
Access to Islamic Finance: A Case Study of Muslim Community Enterprises in Southernmost Provinces of Thailand

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Abstract

Many advocates argue that access to finance is an important component of economic prosperity in a community. In Muslim communities, financial services must conform to the Islamic principles. In line with this, one may conclude that access to Islamic financial services in the southernmost provinces of Thailand may play a key role in the improvement of well-being of the Muslims in the area. This article investigates the access to Islamic financial services among Muslim community enterprises that was supported by an international development organization. A quantitative survey method was adopted using questionnaires as the tool for data collection. The data was descriptively analyzed. The findings in this study show that the members of Muslim community enterprises are aware of the existence of Islamic financial institutions and have general information about their services. They, however, do not have detailed information about these services. At the moment, they do not apply for any of the Islamic financial services because they do not need one. This is an important factor for voluntary financial exclusion. Furthermore, they are in the opinion that involuntary exclusion factors such as risk, discrimination, contractual information and product features do not contribute towards their unwillingness to use Islamic financial services. Hence, it may be concluded that the issue of access to finance among the Muslim community enterprises in the southernmost provinces of Thailand is a voluntary exclusion, and not supply-side factors as being evident in some other countries. It is recommended that other sources of Islamic finance such as *zakat*, *waqf*, *sadaqah* could be suitable financing sources for the community enterprises in the southernmost provinces of Thailand since these sources are available for improving the welfare of the poor who constitutes the majority of members of these enterprises.

Keywords: Access to Islamic Finance, Community Enterprise, Southern Thailand

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1. INTRODUCTION

Access to finance has been one of the main issues confronting the world today. Kempson et al. (2000) states that there are five types of financial service exclusion: (i) access exclusion due to risk screening; (ii) condition exclusion as a result of product design inappropriate for the needs of some groups of people; (iii) price exclusion due to high cost of financial products; (iv) marketing exclusion by targeted marketing and sales; (v) self-exclusion which derives from the fact that some people not applying in the belief that they would be refused or not in line with their personal belief. Besley (1994) further found that the poor in underdeveloped countries are excluded from the financial market due to a variety of reasons. Chief among them are enforcement problems and imperfect information. The enforcement issue is concerned with repayment of loans. Financial institutions often require an individual borrower to provide collateral on her loan so that the institution can seize the collateral should the loan has not been repaid. The financial institution also cannot ensure benefit exceeding costs after default of loan.

Religious sensitivity might be another key issue for financial inclusiveness (Ledgerwood, 1999). Muslims, who form a large part of the world poor, may be reluctant to apply for loans which are interest-based. This is because interest is prohibited in Islamic law (Quran, 2:275). This gave the rise of interest-free Islamic finance or Islamic compliant finance. Even though the performance of Islamic banks and financial institutions in Muslim and non-Muslim countries have been encouraging. Similar to conventional financial market, Muslim poor may not get access to the much needed financial services. Many Islamic banks and financial institutions, especially in the Gulf countries, are the

results of oil boom, the money in these financial institutions are basically for the rich. The extreme poor may not benefit from the rise of Islamic finance in the past few decades (Abdul Rahman, 2007; Asutay, 2007; Ahmad, 2008).

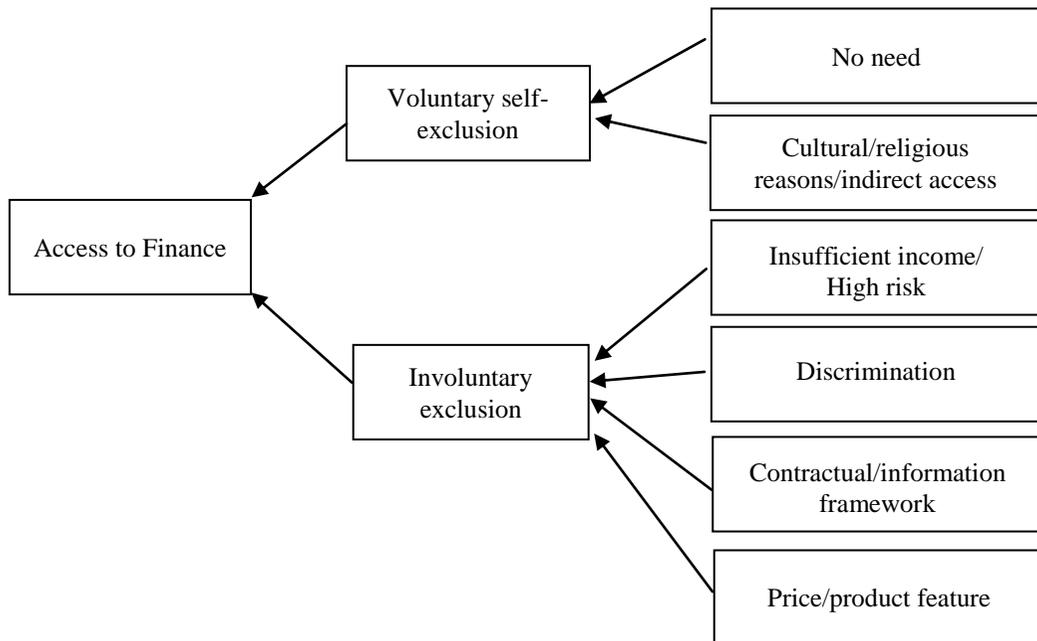
In Thailand, the first Islamic financial institution, Pattani Islamic Cooperative, was established in 1987. Islamic Bank of Thailand (IBank) was established in 2003. Commercial banks *i.e.* Bank for Agriculture and Agricultural Cooperatives and Government Savings Bank offer Islamic financial services via their Islamic windows (Haron and Yamaruding, 2003). The performance of Islamic cooperatives has been found to be promising. More importantly, the Islamic financial services, which are offered by the cooperatives, improved wellbeing of the poor and financially excluded households. The impacts include improved income generating activities, ability to build and repair houses, improved employment opportunity etc. (Noipom, 2013).

Until recently, an international development organisation has funded a number of Muslim community enterprise projects in 3 southernmost provinces of Thailand *i.e.* Pattani, Yala and Narathiwat. These community enterprises' operations are said to conform to Islamic principles. The initial results are found to be promising and it is expected these projects can be independent and can possibly tap funding from the available Islamic financial institutions in the area. Hence, it is expected that these projects can be self-sustained and expended without the financial assistance from the organisation in the long-run. This research is therefore to find out whether or not the Muslim community enterprises in the southernmost provinces of Thailand have access to Islamic financial products and services to enable them to expand their

business. In other words, whether or not access to finance of Muslim community enterprises is caused by voluntarily self-

exclusion and involuntary exclusion. Figure 1 depicts the conceptual framework used in this study.

Figure 1: Conceptual Framework



2. METHODS

This research employed a quantitative method in which a survey-base questionnaire was used. Purposive sampling technique was employed to collect data from 270 members of 43 community enterprises in Pattani, Yala and Narathiwat. Yamane formula (Yamane, 1967) was used sample design. The data collection process was carried out during August-October 2015. Descriptive statistics including frequency, percentage, mean and standard deviation, were used as main analysis techniques.

3. RESULTS

This study explores access to Islamic financial services of the community enterprises in Pattani, Yala

and Narathiwat. The results of the survey consist of respondent profile, use of Islamic financial services of the enterprises, and attitude of the respondents towards the use of Islamic financial services which will ascertain the reasons, voluntary or involuntary, for financial exclusion of these enterprises. Religious and cultural sensitivity is excluded from the analysis with the assumption that Islamic financial services are available, making this factor partially invalid.

3.1 Respondent Profile

The information on respondent profile includes gender, age, community, education, and monthly income. The respondent profiles are exhibited in Table1

Table 1: Respondent Profiles

Gender	Frequency	%
Male	112	47.3
Female	125	52.7
Age group		
25 or below	9	3.8
26-35	67	28.3
36-45	93	39.2
Over 45	68	28.7
Respondent by location		
Tak bai, Narathiwat	72	30.4
Muang, Narathiwat	65	27.4
Panareh, Pattani	14	5.9
Saiburi, Pattani	35	14.8
Krung Penang, Yala	18	7.6
Raman, Yala	33	13.9
Income group		
≤ 3,000	32	13.5
3,001-5,000	64	27.0
5,001-10,000	116	48.9
10,001-15,000	17	7.2
15,001-20,000	4	1.7
> 20,000	4	1.7

Table 1 shows that a majority of the respondents are female, contributing to 52.7% (125 persons). 112 male respondents (47.3%) were included in the survey. The sample thus reflects the real picture of Islamic community enterprises in which female forms a major part. Most respondents represents 36-45 age group (93 persons or 39.3%), followed by “over 45” age group (68 persons/28.7%). 68 persons say that they are of “26-35” group. Only 9 people are 25 years old or lower. It can be concluded that most members of the enterprises are of working age group who want to develop their own community.

As for respondent by location, 72 people (30.4%) are from Tak bai, Narathiwat province and 65 persons (27.4%) live in Muang, Nathiwat. 35 respondents (14.8%) are the residents of Saburi, Pattani. 33 persons (13.0%), 18

persons (7.6%) and 14 persons (5.9%) represent Raman (Yala), Krong Penang (Yala) and Panareh (Pattani) respectively. At provincial level, 137 persons (57.8%) are from Narathiwat while 49 persons (21.5%) and 41 persons (20.7%) are from Pattani and Yala correspondingly. Furthermore, a majority (116 persons or 48.9%) of the respondents earn between 5,001-10,000 Baht a month. 64 (27.0%) persons have a monthly income between 3,001- 5,000 Baht. The results show that almost 90% of community enterprise members earn less than 10,000 Baht which is lower than Thailand average monthly income.

3.2 Awareness of Islamic financial services

Table 2 illustrates the results of 2 key factors: insufficient funds or high risk (statements 1-3) and awareness of Islamic financial products and services

(statements 4-8). The mean values of the statements 1-3 ranged from 3.1730 - 3.3713 and relatively high standard deviations of 0.83698 - 0.98701. Most respondents rated the 3 statements as 'not sure' and 'agree' which imply that the respondents tend to agree that the community enterprises do not have sufficient income to repay their credit, should they acquire it. In another words, there is a high repayment risk in Islamic financial acquisition.

As for awareness on Islamic financial products and services

(statements 4-8), the mean values ranged from 2.8608 - 3.5401 and standard deviations of 0.84660 - 0.96741. A majority of the respondents rated these statements as 'not sure'. These results tend to suggest that the respondents have modest information on the Islamic financial products and services available at the Islamic financial institutions in the southernmost provinces. Furthermore, the results indicate that the respondents do not have much ideas about features and detailed information about these products.

Table 2: Perception on community and awareness on Islamic financial services

No	Statement	5 Strongly agree	4 Agree	3 Not sure	2 Not agree	1 Strongly disagree	Mean	SD
1	Community enterprise does not have enough income	18 (7.6%)	87 (36.7%)	104 (43.9%)	21 (8.9%)	7 (3.0%)	3.3713	.86192
2	May not be able to repay in time	26 (11.0%)	53 (22.4%)	102 (43.0%)	48 (20.3%)	8 (3.4%)	3.1730	.98701
3	Need to use money for other projects	14 (5.9%)	96 (40.5%)	96 (40.5%)	26 (11.0%)	5 (2.1%)	3.3713	.83698
4	Islamic financial institutions available including Islamic funds, cooperatives, and banks	33 (13.9%)	104 (43.9%)	64 (27.0%)	30 (12.7%)	6 (2.5%)	3.5401	.96741
5	Islamic financial institutions offer buy-sell service only	6 (2.5%)	52 (21.9%)	112 (47.3%)	43 (18.1%)	24 (10.1%)	2.8861	.94762
6	Know about Islamic financial services	11 (4.6%)	76 (32.1%)	113 (47.7%)	23 (12.2%)	8 (3.4%)	3.2236	.84660

No	Statement	5 Strongly agree	4 Agree	3 Not sure	2 Not agree	1 Strongly disagree	Mean	SD
	available							
7	Think that your enterprise may not apply for loan for investment purpose	13 (5.5%)	51 (21.5%)	102 (43.0%)	62 (26.2%)	9 (3.8%)	2.9873	.92279
8	Islamic financial institution provide higher return as compare to conventional financial institutions	3 (1.3%)	40 (16.9%)	137 (57.8%)	35 (14.8%)	22 (9.3%)	2.8608	.84974

3.3 Perception on financing process, contract enforcement and use of Islamic financial service

Table 3 shows that the levels of the respondents' awareness of process and procedures of financing available at the Islamic financial institutions and contract enforcement practices of these Islamic financial institutions. With the mean values ranged 3.0633 - 3.4346 and standard deviations valued 0.88573 - 0.97476 (statements 1-4), the results clearly demonstrate that the respondents did not know much about process and procedures of credit available at the Islamic financial institutions. The detailed analysis show that they rated most these items as 'agree' or 'not sure'.

As for statements on contract enforcement ability, the mean values of

these statements varied from 2.9241 - 3.1350, and standard deviations ranged 0.96480 - 1.04685. Individual item analysis suggests that a larger number of the respondents rated these statements as either 'agree' or 'not sure', except the statement of on ability to provide guarantor in which 'disagree' contributed a considerable proportion. The results denote that a majority of the respondents did not clearly understand the enforcement ability of the community enterprises. They however were of the opinion that their community enterprises, though no collaterals needed for the financing, may provide trustworthy guarantors in acquiring the financing, should the need arises.

Table 3: Perception on financing process, contract enforcement and use of Islamic financial service

No	Statement	5 Strongly agree	4 Agree	3 Not sure	2 Disagree	1 Strongly disagree	Mean	SD
1	You understand financing procedure of Islamic financial institutions	22 (9.3%)	83 (35.0%)	91 (38.4%)	30 (12.7%)	11 (4.6%)	3.3165	.96828
2	Related documents can be easily understood	11 (4.6%)	84 (35.4%)	97 (40.9%)	37 (15.6%)	8 (3.4%)	3.2236	.88573
3	Branch of Islamic financial institution are easily available	24 (10.1%)	106 (44.7%)	64 (27.0%)	35 (14.8%)	8 (3.4%)	3.4346	.97476
4	It is difficult to obtain Islamic financial services due to strict rules and regulations	10 (4.2%)	64 (27.0%)	106 (44.7%)	45 (19.0%)	12 (5.1%)	3.0633	.91144
5	Islamic financial institutions do not give you loan.	12 (5.1%)	39 (16.5%)	98 (41.4%)	59 (24.9%)	29 (12.2%)	3.1350	.96480
6	It is difficult to obtain Islamic financial services due to membership requirement	11 (4.6%)	81 (34.2%)	88 (37.1%)	43 (18.1%)	14 (5.9%)	3.1350	.96480
7	Community enterprise cannot provide collateral	10 (4.2%)	72 (30.4%)	80 (33.8%)	55 (23.2%)	20 (8.4%)	2.9873	1.02296
8	Community enterprise does not	11 (4.6%)	68 (28.7%)	70 (29.5%)	68 (28.7%)	20 (8.4%)	2.9241	1.04685

No	Statement	5 Strongly agree	4 Agree	3 Not sure	2 Disagree	1 Strongly disagree	Mean	SD
	have guarantor							

3.4 Perception on discrimination, risk and Islamic financial services

Table 4 shows the results of the data analysis on discrimination and risk of Islamic financial products and services as perceived by the community enterprise members. Statement 1-4 regarding discrimination against community enterprises, the factors recorded the mean values ranging 2.8734 - 3.5148 and high standard deviations of 0.93020 - 1.06006. Detailed analysis of individual statement indicates that most respondents rated these statements as 'not sure' and 'agree'. The results demonstrate the fact that the respondents perceived that there is discrimination against the community enterprises by the Islamic financial institutions in credit acquisition. Even

though, their opinions were somewhat varied; the results tend to imply that they may acquire credit from the Islamic financial institutions in the area, should they need it. As for risk (statements 5-8), the mean values of these statements ranged 2.9451- 3.5063 and relatively large standard deviations of 0.90265 - 1.04742. The analysis of individual items indicates that a majority of the respondents rated these items as 'not sure' and 'agree', indicating that many of them understand the level of risk the community enterprise involved, should they apply for credit from the Islamic financial institutions. However, the larger proportion of the members were not aware about risk situation and the level of risk involved, should they apply for credit from the Islamic financial institutions.

Table 4: Perception on discrimination, risk and Islamic financial services

No	Statement	5 Strongly agree	4 Agree	3 Not sure	2 Disagree	1 Strongly disagree	Mean	SD
1	Islamic financial institutions do not provide services to community enterprise	5 (2.1%)	58 (24.5%)	92 (38.8%)	66 (27.8%)	16 (6.8%)	2.8734	.93020
2	Community enterprise is too small for profitable investment	25 (10.5%)	84 (35.4%)	74 (31.2%)	45 (19.0%)	9 (3.8%)	3.2996	1.01625
3	Community enterprise is still new	40 (16.9%)	94 (39.7%)	62 (26.2%)	30 (12.7%)	11 (4.6%)	3.5148	1.06006
4	Community enterprise is	38	89	79	17	14	3.5063	1.03588

No	Statement	5 Strongly agree	4 Agree	3 Not sure	2 Disagree	1 Strongly disagree	Mean	SD
5	trustworthy	(16.0%)	(37.6%)	(33.3%)	(7.2%)	(5.9%)	3.5063	1.03588
	Community enterprise has collateral and guarantor	17	87	83	42	8		
6	Community enterprise is involved in risky projects	(16.0%)	(37.6%)	(33.3%)	(17.2%)	(5.9%)	2.9451	.90265
	Community enterprise does not have much debt	9	47	119	46	16		
7	Community enterprise does not have much debt	(3.8%)	19.8%)	(50.2%)	(19.4%)	(6.8%)	3.1519	1.00535
	Community enterprise has good credit record	14	82	83	42	16		
8	Community enterprise has good credit record	(5.9%)	(34.6%)	(35.0%)	(17.7%)	(6.8%)	3.2911	1.04742
	Community enterprise has good credit record	25	80	90	23	19		

4. DISCUSSION AND RECOMMENDATION

This study looks into access to Islamic finance and reasons for financial exclusion of the Muslim community enterprises in the southernmost provinces of Thailand, namely Pattani, Yala and Narathiwat. Assuming that religious sensitivity and cultural differences may not affect financial inclusiveness, the study has focused on another voluntary self-exclusion factor, no financial need and involuntary exclusion factors, including insufficient income or high risk, discrimination against the community enterprise, contractual framework, and price and product features. The findings in this research show that the clients or members of the community enterprises are aware of the existence of Islamic financial institutions, but they do not have much knowledge about their products and services. This might be due to the fact that most members of the community enterprises do not participate in the Islamic financial institutions. In addition, the Islamic cooperatives only serve their members, providing information on their

products and services mostly after they already turn a member. As a business enterprise, the members do not at present need financial services for business expansion. If there is the need in future, Islamic financial services should be acquired due to its religiosity and conformity with the way of life of the people.

This study discovers the fact that access to Islamic financial services of the community enterprises is the result of a demand-side, not a supply-side, meaning that the members of these enterprises do not want to borrow from the Islamic financial institutions which are currently available in the areas. Even though, they have reasonable knowledge on features and conditions of acquiring some products, the members of these business enterprises do not want to use the Islamic financial products and services available to them (voluntary self-exclusion), not involuntary exclusion. Pricing and features of the products and services are not the barriers for financial access at all. However, low enterprises' income and risk might cause some concerns,

preventing the members to guarantee or represent to enterprises while requesting for loans or financings.

It is recommended that the international development organization should, for the time being, continue supplying the community enterprises in terms of funding, business and accounting knowledge, and encourage them to recruit more members in one to two year time.

By doing so, they are ready to face more business challenges and have the willing to expand their business for the benefit of entire communities in a short-run. They also should incorporate other Islamic sources of financing such as *zakat*⁴, *waqf*⁵, *sadaqah*⁶ etc. in their finance portfolio. These sources of Islamic finance are suitable for the poor and needy in Muslim society.

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⁴ The giving of alms to the poor and needy, is one of the five pillars of Islam.

⁵ An Islamic endowment of property to be held in trust and used for a charitable or religious purpose.

⁶ It is the concept of voluntary giving in Islam.

