Access to Finance: The Case of Muslim Minority in Southernmost Provinces of Thailand

Background

Access to finance by the poor is one of the world’s biggest problems. The poor people are in no position to increase their income nor improve the livelihoods of themselves or their families. Studies show that poor people in developing countries cannot access the financial market due to lack of information, and contract enforcement problem relating to loan payback. Financial institutions want clients who can provide collateral and lending to the poor may not make a good business case. The majority of poor people in developing countries do not own land or property rights that qualify as collateral and so they are unable to access the financial market.

Another important factor in consideration is strict compliance to religious faith. Muslims who form part of the majority of the world’s poor tend to avoid using financial services due to their strict compliance to religion, as interests which are one of the key features of financial services are not shariah-compliant. At present, many Islamic Banks have been established around the world including in Thailand.

Thailand’s first Islamic financial institution is the Islamic Co-operative of Pattani Limited (ISCOP) founded in 1987, whereas the Islamic Bank of Thailand (ibank) was established in 2003. Currently there are over 42 Islamic cooperatives active in Thailand. (DCA,2012). Meanwhile, Bank of Agriculture and Agricultural Cooperatives, and the Government Savings Bank operate the “Islamic Windows” of financial services. Islamic cooperatives have shown their robust performance, able to expand their services and coverage, contributing to better economic and social well-beings of their members.
Although Islamic financial institutions in Thailand have made great stride in the last decade or so, study into Islamic finance in Thailand is limited. Most studies conducted to date focus on fundamental principles, client’s satisfaction, and management of Islamic financial institutions. These studies indicate that the Islamic Bank of Thailand along with Islamic cooperatives offer a variety of products ranging from savings account, investment account, small-scale credit and other welfare-related services. Clients and members express high satisfaction with the services of Islamic financial institutions. However, there exists a gap of study into the actual needs for financial services for Muslims who are poor for the purpose of strengthening community enterprise, and into requirements to be eligible to get those services which are important factors in evaluating the ability to access by the poor and small enterprise. This research therefore seeks to examine the demand side on one end and on the other hand, rules, regulations and criteria set by financial institutions in Pattani, Yala and Narathiwat.

The study aims to survey the demand for and supply of Islamic financial services in the area with the following objectives:
1) To survey the range of products and services offered by the Islamic Bank, Islamic cooperatives and other financial institutions in the southern border region.
2) To study key criteria these financial institutions require in order to access service.
3) To survey the needs of Islamic financial service by community enterprises supported by ECACS Project.

To achieve the objectives above, the following research questions are posed:
1) What are the Islamic financial products offered by Islamic cooperatives in the southern border provinces?
2) What are required of each type of Islamic financial product?
3) What are the financial products that community enterprises supported by ECACS Project want?
4) What are the barriers to access financial services by these community enterprises?
5) What are the solutions to overcome the barriers/ constraints identified above?
The research applied a mixed quantitative and qualitative method. For quantitative component, the researcher collected data using survey and questionnaire among a sample group totaling 237 individuals from ECACS-supported community enterprises. The qualitative component involves desk review, and interviews conducted along a list of set questions, with representatives of community enterprises and managers of area-based financial institutions.

**Findings**

Key findings into access to finance by ECACS-supported community enterprises are:

- **Financial products offered by Islamic financial institutions**

Islamic financial institutions in three southernmost provinces offer a variety of products for clients to choose from according to their needs. These range from *murabahah* credit, micro-credit, *wadiah* savings account, *mudarabah* investment savings account, and *hajj* savings account. In addition, Islamic financial institutions offer services relating to clients’ welfare. Some cooperatives operate *Ar-Rahnu* pawn broking service for members who need contingency finance.

Research findings also show that members are aware of the existence of Islamic financial institutions, but they know very little about details of products and services on offer. This could be attributed to the fact that they are not members of these cooperatives. Cooperatives would only service members, and details of product information and services will only be available post-membership. Public communications on these financial institutions may not be adequate so far. ECACS enterprise members remarked that if needs arise for expansion of community-based enterprises in the future, they would then study details and conditions of these financial products thereafter.
The findings above show that ECACS-supported community enterprises can access the whole range of financial services offered by Islamic financial institutions to meet the financial needs according to what Islamic religion allows. These needs include livelihoods support, welfare, and advancement of well-beings of members and their families. The enterprise may use credit to expand business opportunity, and then allow members to subscribe to welfare group membership within a cooperative so that they are eligible to receive welfare when needed. At the same time, the *wadiah* savings account and *Ar-Rahnu* pawn broking service will enable the enterprise to manage its liquidity systematically. If the enterprise has sufficient capital, it can then open an investment account with an Islamic financial institution, in order to diversify the risk. In any case, the most important requirement to be eligible to the service is membership in a cooperative.
Community Enterprises’ Demand for Islamic Financial Product

Data analysis establishes a pattern of behavior in financial service seeking. Enterprise members use both Islamic and other routine financial services, with heavy usage of savings account and ATM to facilitate straightforward transactions such as withdrawal-deposit, receiving and transferring money, and receiving salary or wage. In any case, enterprises at the moment seem to have no immediate need of finance to expand the business. Should need for capital arise to expand in the future, they would go for Islamic finance service.

The findings show that members of community enterprise are not so financially well off. Their needs for financial service vary. Their usage behavior is similar to common citizens. But as Muslims, their top choice would be Islamic financial institutions, unless there is no other choice but resorting to common financial institutions.

Barrier to Islamic Financial Service Access by Community Enterprises

Research data analysis shows that barriers to access Islamic financial service among ECACS-supported community enterprises revolve around absence of demand, rather than the question of supply. In a nutshell, this is a case of voluntary self-exclusion as members see no need to use the service, not because of “involuntary exclusion.”

Research findings also indicate that members choose not to use Islamic financial service despite being adequately informed about products (murabahah credit) and if actual needs arise, they can certainly seek more information from service providers in the area. Enterprises can thus use the service but they must comply with terms and conditions set by individual service provider and in line with product prescription. Product pricing and formats are not major issues where access is concerned. However, income prospects and risks of enterprise figure prominently as members’ concern. Members are not confident to serve as individual guarantor or represent the enterprise in applying for credit. Most members do not wish to bear the liability of default due to uncertainty of the income stream.
Recommendations for Application

(1) Community enterprises should generate knowledge and understanding about Islamic finance and its range of products and services, terms and conditions in using the service, as well as seeking to cooperate with financial institutions based in the area. This is to serve the objective of providing options for enterprise members to advance their well-beings and strengthen the enterprise’s own capacity to grow business going forward. A possible solution could be to organise for an enterprise as an entity to become a group member of one of the Islamic cooperatives.

(2) ECACS Project should facilitate knowledge dissemination and host training about financial service that could provide options for enterprise to grow business. These could be incorporated into ongoing regular training activities that the Project operates.

(3) ECACS Project should continue to support community enterprises for a good stretch of time in order to cultivate organization and business management skill to prepare them for potential expansion. In the next stage, the Project may choose some successful enterprises to pilot a formula of synergy through pairing with one of the Islamic financial service providers operating in the region.

(4) Area-based Islamic financial service providers should actively disseminate information on what they do and what they offer, providing details on products, terms of services, and benefits of shariah financing. The aim of this is for community enterprises and residents to understand and choose products and services that suit their needs. These undertakings would encourage Islamic financial institutions to be part of the socio-economic solutions, which are the ultimate purpose of Islamic finance.

Recommendations for Future Research Work

(1) A comparative study of financial service provision for community enterprises to grow their business in the future, such as credit line, joint investment, in order to clearly identify and compare strengths and weaknesses of products offered by different financial institutions.

(2) A study of appropriate approach to forge a partnership between community enterprise and Islamic financial institution, and thus enabling the latter to achieve the ultimate socio-economic goal of Islamic finance.
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