

A Study of Strengths and Weaknesses of Islamic Cooperatives in Thailand

Tosaporn Mahamud

Centre of Islamic Studies, Postgraduate School, Kasem Bundit University, Bangkok

Email address: tos-49@hotmail.com

Abstract—Islamic cooperative includes savings and financial services for helping to grassroots level of financial institutions and enterprise community. It helps labor classes, farmers and small economic groups and to promote development of economy and society of the country. The country like Thailand, there is 7 % population are Muslims and majority are in living in southern part of the country and there are restrictions to use of financial services according to Islamic principles. This study analyses the strengths and weaknesses of the guidelines for the operations and to guide the development and strengthen the joint investments to reduce risks that are outside of the principle of Islam and creates policies to develop correct system based on Islamic financial principles. Through SWOT analysis, to better understand the operation, development, and implementation errors and the Islamic financial transactions this can help the economy of the Muslims and develop large financial institutions in the future.

Keywords—Financial; investment; islamic cooperatives; transaction.

I. INTRODUCTION

Islamic financial structure is different from commercial banking system's financial transactions and Islamic financial structure is based on Islamic laws. The principle foundations of both banks are shareholders, depositors, investors, borrowers and sharing partnership. This principle makes capital and labor can be combined as partner in the business which share risks together. The risk of a return is based on profit of sharing income. In Islamic perspective, there is the risk for depositors, banks and enterprises. The risk depends on the size of banks and high risk should be guaranteed by banks. The interest paid to depositors under the contract and expectations of return are there in terms of revenue.

The principle foundations of both banks are shareholders, depositors, investors, borrowers and sharing partnership. This principle makes capital and labor can be combined as partner in the business which share risks together. The risk of a return is based on profit of sharing income. In Islamic perspective, there is the risk for depositors, banks and enterprises. The risk depends on the size of banks and high risk should be guaranteed by banks. The interest paid to depositors under the contract and expectations of return are there in terms of revenue. In general the profit sharing of banks is not much even in the share of partnership but if banks follow on Islamic principles with morality then fruitful economic profits. The benefits of Zakat distribution is bound to wealthy and justice to the society. It is important if financial system of bank based on Islamic principles.

The aims of Service Cooperative are to provide supply and service to different kinds of cooperatives like housing cooperatives, cooperative services and electric taxi cooperative. On the other hand savings credit cooperatives which are mainly encourage members to keep their money in secure manner and provide compensation on reasonable rates

and also provide loan services to members whenever they need with considerable interest rates.

II. HISTORICAL BACKGROUND OF ISLAMIC COOPERATIVE

A cooperative is an organization of individuals who work jointly and voluntarily basis to operate an enterprise. The control is basically democratic and objectives are common economic, social and cultural based mutual and self helps. There is a legal framework of cooperatives under the act of 1999 in Thailand. In the operation of cooperatives, there are fundamentally important features are to benefit to groups of individuals equally in term of social and economic at the same time similar ideologies help to each other. To achieve objectives it needs to establish as a joint venture business organization.

The idea of to promote the organizations associative with cooperatives is how to give best quality of life to one and all who involve in it. There are majority of countries follow for their economic, social, cultural and democratic development. In Thailand, cooperatives are one of the vital sources of country's social and economic development especially a country of poor get more economic and social benefit from cooperative institutions and help to solve the problem of employment and enhance the standard of livings of people. It is all depend on the practice of a cooperative's principles. The idea of establishing an Islamic cooperative comes to Thailand because of country has Muslim population and having the Islamic principles based way of life among Muslim population. Many Islamic thinkers, scholars, religious leaders and some citizens groups make a decision to establish of the organization of Islamic financial system to channel finance to Muslim as per Islamic principles. The objective to establish Islamic financial system is economic development and raises the living conditions of Muslim population.

The formation of cooperatives is based to conduct Islamic financial services in the form of Islamic Sharia to the Muslim people of many professions in Thailand work together as

voluntary manner to satisfy the needs and hopes of sharing the same social and economic among themselves. To work for sake of nonprofits and no interests for those who are members of cooperatives organizations. The cooperatives organization came into under the Cooperative Act 1999 as Islamic cooperative venture bound with the principles of democracy.

III. OBJECTIVES OF THE STUDY

- To study the concept and guidelines on various aspects of Islamic cooperatives in Thailand.
- To study the factors that influences the creation of the progress in the implementation of Islamic cooperatives in Thailand.
- To study problems encountered in the implementation of various aspects of transactions in the Islamic cooperative.
- To study the ethics policies to analyze the strengths and weaknesses of the implementation of the Islamic cooperative.

IV. RESEARCH METHODOLOGY

This is a qualitative research analyzing data from two sources which are primary source including document analysis on the concept of Islamic cooperatives in international system in different countries as well as the background of Islamic Cooperatives establishment in Thailand to study significant roles and achievement factors. The other source is In-depth interview with the CEO of Islamic Cooperatives with the maximum and minimum credit amount in terms of service and saving.

V. RESEARCH QUESTIONS

- What are the concept and procedures of Islamic Cooperatives that reflect Islamic principle
- What are the key factors enhancing development of Islamic Cooperatives?
- What are the problems and obstacles that results in negative effects on growth of transaction and service?
- What are the strengths and weaknesses in an operation of Islamic Cooperatives in Thailand

VI. CONCEPTUAL FRAMEWORK

To study financial management in Islamic concept, confidence of clients in financial transactions under Islamic principle, transaction management that results in profit and loss, gaining confidence from entrepreneur in different transactions, risks in administration of Islamic Cooperatives as a small financial institute under Islamic law (Shariah) who is accepted to play a role in developing the society and finding the path for further improvement in the future.

VII. EXPECTED OUTCOME

- To be aware of and to understand procedures of Islamic Cooperatives in Thailand in applying Islamic principle to financial management and financial institution appropriately.

- To realize the significant factors affecting development of Islamic Cooperatives.
- To understand service procedures of Islamic Cooperatives and the practice with clients.
- To be aware of problems and obstacles occurred in Islamic Cooperatives organization.
- To recognize strengths and weaknesses of Islamic Cooperatives' performance.

VIII. APPLICATION OF THIS RESEARCH IN THE FOLLOWING THE ORGANIZATIONS:

- Banks with international financial system
- Bank of Thailand
- Islamic Cooperatives
- The religious organizations that operate in business activities
- Islamic Finance Savings groups that are not registered as a cooperative
- Institutions involved in Islamic Finance
- Research centers for Islamic studies
- Preparation of research reports to disseminate research results to Islamic financial institutions
- Related entities Educational institution Islamic Education Center in various universities in the country

IX. STRENGTHS OF ISLAMIC COOPERATIVE

The savings system is a form of registration in cooperatives. It provides easy way to use as compare to commercial banks and motive is to access to the grassroots and it more reliable than commercial banks. New Jersey analyzes different banks including cooperatives in order to check cooperatives function as true business. And also see its costs and real profits in order to customers carry out their business smoothly. There is net profit with interest free and customers have to share cooperatives profits. The customers pay in installments with on time and it is true, in Islamic cooperative there is no shed of debt even when no profit.

The capital used in cooperatives is not more than one billion baht in Thailand and through Islamic financial institutions personnel send to learn Islamic finance in different areas in order to link among the Cooperatives of Thailand. Economic data must be analyzed to look at income and expenses of the funds which must in plan. In cooperatives, raising funds that are regulated by income and expenditure is for getting revenue from with well-equipped administration. The system of cooperatives has potentials to give best results and year by year financial potential strengthen without advertising. The customers of cooperatives give good performance because of their deposits. Many Muslims believe it is difficult to predict early advantages of cooperatives until or unless final account statement comes with the problems.

The facilities need to expand in order to efficient management and for improvements. The figures show that the cooperatives have limits to function especially in the case of security deposit and lending to customers.

X. WEAKNESSES OF THE ISLAMIC COOPERATIVE

There are shortcomings of Islamic cooperatives if the model of cooperatives works out of Islamic principles. Rather have penalties then organize workshops and seminars in order to educate and give proper understanding of cooperatives. Even lending kind system by Islamic banks but cooperatives make system more transparent and better operation like saving services work different from traditional savings services. Sometimes, there are risks when investments take place to outside and due to dissenters. Some cooperatives were lack of reliable funding to bring the money to buy land of dissenters. There is no much experience of management in operating large business and sometimes it makes operation not much profitable. On the other large financial institutions to have risk when economy is in bad shape and there is no problem for them and customers can withdraws and deposits anytime. In cooperatives, only some people invest or deposits even they are ready for loss. There is low revenue risk in the operation of the cooperatives.

XI. CONCLUSION

This research has been worked on the importance Islamic cooperatives and also the way of implementation of Islamic financial transactions under Islamic principles within the norms of cooperatives. The concept of vision television idea is bound by Islamic law with the objective of using management skills for small to large scale. Research operations are based on the primary data of the Islamic financial system. Historically, Cork is given Islamic financial institutions concept in Thailand to start cooperatives on Islamic principles. The transaction is basically based on joint venture, joint venture and joint stock risks. Through this research, learn to understand the strengths and weaknesses in the implementation of cooperatives by using cooperative management. The Department of Cooperatives gives facts about transmission. The advantages of cooperative are more clearly in small as well as large services. There are many week points are in Islamic cooperatives while it goes in normal operation but it is most profitable business if it works on Islamic principles effectively. The Cooperative Promotion Department helps to check the operation of doing wrong transactions.

REFERENCES

[1] A. M. Mujahid, *Golden Stories of Umar Ibn Al-Khattab*, Darussalam Global Leader in Islam Books, Jeddah Saud Arabia, 2012.

[2] A. Thomas, *Interest in Islamic Economics: Understanding Riba*, Routledge 270 Madison Ave New York, 2005.

[3] A. Saeed, *Islamic Banking and Interest: A Study of the Prohibition of Riba and Its*, Koninklike Brill NV Leiden, 1996.

[4] A. U. F. Ahmad, *Theory and Practice of Modern Islamic Finance: The Case Analysis from Australia*, Brown Walker Press Boca Raton, Florida USA, 2009.

[5] A. Lahsasna, *Shari'ah Non-compliance Risk Management and Legal Documentations in Islamic Financial*, Jhon Wiley & Sons Singapore Pte Ltd., Singapore, 2014.

[6] A. Akgunduz, *Studies in Islamic Economics: Islamic Banking and Development*, Islamitische Universiteit IUR Press Pasifik Offset Turkey, 2009.

[7] A. Al-Suwaidi, *Finance of International Trade in the Gulf*, Kluwer Academic Publishers group, USA, 1994.

[8] A. I. A. H. A. G. A. Maqdisi, *Short Biography of the Prophet & His Ten Companions*, KSA Darussalam Riyadh Riyadh, 2004.

[9] A. M. E. T. Ahmed, *Islamic Banking: How to Manage Risk and Improve Profitability*, John Wiley & Sons, Inc., Hoboken, New Jersey Canada, 2010.

[10] B. Kettell, *Introduction to Islamic Banking and Finance*, Jhon Wiley & Sons Ltd, United Kingdom, 2011.

[11] C. M. Henry and R. Wilson, *The Politics of Islamic Finance*, Edinburgh University Press, Edinburgh, 2004.

[12] C. Nethercott and D. Eisenberg, *Islamic Finance: Law and Practice*, Great Clarendon Street, Oxford, United kingdom, 2012.

[13] H. Visser, *Islamic Finance: Principles and Practice*, Second Edition. Edward Elgar Publishing, Inc., USA, 2013.

[14] H. Ahmed, *Islam in Nineteenth-Century Wallo, Ethiopia: Revival, Reform and Reaction*, Clearance Center 222 Rosewood Drive Suite 910 Danvers MA 01923 USA, 2001.

[15] M. U. Chapra, *Islamic and the Economic Challenge*, The Islamic foundation markfield Dawah Centre Ratby Lane Markfield Leicester LE6 0RN United Kingdom, 1992.

[16] M. A. Choudhury, *Money in Islam: A Study in Islamic Political Economy*, 29 West 35Th Street New York NY 10001, 1997.

[17] M. A. Choudhury, *Money in Islam: A Study in Islamic Political Economy*, Routledge 11 new Fetter Lane London Ec49 4 EE, 2005.

[18] M. Al-Bashir, *Risk Management in Islamic Finance: An Analysis of Derivatives Instruments in commodity market*, USA, 2008.

[19] M. Y. Saleem, *Islamic Commercial Law*, John Wiley & sons, Singapore, 2012.

[20] N. R. sabri, *Financial Markets and Institutions in the Arab Economy*, Published by Nova Science Inc New York, USA, 2008.

[21] N. Krichene, *Islamic Capital Markets: Theory and Practice*, John Wiley & Sons Singapore Pte. Ltd Singapore, 2012.

[22] P. Temporal, *Islamic Branding and Marketing: Creating A Global Islamic Business*, Singapore, 2011.

[23] R. A. A. Karim and S. Archer, *Islamic Finance: The New Regulatory Challenge*, Jhon Wiley & Sons, Singapore, 2013.

[24] S. A. Rosly, *Critical Issues on Islamic Banking and Financial Markets*, International Islamic University of Malaysia, Malaysia, 2005.

[25] S. A. Karim, *The Islamic Moral Economy: A Study of Islamic Money and Financial Instruments*, Brown Walker Press, USA, 2010.