

## Islamic Financial Cooperative in Thailand: Challenges and Opportunities

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### Abstract

This article offers an analytical study of Islamic cooperatives in Thailand and their potential areas for growth and development. This has also been done in a Buddhist-dominated country, where the Muslim community has formed Islamic cooperatives to cater to their economic needs within the confines of Islam. The paper examines the important natural, political, and socioeconomic aspects that affect and support these cooperatives. Incorporating Islamic economic principles, related Quranic verses, Hadith, and outstanding works of particular scholars of Islam, this paper has sought to provide a deep approach to this area of concern. Furthermore, it provides strategic advice on how to address the identified issues and take action to seize the identified opportunities, enabling the Islamic cooperatives in Thailand to endure and improve their performance.

**Keywords:** Islamic Financial Cooperatives, Shariah-Compliant Finance, Regulatory Challenges, Financial Sustainability, Digital Transformation, Financial Inclusion, Cooperative Growth, Economic Empowerment, , Islamic Finance Regulations.

### Introduction

Islamic cooperatives, also known as Shariah-compliant cooperatives, have a vital function in offering financial services that adhere to Islamic standards, specifically for Muslim populations. Islamic cooperatives have become crucial institutions in Thailand, where Muslims make up around 5-6% of the population. These cooperatives play a critical role in meeting the financial requirements of the Muslim minority while adhering to Islamic economic precepts. These cooperatives provide various services like as savings accounts, microfinance, and investment options, all designed to comply with the Islamic prohibition of interest (riba).

Islamic cooperatives in Thailand have several obstacles that impede their expansion and long-term viability, notwithstanding their significance. The limitations encompass legislative constraints, restricted market penetration, rivalry from traditional financial institutions, and a lack of knowledge within the wider Muslim population. Simultaneously, these cooperatives have considerable prospects to broaden their influence and effectiveness by utilizing community involvement, extending the range of services they provide, and enhancing their operational efficiency.

This article seeks to examine the present condition of Islamic cooperatives in Thailand, while outlining the obstacles they encounter and the prospects for their advancement. The conversation is situated within the framework of Islamic economic principles and utilizes modern research to offer a thorough understanding.

### **Literature Review**

Residents' consciousness about Islamic cooperatives in Thailand has continuously increased for the guarantees posed to the economy of the Muslim community. This literature review summarizes, analyzes, and highlights the major findings of such studies conducted between 2020 and 2024 with a focus on the problems and the opportunities as revealed by previous scholars.

### **Legal and Regulatory Challenges**

Apart from the aforementioned reasons, the regulatory environment in Thailand is very different, thus providing some troubles for the Islamic cooperatives. It has been observed that legislation concerning financial institutions in Thailand is focused to meet prevailing banking requirements hence hindering Islamic cooperatives. What they observe is that the present regulatory framework leaves a lot to be desired for it accommodates the practice of Islamic finance only to an extent which makes it hard for Islamic cooperatives to be operated. Those scholars advocate more advanced regulation that embraces the needs of the Islamic finance sector in order to allow these cooperatives to operate reasonably well.

In the same context, Rahman et al (2022), further explain that the inability to articulate specific legal structures for Islamic cooperatives leads to failure to apply essential Islamic principles, thus creating operational inefficiencies and decreased confidence among the members. The authors aver that developing such regulatory perimeter is of paramount importance to the development and stabilization of Islamic financial cooperatives in Thailand.

### **Marketing Penetration and Consumer Knowledge**

Islamic cooperatives in Thailand suffer additional hurdles with regards to market penetration and consumer knowledge. According to Nordin et al (2022), there is a study that has been undertaken indicating that there is a supply in Shariah-compliant financial services to majority of Thai Muslims, however the awareness of the Islamic cooperative entity is still low among a good section of the population. The study has shown the necessity for increase in new members and awareness creation through sensitive marketing approaches and educational campaigns.

On this part, Mansor and Abdullah (2023), stated that ineffective strategies concerning communications and outreach activities have restricted the growth of Islamic cooperatives.

They advocate the conduct of campaigns designed specifically to market Islamic cooperatives while educating prospective clients on the values of Islam –based banking in order to boost participation.

**Economic Performance and Sustainability** Although very recent studies show that the emphasis has also been put on the recent studies for the Economic Performance and Sustainability Of Islamic Cooperatives in Thailand. Hassan et al (2023), highlighted that most of the Islamic cooperatives tend to face the challenge of sustainability because of inadequate capital and being small scale. The study concluded that it is necessary to focus on enhancing the sustainability of such organizations by adopting good financial management practices which include among others good construction of risk management. In addition, the authors suggest tackling such strategies as joint operations with more considerable and comprehensive Islamic financial institutions to increase financial and resource mobilization capacity.

In addition, Ismail and Karim (2023), points out the immediate increase of relevance of the Islamic Financial Cooperatives through modern digital financial services. They reveal that these cooperatives will be able to cut operational costs and extend their scope in particular to young Muslims' who are techno savvy in a way that would prefer to access the services online.

**Digitalization Opportunities** The shift towards accepting digital financial services is, to a great extent, a new horizon for Thai Islamic cooperatives to tap into new markets and enhance the performance of services. Ismail and Karim (2023), and Cheumar et al (2023), have researched how such solutions may help overcome the limitations imposed by the location and the way the businesses operate. They maintain that services provided through technology may be more effective particularly to the younger age of the Muslim society who are used to facilitating transactions through a click of a button. This change into provision of services may also assist the Islamic cooperatives to extend to new scope of market and enhance competitive edge in the financial market. **Role in Community Development** The provision of community development services by the Islamic cooperatives has been the subject of many studies. Kamaruddin and Omar (2020) argue that Islamic cooperatives contribute to poverty reduction and income generation within Muslim citizens in Thailand.

### **Problem Statement**

In Thailand, Islamic Financial Cooperatives which were formed to serve Shariah financial services to Muslims, have a lot of issues that affect their growth as well as their sustainability. The prospects of these societies contribute positively in the creation of employment, or improving the living standards of the Islamic communities, but they operate in a legal environment mainly established for normal banking practices, which can at times not justify the nature of Islamic finance (Ahmad & Rahman, 2021). The absence of according legislation creates inefficiencies in operation of Islamic cooperatives and negatively impacts members' confidence and interactions with the institutions (Rahman et al., 2022).

However, Islamic cooperatives in Thailand face serious challenges in market access and consumer education. Although there is acknowledgment for a need of operation in a Shariah compliant manner, few people are aware of the existence of such cooperatives and their

operational advantages simply because of marketing and awareness deficiency (Nordin et al., 2022). This unawareness situation prohibits the capacity of Islamic cooperatives to bring in more new members and broaden the markets.

Apart from these hurdles, the monetary performance and survival of Islamic cooperatives are also impeded by resource issues and small size. Most cooperatives fail to achieve sustainability, thus requiring enhanced financial management and engagement with bigger Islamic financial institutions (Hassan et al., 2023). On the one hand, there is need for change in the organizations, which is a challenge. Digitization offers the possibility of better service and wider reach, but it calls for huge cost and technology research and development (AlZgool et al., 2020; Ismail & Karim, 2023).

Furthermore, the potential of Islamic cooperatives to engage in the uplifting of communities, especially in alleviating poverty and enhancing economic activities, demonstrates the need for addressing these issues. These cooperatives have great opportunities to improve the socio-economic fortunes of people, but they depend on their capacity to address legal, market and financial limitations (Kamaruddin & Omar, 2020).

Thus, given the above limitations, there is an urgent need to seek measures which will assist Islamic cooperatives in furthering the above purposes, improve their efficiency and utilize the existing avenues for growth and creation of impact in society in Thailand. The purpose of this study is to look into these challenges in the future, and recommend operational solutions for the growing of Islamic financial cooperatives in Thailand.

### **Current Issues**

#### *Access to Shariah-Compliant Financial Services*

Notably, the availability of Shariah-preferred financial services is limited in Muslim regions of Thailand. This issue is closely linked to the marketing and penetration challenges that challenge the experience of Islamic cooperatives and their awareness among potential customers. Similar statistics from the Thai cooperative auditing department further highlight the scarcity of Islamic financial institutions and their limited geographical reach, particularly beyond the southern provinces. This is consistent with the body of work that indicates the requirement of some more assertive advertising and other awareness efforts (Nordin et al., 2022).

### **Regulatory Challenges**

The mention of regulatory obstacles, including the higher compliance costs faced by Islamic financial institutions, goes hand in hand with the problem statement, which is an overview of legal and regulatory factors influencing Islamic cooperatives. The developments in the industry, The Bank of Thailand's Report 2023, El-Gamal's work, and arguments that the current regulatory environment does not meet the practices and needs of the Islamic banking system are further supported by the investigation conducted by Ahmad and Rahman (2021), and the conclusions drawn by (Rahman et al., 2022).

### **Market Competition and Awareness**

The text addresses the problem of market competition and the low level of awareness of Islamic financial services as one of the issues raised in the problem statement. The Islamic

Bank of Thailand's survey and Chapra's (2018) conviction about seeking education and differentiation align with the literature's emphasis on the need for Islamic cooperatives to engage with customers and the market to thrive.

### **Opportunities for Growth**

The elaboration on the possibilities of Islamic cooperatives, particularly in terms of community outreach and service provision diversification, reinforces the previous observation about the potential of technology and community-oriented growth strategies. The mention of the Thai Department of Cooperative Promotion in relation to community involvement and the provision of tailored services, along with Nasr's suggestion on community involvement, reinforces the literature's recommendations for Islamic cooperatives to foster sustainable growth and positive impacts through increased community engagement (Kamaruddin and Omar, 2020).

### **Conclusions and Recommendations**

#### *Conclusion*

Islamic financial cooperatives in Thailand serve as a useful tool for providing Shariah-compliant financial institutions within the Muslim populace. However, there are some limitations with these particular cooperatives that hinder their growth and full functionality. Some of these limitations include the absence of a sufficiently supportive legislative and regulatory framework, insufficient outreach and public awareness among customers, and a lack of financial self-sustainability due to competition from more established conventional banks. The businesses are also negatively impacted by the limited geographic diversity of operations and the relatively high costs of regulatory compliance.

Regardless of the impediments that many Islamic cooperatives are facing, it is within their grasp to improve their performance in terms of service provision as well as broaden their market. The integration of technology in the provision of financial services, as well as changes in community outreach and education, could significantly improve their competitiveness. This will in turn ensure that JKK sees its impact in enhancing the economic justice of the Muslim community in Thailand.

#### **Recommendations**

**Regulatory Reform** Then there is an urgent need to seek the establishment of home-grown policies that are more conducive to Islamic banking activities, with clear-cut financial components targeting political surroundings. Measuring operational functionalism needs policymakers to address Islamic finance concerns by extending legal provisions that will enhance operational effectiveness and minimize legal expenses. Advocate for the revision of legal documents related to financial product operations or propose separate legal documents for Islamic cooperatives to achieve this.

#### **Improved Market Expansion and Customer Knowledge**

Islamic cooperatives need to spend on market and publicity activities to create awareness of why people should use Shariah-compliant financial services. They should concentrate on both urban and rural communities within the Muslim population residing in Thailand, with a focus on revenue generation and ethical considerations of Islamic banking. It is advisable to collaborate with Islamic bodies and use internet tools.

### **Financial Viability Options**

In the case of financial sustainability problems, Islamic cooperatives should consider entering into a merger or alliance with a larger Islamic total institution, as it will be easier to build together with more resources. Improving financial processes, implementing better risk management, and exploring alternative sources of income are crucial for enhancing the sustainability of the cooperative.

### **Acceptance of Digitized Financial Services**

It is crucial for Islamic cooperatives to embrace digital technology. Digital financial services can boost efficiency by broadening the range of services provided by the cooperatives, reducing operational expenses, and attracting younger members who are more tech-savvy. Technology sector investments should be made in targeted areas, and working with FINTECH would have an impact on movement speed.

### **Enhancing Local Participation**

Islamic banks encourage their cooperatives to effectively serve their communities by addressing their needs, such as providing small business loans and implementing poverty alleviation programs. Stronger communities not only serve as a battleground for member loyalty, but also serve as a source of support and responsibility that members should strive for. We should implement community-oriented services, such as southeastern microfinance, for local business service providers.

### **Further Research and Development**

Regular monitoring is required to identify emerging trends, issues, and opportunities that Islamic cooperatives operating in Thailand may encounter. Therefore, conducting regular analyses of market development, legal acts, and member demands will aid in implementing the appropriate strategy for these cooperatives' activities. It is also necessary to provide these institutions with research and policy analysis from universities and think tanks.

Addressing these recommendations, Islamic financial cooperatives, particularly those in Thailand, can eliminate current barriers, take advantage of new growth prospects, and serve the community's needs better. This, in turn, contributes to the enhancement of the Muslim members' economy and society.

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