding both small and large enterprises.

Features of Shariah-compliant Surety Cover

Islamic finance allows the concept of surety cover as it is permissible in Fiqh under the subject of Kafalah. Rahman (2007) expressed that guarantee provisions are also permitted in Quran and the Sunnah, to wit:

1. "I have misused the bowl of the king and for him who harvests it is (the reward of) a camel load; I will be bound [zaim] for it" (The Quran, 12:72) The concept of *zaim* means *kafil* in Arab and *guarantor* in English;
2. "I will not send him to you until you promise a solemn oath in Allah's Name, that you will bring him back to me unless you are yourselves bounded (by enemies, etc.)" (The Quran, 12:66). The statement infers the meaning of the guarantees. In this situation, Jacob had asked for an assurance for the promise made by Joseph's colleagues to bring Benjamin back to him; and
3. "Before offering a funeral prayer for a dead man, the Prophet asked if the dead man has any debt. The people replied, 'Yes, two Dinars'. Then the Prophet

said, ‘Offer yourselves the special funeral prayer to your friend’. Abu Qatadah stood up and said, ‘O the Messenger of Allah I take the responsibility for paying the two Dinars.’

Moreover, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Shariah Standard No 2/2 has stated that guarantor is suitable and all the governing responsibilities of debtors in default are equally valid to a guarantor’s in default. Moreover, in its Standard No. 5, it specified that guarantees are permissible with regards to contracts of exchange and contracts of property.

On their studies, Al-Zuhayli (2003), Badri & Bouheraoua (2013) and Dusuki (2011) identified that Kafalah has four basic rules and conditions that parties must adhere to in a credit-creditor relationship:

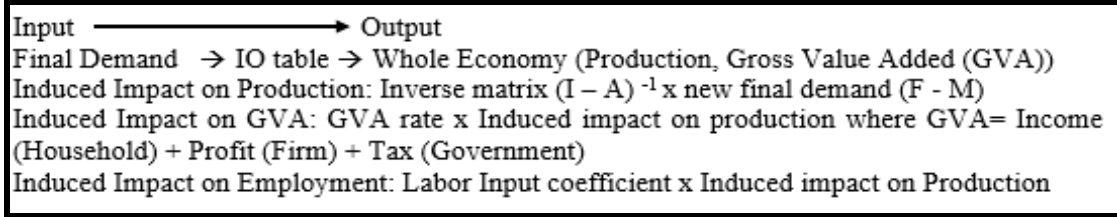
- a. Guarantor- who is of sound mind has legal capacity and freely gives his consent and agreement to the contract.
- b. Debtor- who does not need to have legal capacity and can even be a minor, insane person or a bankrupt.
- c. Creditor- who is known to all parties.
- d. Guaranteed object or asset

III. Methodology

This paper uses objective data from reports and statistics provided by BSP, domestic and international papers, scientific papers and all publicly available documents regarding Islamic finance. The researcher adopted two main approaches in the data collection process; face-to-face questionnaires and interviews. The data collection took place last October 2017 by administering survey for Mindanao entrepreneurs and conducting in-depth interviews with selected financial inclusion advocates. The researcher used the results of interviews conducted in 2016 to interpret the results of the survey. The approach is the most appropriate because it allows the researcher to use the questionnaire and interview together to observe and explain the results.

The input-output (IO) impact analysis as detailed by Miller and Blair (2009) measures economic benefits of Shariah-compliant CSF. In order to measure the economic impact of the possible in nine (9) major sectors in Mindanao that requires attention, it is imperative to derive induced effect resulting from changes in final demand to assess output generated by such surety covers for entrepreneurs belonging to the nine major sectors in Mindanao that need investments. The model shows the interdependence among the sectors, as represented by a set of linear equations that express the balance between total input and output of each good and service produced. Creating a Shariah-compliant CSF will trigger inflows of foreign investments which in turn useful in building necessary infrastructures and business establishments.

Using the IO demand model, the inverse matrix computed from the domestic IO table multiplied by the overall credit amount for MSMEs within the major sectors will yield the overall estimated positive economic impact of those credits.



The decision to create a Shariah-compliant surety cover will depend on the political, socio-economic and religious environment. There are three ways in which religious practices could have a direct impact on providing surety covers. First, it affects the local financing supply decisions. Second, Argyle (2003) and (Myers 2000) denoted that it affects local productivity through religious engagement fostering socialization or in instilling a sense of meaning and purpose, and third, Lamido (2016) showed that it prevents people from tilting towards their natural tendencies of weakness, selfishness, wickedness, and injustice against others in their dealings with fellow human beings and in the pursuit of wealth, its utilization, and distribution. Religious practices in general and Shariah-compliant surety covers, in particular, could encourage many economic outcomes in Mindanao. As such, it is important to briefly motivate empirical investigation in terms of variables that this study will focus on, and of some of the most potential channels of impact associated with them.

IV. Data Analysis and Findings

Demographic Information: The answers in the questionnaire determine the feasibility of creating Shariah-compliant CSFs for Mindanao MSMEs. As seen in table 1 are the demographic information of the respondents:

Table 1: Respondents' Demographic Information

Information	Variables	Frequency (%)
Age	Under 25 years old	0%
	26 years old- 35 years old	11%
	36 years old- 45 years old	55%
	46 years old and order	33%
Education	Primary School	4%
	Secondary School	63%
	Bachelors	12%
	Graduate	20%
	Post Graduate Studies	1%
Gender	Female	15%
	Male	85%
Religion	Muslim	57%
	Catholic	33%
	Others	10%

Table 2: Respondents' Business Details

Information	Variables	Frequency (%)
Classification of your Business	Micro	53%
	Small	33%
	Medium	14%
Years in the Business	0 years- 3 years	53%
	3.1 years - 6 years	34%
	6.1 years and up	13%
Which of the following transactions have you done?	Loans	66%
	Savings	22%
	Payments and Remittance	12%
	Insurance	0%
	Others	0%

Responses with Regards to their Loans

With regards to respondents' financial transactions, 66 percent of the respondents declared that they used to have loans, on which, 56 percent and 20 percent from these respondents informed that the loans were used to expand and sustain the business, respectively. It is worthwhile to note that business contribution in the Philippines reaches to almost 30 percent of the GDP and provides 1 job for every 3 Filipinos. A manifestation that it can facilitate inclusive growth in the country and sustainable development because of its greater attention on the well-being of the community. However, creditors offering microfinance services such as microenterprise loans, micro-agri loans, and microinsurance decreased, primarily due to bank closures, mainly in rural and cooperative banks. As of 4th Quarter in 2016, the total funds credited to micro and small enterprises totaled Php 207.9 billion which has only 3.81 percentage of compliance. This is lower than the 8 percent minimum percent required. Hence, it shows that the number one problem for MSMEs is still their access to finance.

Data from the Philippine Statistics Authority revealed that 66 percent of the business establishments are in Luzon, 16 percent are in Visayas, and 19 percent in Mindanao, in which Luzon and Visayas have eighteen and six accredited financing institutions, respectively, while there are only three for Mindanao. This shows that there are still more investments needed to make the country more financially inclusive.

Respondents' primary considerations in getting loans remain to vary. It is worthy to note that interest rates (11%), loan amount (11%), period to pay (11%), amortization (11%), collateral (11%), processing time (11%) and in accordance to faith (11%) are the primary consideration. Family, relatives, and friends are still the primary source of loans. With regards to the customer reach, it is worthy to note that only 6 percent of the respondents, who had transactions from banks, cooperatives, microfinance NGOs and other government entities, are aware of CSF products. When asked for the primary reason, respondents attributed the instruments' high service fees (31%), and

lack of knowledge (19%). Part of this is due to the hesitation expressed by respondents to deal with conventional banks because of its non-compliance with their religious beliefs (19%). While the conventional banking sector seems generally inaccessible to most respondents, informal lenders and nonbanking institutions, such as microfinance institutions (MFIs) and cooperatives fill the gap.

Respondents were also asked regarding the things that they may want to avail from the lenders. 19 percent would like to get some flexibility in the payment process and provision of the equitable contract while 17 percent would like to find lenders that also considered venture capitals on creating sustainable business compared to the creditworthiness of the borrower.

With regards to their feelings in paying interest using conventional banking, most of the respondents felt guilty due to religious reasons (37%), others felt that it is somewhat a source of exploitation (30%), and others felt that it was just normal to borrow money (19%). All respondents agreed that there is no Islamic financial product available on their place but the potential for the Shariah-compliant financial product in Mindanao is possible as it understands and elucidates the economic problems of society based on the values, norms, laws, and institutions. This result is consistent with World Bank Global Islamic Finance Development Center's findings as it recognizes the economics of Shariah-compliant financing. Moreover, it encourages suitable policies to accelerate the convergence between Islamic finance and MSMEs. Lastly, it contributes to the economic and social development initiatives including financial inclusion in the form of servicing the unserved sectors.

With regards to the idea that a Shariah-compliant CSF will help them in financing, the majority of respondents (97 %) believed that it is possible since they believe that it alleviates poverty, does not exploit customers in any way, and agrees with the principles of fair dealings, justice, and benevolence. Also, it offers viable and competitive financial product and provides investment opportunities aligned with their religious beliefs.

Demographic Information: Interviewees

The main goal of interviews is to strengthen and enhance the answers provided in the survey. The sample size consists of 16 individuals from several groupings: regulators, academician, and entrepreneurs.

Analysis of the Interviews Regarding the Features and Characteristics of a Shariah- Compliant CSFs

A. Is Shariah- compliant CSF in Mindanao feasible?

Three out of four interviewees from the group of academicians declared that there is a comparable Islamic product called Kafalah. It is a key Islamic commercial contract which means to bail, guarantee, warrant or to secure one's need. They also mentioned that anyone may enter into this kind of contract as a guarantor or beneficiary. Hence, permits the borrower to have more chances in access to finance by having a credible underwriter. Interviewees also share that it can serve as an instrument to terminate any

adverse change that may lead to uncertain or unpredictable outcomes with respect to the object or underlying transaction.

Based on Morales (2017), Shariah-compliant surety financial products are feasible in the Philippines. In the legal framework, under the article of 1306 of the Civil Code of the Philippines, contracting parties are free to establish stipulations, clauses, terms, and conditions, as they may deem convenient, provided they are not contrary to law, morals, good customs, public order or existing public policy. This freedom in the contract-making would allow adoption of terms and conditions acceptable and suitable to Shariah.

This section underscores why Shariah-compliant CSF is feasible. Interviewees from the regulator side and literature review listed possible similarities of conventional CSF with the Kafalah, hence denoting feasibility of Shariah-compliant CSF.

1. Both Reduce Collateral Requirements of MSMEs: Both target impact-oriented real economic activities through the use financial resources to satisfy material and social needs of MSMEs. Both give surety cover to its possible client. While Kafalah is open to all borrowers, CSF is predominantly accessible to its MSME-member borrowers only. As both decrease information asymmetry, these financial instruments reduce collateral requirements for MSMEs as both minimize risk, assume in part the credit risk of the borrowers and serve as an alternative security in lieu of the hard collaterals required by lenders. Promotion of these financial products will encourage financial inclusion and safeguard the interest of both lenders and borrowers by ensuring both will fulfill their duties in the most efficient and secure manner.
2. Both Impose Fees: The concept of Kafalah in the current business and finance has evolved substantially. In Malaysia, the credit guarantee facility with a fee for financing granted by Islamic financial institution is permissible. Moreover, late payment charges as determined by both parties (compensation ta'widh) are for the possible loss of the guarantor. Moreover, the endorsing cooperative in the CSF will charge surety fee, in addition to the interest charged by the lender.
3. Both are Credit Guarantee Programs - There are three parties involved in the credit guarantee programs: lender, borrower, and guarantor with each party has different purpose in the transaction; the debtor (the MSME) requires the loan to fulfill the needs of the business, the lender creates profit from the transaction, and the guarantor helps to enable the process between the two parties by charging service fees.

B. Is there an existing Philippines' Shariah screening methodology for financial products?

In the Philippines, there is no central authority in Islamic financing, however, its concept has been present since the official formation of Al Amanah Bank thru Presidential Decree 264. Restructured and reestablished in 1990, it became

Al Amanah Islamic Investment Bank of the Philippines and has undergone improvements in management. It is composed of a five-member Advisory Council whose main duty is to offer advice and accept reviews relating to the claim of the principles and rulings of the Shariah-compliant investments. One of its mandates is to invest seventy-five (75) percent of its total loanable funds for long-term credit facilities to the Muslim-dominated provinces. However, since then, there were no substantial steps taken to boost Islamic finance initiatives. The Philippine Congress has yet to enact a general framework for Islamic financing. For the meantime, this study will take this opportunity to lead and explore the market by studying CSF vis-a-vis with Shariah- principles. When scrutinizing the capital markets, Philippine Stock Exchange has its own steps in Shariah screening process. Conducted by IdealRating, the three-tiered process uses Accounting and Auditing Organization for Islamic Finance Institutions standards such as 1.) business screening, 2.) financial screening and 3.) dividend purification.

What are the opportunities and challenges of creating Shariah- compliant CSF?

The analysis of opportunities and challenges for Islamic finance and Shariah-compliant MSMEs financing use various perspectives to put it into context with the factors related to its economic impacts and innovative financial solutions while serving a growing Philippine Muslim population and their Shariah preferences.

Challenges

1. Unstable Peace and Security: The peace and order situation in Mindanao is affecting the investment decisions of some investors. In an interview with some entrepreneurs, some are already having second thoughts on pushing through with their investments, while others decided to postpone due to fears of being attacked by rebels.
2. Increase in the number of informal lenders- For Filipinos with outstanding loans, almost 10 percent sourced their loans from informal lenders or loan sharks. Hence, underscoring the lack of access as one of the biggest problem among MSMEs. According to Zapata (2006), borrowers are still inclined to get loans from informal lenders due to enticing low nominal rate, as they are not aware with the with the high effective cost implied by the normal rate and less stringent requirements given by informal lenders. This shows that industry should help entrepreneurs make informed decisions through risk sharing, which is one of the characteristics of a Shariah-compliant CSF.
3. Lack of legal and regulatory framework for Islamic Finance-Current laws are not able to anticipate the need for a system engaging many Islamic banking players. Islamic financial institutions face problems in working in non-Islamic countries due to lack of the regulatory body that works with Islamic principles.
4. Limited Muslim Cooperatives- Access to Shariah- compliant organizations remains a challenge, with only .08 percent of reporting registered cooperatives are Shariah- compliant and only .01 percent of the total assets are from

Muslim cooperatives. Shariah-compliant CSF will not attain its main objective if there are few cooperatives which will administer the funds.

5. Absence of secondary markets - The only Shariah-compliant bank in the Philippines has no counterpart to invest its excess funds. Lack of investment instruments affects the country's ability to attract Islamic funds. The BSP does not have a lending or repurchase facility for Islamic investments in the Philippines, regardless of tenor. This means that even if Amanah Bank attracts Islamic deposits or funds, there is no avenue to earn from basic Shariah-compliant investments that are otherwise available to conventional banks. On the other hand, Amanah Bank can opt to invest these funds outside the country, but the required volume of foreign investments is beyond the level that the bank can afford. and;
6. Lack of knowledge in Islamic finance – Lack of knowledge in Islamic finance from both practitioners and clients is a major drawback in creating a Shariah-compliant CSF. There is a dearth of information about Islamic finance among financial industry. In the Philippines, there is a shortage of experts, scholars, experienced bankers, employees who are expert in Shariah to facilitate Islamic finance. Moreover, it also encounters the problem of lack of Shariah law.

Opportunities

1. Facilitate Increase in the number of Muslim investors in Mindanao: In the global scene, investors that own more than 1 percent of financial assets are Shariah-compliant with an expected growth rate of 15-20 percent. Hence, creating a Shariah-compliant CSF will encourage international Muslim investors to invest in the overall local economy of Mindanao as MSMEs will be given more opportunities to grow and expand. Moreover, since 19 percent of all enterprises are in Mindanao and considered in a niche market, more Muslim investors are eager to partake in the financial system. It is one of the things which can be further developed to cater to the growing needs of MSMEs, especially those in Mindanao. In this context, it is very crucial for the financial authorities to satisfy and expand borrowers' and investors' preferences.
2. Encourage Muslim Filipinos in Nation-building: A Philippine-endorsed Shariah screening methodology, allows Filipinos working in Islamic countries to promote investments in the country. The Shariah-compliant CSF will increase the number of takers of CSF in Mindanao, will facilitate equal chance to obtain credit guarantee from CSF subject to business viability and other financial related matters, and will understand the peculiarities of the guarantee structures and their possible strategic developments.
Whether fee or asset-backed, the Shariah-compliant CSF ensures that the transaction is financing real economic activity based on close linkage to the financed assets ensuring less “financialization” in the economy.
3. Provide a framework for the Islamic finance - Develop a Shariah-based regulatory policy with the objective to provide a comprehensive guide to the

Islamic financial industry with respect to end-to-end Shariah compliance. The current authorities should deepen their understanding of Islamic finance.

What is the Estimated Economic Impact?

This basically shows that giving more financial access to MSMEs can increase the final demand in the overall economy due to possible increases in production, economic activities and employment generated. Based on the preliminary estimates, credit investments from a Shariah-compliant CSFs an additional 900 million-peso (17.9 Million US dollars)¹ to the sectors such as corn, coconut, banana, pineapple, coffee, cassava, rubber, poultry, and fishing. It will yield an additional/ incremental output generated or an overall economic impact of an estimated amount of 10.6 billion- peso (210.3 million US dollars).

What Are the Suggestions Needed to Facilitate Shariah- Compliant CSF?

This part shows the minimum requirements and adjustments needed for facilitation of Shariah-compliant CSF. Based on the results of survey, interviews, and literature review, below are the suggestions needed to facilitate Shariah-compliant CSF:

1. Create Shariah Advisory Council: This is a crucial requirement for an Islamic financial institution. There is a need to create a comprehensive governance and oversight framework that will generate an internal policy to ensure that Shariah-compliant CSF has sound business practices and complies with Shariah requirements. There is a need to develop a group of Shariah scholars who could validate transactions as compliant with Shariah principles and rulings. In this way, this also builds regulators' capacity and stakeholders' awareness on products and risks of Shariah-compliant CSFs. Moreover, financial regulators should seriously work to establish a national advisory council where Muslim jurists and economists jointly formulate policies for a financial system based on Islamic Principles in a measured, inclusive and sustainable manner.
2. Develop a Robust Islamic Finance Structure and its Corresponding Legal Framework: The Philippine financial regulators should create an Islamic framework aligned with international standards. These set of laws and guidelines will facilitate creation of Shariah- compliant cooperatives and respect for intellectual property rights and patents to encourage Muslim to invest and Muslim borrowers to access CSF. These include but not limited to better laws, smooth deal screening, high probability of syndication and low chance of default among borrowers. In the Philippines, the framework remains incomplete and has not been emphasized as a guideline for those who aim to market themselves as a Shariah-compliant financial instrument. This would generally spread its benefits to entrepreneurs in Mindanao and cater the expanding and untapped number of Muslim investors.

¹ Average Exchange rate for 2017: 1 US Dollar= 50.40 PhP

3. Form a Monitoring team for All Shariah-compliant activities: This will ensure that all the MSMEs securing CSFs are doing business compliant with Shariah.
4. Create Financial Literacy Programs for Shariah-compliant CSFs: Information sharing in terms of providing educational material, case studies and most importantly, contractual templates and operations manual to follow by smaller financial institutions willing to offer Islamic finance products is imperative. Information and knowledge sharing would also contribute to cross-border experience exchanges and innovation triggered through discussions and elaborations among the financial industry.

Conclusion

Another important factor that can facilitate for Shariah-compliant CSFs is to deepen the understanding of Islamic finance as a facilitator towards asset-based and equity-based financing to serve a wider range of investors and SMEs. This will result in a clear differentiation of Islamic financial products compared with the interest-based conventional products. Furthermore, through financial re-engineering of existing conventional asset-based and equity-based financial products, Shariah-compliance will have a positive implication of serving Muslims and offering a new set of financial products to non-Muslims. Most importantly, these offerings could increase liquidity for MSMEs by being backed by foreign Islamic investors. Examples are found especially with asset-based and equity-based conventional non-banking financial services such as venture capital financing and leasing for instance which are very close to their Shariah-compliant counterparts.

Acknowledgement

There are a limited number of researches conducted with regards to Islamic-compliant Credit Surety Funds. Hence, this paper aims to offer information to the authoritative body and to industry players regarding domestic Islamic finance market.

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