CHAPTER V

STATE OF ISLAMIC BANKING AND FINANCE IN THE PHILIPPINES,
SINGAPORE, AND THAILAND

INTRODUCTION

Apart from Brunei, Indonesia and Malaysia, all other countries in South-East Asia are categorized as Muslim-Minority countries. Of them, only three countries, i.e., the Philippines, Singapore and Thailand, have some sorts of Islamic banking and financial institutions and their movements are relatively stronger in their experimentation in secular environments. Among them, the Philippines is the pioneer to have institutionalized Islamic banking that transformed through many years of transitional stage. In Singapore, although Islamic banking development seems to be insignificant in proportion to the country's financial development and capacity of the Muslim to have Islamic banking operation, Singaporean Muslims have achieved great success in the process of mobilizing resources through Mosque Building Fund (MBF). Even though, the MBF is not relevant to Islamic banking operation, its method of raising fund is worth mentioning. In Thailand, the struggle to have an Islamic bank is highly becoming politicized. The existence of Islamic savings cooperative is gaining momentum and that it is likely to pave the way for the establishment of an Islamic bank in Thailand. Apart from these three countries, there exists sizeable Muslim minority in various countries in the rest of the region. But due to unstable political and economic conditions and political constraints, the question of Islamic banking is far from the sight.

So we shall confine our study in this chapter to the three countries, the Philippines, Singapore and Thailand, where Islamic banking and finance have already set in.
THE PHILIPPINES

Introduction

The country of an archipelago of the Philippines comprises of 7,107 islands. Seventy percent of the country is made up of two islands, Luzon and Mindanao. Muslims constitute the second largest religious community in the Philippines, a predominantly Catholic country. There were at least 3 million Muslim Filipinos in 1975, or 7 per cent of the country's total population of approximately 42 million. These figures have been increased to about 6 million Muslim in the year 2000, or 8 per cent of the country's total of around 76 million. The slightly rapid increase in the number of Muslim population, despite various conflicts and confrontations between Muslim armed forces and the government which caused many Muslim casualty, has been due to a slightly higher birth rate of Muslim than non-Muslim and a widespread conversion to Islam since independence. This phenomenon is known as ‘Balik Islam’ (return to Islam), as people who had or think they had Muslim ancestors decide to ‘return’ to the faith of their forefathers.

The vast majority of Muslims live in the southern regions in the Philippines, that is on the island of Mindanao and in the Sulu archipelago, who describe themselves as Moros. In fact, the Moros comprise several ethnolinguistic groups such as the Maranaos, the Tausugs, the Samals, etc. They are the predominant population in Sulu, Tawi-Tawi, Lanao del Sur, Maguindanao, and Basilan.

Islam has had a long history in the Philippines beginning from the pre-colonial periods and the history of Muslims was one of unmitigated struggle for national survival from Spanish and American colonization as well as for their identities from social integration or westernization of the Catholic government. However, the religious institutions of the masjid (mosque) and the madrasah (Islamic teaching school) provide the full brunt of preserving Muslim identity in the Philippines. To support these institutions, the religious authorities rely on
the help of people largely through *sadaqa* (charity) and *zakat* (wealth tax). Throughout Moro communities, the moral and religious suasion of *sadaqa* and *zakat* continues to operate keeping their religious activities relatively self-reliant.5

The majority of the Moros are farmers, fisherman and traders. But there are also Muslims who are serving the government in various capacities such as teachers, administrators, members of the armed forces, the judiciary and even as elected mayors and governors. The Muslims who have gone through secular education tend to integrate fairly easily with the Filipino state. On the contrary, those who have shunned secular education and opted for traditional religious education are generally resistant to integration. Particularly for the local elites who have gone to the Middle East for their education, adaptation to the demands of Filipino state has been more difficult.

It is not just religion that unites the Muslims. It is also the hardship and economic difficulties that Muslims of the south have had to face that have brought them together. The policy of resettling Christians in Mindanao over the past few decades since the end of the Second World War had upset the traditional demographic balance to the disadvantage of the Muslims. The massive inflow of capital and technology into Mindanao in various economic activities, which in some cases led to the displacement of Muslim communities from their traditional homelands, did not, except rarely, benefit the Muslims. This served to reinforce the traditional prejudices they had against the non-Muslims. The political alienation that these developments brought about led to the formation of the Muslim Independence Movement (MIM) in the 1960s. This, and the subsequent formation of the Moro National Liberation Front (MNLF) and the Bansa Moro Army (BMA) to champion the cause of the Muslims in the Philippines should be seen in the context of the rising frustration among the Muslims in the south over their continued economic exploitation and political alienation.6
The government, on the other hand, was keen to overcome the Muslim problem in the south because it recognized that it will face serious economic and political difficulties, unless national consolidation is maintained. This includes the Tripoli Agreement signed in Tripoli, Libya in December 1976 by the MNLF and the government to implement an autonomous Muslim area in 13 southern provinces. However, instead of implementing the Tripoli Agreement, President Marcos staged a highly suspect referendum in April 1977 in which the agreement was rejected. After Marcos was overthrown in 1986, President Aquino attempted to negotiate a settlement, but the two sides differed on how much autonomy the Muslim zone should have and how large it should be. An Autonomous Region for Muslim Mindanao (ARMM) was created in 1989. However, the treaty between the MNLF and the government was signed in 1996 that gave birth to the ARMM and to a form of peace, but various Muslim guerrilla groups, as they are called, refused to recognize it. The Moro Islamic Liberation Front (MILF) (and splinter group Abu Sayyaf), however, wants a separate nation, not autonomy.

Asian Economic Crisis And The Philippines.

The Philippines did not grow as fast as its neighbours in the three years preceding the crisis (GDP growth in the last three years was only 5% to 6%, against 7% to 9% in Thailand, 8% to 10% in Malaysia and 7% to 8% in Indonesia), while its banking system was in much better shape. According to Philippe F. Delhaise, who was of the opinion that, since banking system in the Philippines was not as vulnerable as in some neighbouring countries, with no stranger to financial calamities, the Philippines government had already done much to put the industry’s house in order prior to the crisis. In addition, the Philippines central bank, Bangko Sentral ng Pilipinas (BSP), has reacted swiftly to the crisis affecting East Asia by taking the wise decision not to fight market trends. A few days after the Thais gave up on the baht (on July 2, 1997), the Philippines let the peso float on 11th July 1997. There was no point in defending the currency, although some funds were spent to manage the
depreciation and that there should be no claim reaction collision among Asian economies and that the troubles in Thailand, Indonesia and Korea need not cause a similar demise in the Philippines.9

However, the contrary is the case as the turmoil of crisis has taken its tool to spread over and beyond Asia. In the Philippines, it is a pity that there has been fiscal slippage because it managed monetary and exchange rate policy well during the crisis. The country has had difficulty keeping its budget on track.10 The budget deficit is widening despite recent expenditure cuts. Business confidence is also slumping and private consumption is lackluster causing less exposure of foreign investment in the region.11 When the Asian Crisis contagion spread, both the peso and stock market took a hit, and the Philippines started suffering simply for being part of the group of South-East Asian countries about which the world had sudden doubts. At best, the crisis is likely to force a number of mergers on the banking community, which enable the remaining players to achieve requisite efficiency levels.12

Islamic Financing Movement In The Philippines

Among the people of Muslim Filipinos, finance and trade practices based on Islamic principles are common.13 These can be studied under the following heads.14

Partnership and Joint Stock Company

The Moros of Southern Philippines, particularly in Western Mindanao, have traditionally practised partnership ventures in trade and commerce since time immemorial under the general term of *sharikat* (profit-sharing ventures). They are generally familiar with the two forms of profit-sharing (and partnership) and joint stock company (*mudarabah*). The first type is common in trading. A leader in the community or businessman announces his commercial project, say a trading voyage to Sabah, Malaysia. Prospective investors contribute to this venture and they share in the profits and losses proportionately to their
capital investments. The partnership agreement may be for a definite period or on a continuing basis.

Among the natives, the traditional term for association or co-operation is *suma*, which literally means togetherness or community association. In the Maguindanao and Maranao tongue, it is known as ‘*Upakatan*’ (*muafakat* in Malay) meaning association or consensus or agreement. Corporate property ownership and investment in stock company shares among the Muslims of Southern Philippines is still undergoing a transitional stage from the short-term limited partnership venture (*shrikat-al-ain*) to the corporate association or joint stock company (*qirad* and *mudarabah*).

The *sharikat-mudarabah* type is very common among the Tausungs of Sulu, particularly in commercial fishing ventures. It is not unusual for a group of Muslim businessmen or partners to contribute to a common fund to finance the purchase of a *payao* (a native fishing vessel). They agree to appoint a manager or designate a partner to run the business and share in the profits and losses to the extent of their capital contributions. The business relationship continues during the lifetime of the partners strictly, it has not yet attained the continuing juridical personality of the modern corporation. However, big time businessmen usually incorporate their business venture under the private Corporation Act or register their partnership under Philippines Law (Civil Code). But even with this, such enterprises have remained family corporations or partnership. As a rule, the Moro Muslims have not yet reached the stage of running a highly sophisticated corporate business.

In the City of Zamboanga, the majority of Muslim business organisation is still in the category of sole proprietorship. The partnership ventures are of limited duration and are informally entered into.
Pledge or Security

Pledge or security (*rahn*), as known in *fiqh* (Islamic jurisprudence), to get a loan is common among the Moros of Western Mindanao. The generic term used is ‘*padjak*’ or ‘*padjakan*’ (pawn broker). The contract involves the pledge and security for a simple loan. In Miguindanao, this contract is known as ‘*tihaya*’ (literally means guarantee or security for an obligation).

This accounts for the proliferation of the pawnshop business in the town of Jolo and Zamboanga City. The Muslims who prefer to invest their savings or surplus capital in gold or silver (usually in jewellery) find the ‘*padjakan*’ a convenient means of raising cash. It is impersonal because the transaction could be concluded through an agent (*wakil*) and there is no direct contract as in bank transaction. In other words, the Moro pride (*maratabat*) is preserved and protected. To a Muslim of noble and royal birth, contracting a personal loan is most distasteful as it effects one’s social standing in the community.

Formerly the pawnshop trade involved interest, but Muslims resort to it for lack of an alternative. With the development of Islamic pawning system (*al-rahn*), the Moro Muslims find it more comfortable to deal in such transaction.

Simple Loans.

Under the generic term of ‘*padjak*’ customary transactions, simple loans known in *fiqh* as ‘*qard*’ and ‘*ariyah*’, in the form of loan or lease of chattels and movable, usually implemented in trade or business such as a fishing craft (*payap*), goods and merchandise and even firearms, are common among the island folks. It is known in *fiqh* as *qard* if the loan transaction is gratuitous and *ariyah* if it is for a fee, while a leasing arrangement is referred to as *ijarah*.

Contract of Deposits

*Rural folks usually entrust or deposit their funds or valuable to an affluent relative who is engaged in business either for safekeeping or
investment. The funds or valuables are returned whenever needed by the depositor. If the deposit is for investment purposes, it becomes *musharakah* (partnership) or *mudarabah* (profit-sharing) and not merely *wadiah* (contract of safekeeping deposits). Many Muslims in Western Mindanao, including Zamboanga City, find this arrangement, to avoid *ribā*, more practical and convenient for business beginners instead of keeping there money in banks.\(^{15}\)

*Credit Unions.*

The national government had earlier encouraged the formation of credit unions to mobilize funds for rural development under the comparative programme. This, however, did not make much headway, especially among the Muslims. Among Christian Filipinos, this is simply known as 'pafuwagari' (credit association). The cultural transplant did not receive popular acceptance among the Moros who are still paternalistic and clannish.

The Islamic counterpart is the *qard hasan*, which is a benevolent loan, extended by a well-to-do member of the community in favour of a needy brother Muslim, free of interest and repayable whenever the borrower’s circumstances improve. In case of default, the benefactor may either ask the borrower to repay it in terms of personal services or condone the loan by way of *sadaqah* (charity).

*Barter Trade*

Trading has been an age-old preoccupation of the Muslims of the Southern Philippines, particularly in the Sulu and Tawi-Tawi archipelago. They have traded as far as the Malaysian and Indonesian Islands.\(^{16}\) This traditional barter trade has been branded by the national government as a form of 'smuggling' because it deprived the national treasury of custom duties and revenues.\(^{17}\) However, the liberalization of the barter trade has been under the President Decree No. 93 in 1973 by President Marcos with a primary intention
to discourage the Muslims from joining the secessionist movement following the declaration of martial law in 1972, and to keep the Muslim preoccupied with the legitimate source of livelihood. The three-fold objective of the liberalisation of the barter trade were to: (1) provide economic benefit for former Muslim rebels and the Muslim community in general; (2) legitimise the traditional trade in the Sulu Archipelago, Balabac and Zamboanga de Sur; and (3) promote greater participation of the banking system in the trade.

The Philippines National Bank (PNB) has been primarily assigned to handle banking facilities including designation of correspondent banks and to handle the documentation (Trading Certificate of Registration or TCR) of the barter trade. Although the role of Islamic bank, Philippines Amanah Bank (PAB), was not mentioned, it is likely that its role in this sector must be enhanced in order to meet banking needs of the Moros. The traders were also encouraged to form associations or corporations such as Zamboanga Barter Traders Kilusang Bayan, Inc. (ZBTKBI) in which it is considered as the pioneer registered traders’ co-operative in Zamboanga City. Zamboanga-Labuan (Malaysia) barter trade route has been the first trading route, which began to accommodate many groups of traders. Later an alternative route, Zamboanga-Singapore, has been taken up.

**Modus Operandi of Barter trade**

A common practice among individuals with less capital, even to this day, is to contribute to a prospective trader their capital investment, locally known as the ‘padala’ (consignment or share venture) system. This has enabled them, with little capital, to participate in the barter trade and earn some income. Generally, the trustee is not liable to the contributor in case of loss due to mishap or robbery at high seas. Depending upon the agreement, either profits and losses are proportionately divided in accordance with individual contributions or the merchandise purchased is distributed in proportion to the individual contributions. These transactions have the features of agency
(wakala) and/or partnership participation (mudarabah) and/or equity financing (musharakah)

It cannot be denied, however, that in the early operation of the barter trade, some local traders were either used as 'dummies' of big time capitalists or have been the victims of unscrupulous loan sharks. However, when government banks liberalized their lending terms and many traders were able to establish their credit standing as efficient and honest businessmen, many of them could, in fact, purchase goods in Labuan and Singapore on credit terms. Meanwhile, as the barter trade prospered, many Muslim businessmen themselves provided capital to their fellow Muslims on easy credit terms (qirad and qard hasan or profit sharing and benevolent loan).

**Philippine Amanah Bank: The Government Specialized Bank**

One of the specialized banks having an Islamic banking feature is the Philippine Amanah Bank (PAB). The PAB was chartered on 2nd August 1973 under the Presidential Decree No. 264. It operates as a specialized bank, with the feature of a commercial, development and savings banks, originally designed to serve the special banking needs of the Muslim areas in the Southern Philippines. It becomes evidently as part of the government's response to the Muslim rebellion. Its first primary task was to get involved in the rehabilitation and construction work on the strife-torn regions in Mindanao, Sulu and Palawan.

The headquarters of Philippine Amanah Bank are located in Zamboanga City. Its charter empowers the bank to carry out banking operation on "the basis of Islamic concept of banking following the non-interest and partnership principles", as amended by Presidential Decree No. 541, with an authorized capital of 100 million pesos. The Bank's authorized capital stock of P 100 million is divided into one million par value share of P 100 each. The shares are divided into four classes; Series A and B to be subscribed by the government and the government financial institutions; series C to be subscribed as common
share by Filipino citizens and domestic corporation and entities, 70 per cent of
the equity of which is owned by citizens of the Philippines; and series D to be
subscribed by foreign nationals, their corporate and/or associations. This capital
structure indicates that the government was to hold a substantial portion of the
initial paid-up capital to give the needed commitment of the national leadership,
but more importantly to complete the required P 50 million paid-up capital.^^

Banking operations, beside social grants, of the PAB in the early
period of its establishment entailed interest transaction such as loaning
assistance to supplement its capital from various government financial
institutions. They were made at nominal interest rate. This, in turn, forced the
bank to charge interest on loan. However, consideration of the move towards
adopting an Islamic framework for banking operations has been made. This
includes a study team, which was sent to some Middle East countries to
conduct researches and observation of the existing Islamic banks in the
region.^^

Despite some structural obstacles, an important point can be made for
policy consideration with respect to systems for producing Islamic banking
services. Most of the operations of PAB were based on conventional banking,
such as accepting deposit and granting loans at interest rate, while the Islamic
modes of finance are in the experimental stage. During this period the Islamic
banking component of PAB has been largely limited to the Pilgrim Special
Savings Deposit.

*Pilgrim Special Savings Deposit*

The Pilgrim Special Savings Deposit (PSSD) was earlier launched on 8th
February 1983 upon prior authorization from the central bank to maintain
interest-free accounts under separate special passbook. It was launched to
operationalise the PLS (profit&loss sharing) account. The rationale behind its
introduction was to enable the Muslims to save and be assured of the
opportunity to increase the depositors' funds through investments in all spheres
of trade, commerce and industry that are lawful in Islam. The undertaking of pilgrimage (hajj) represents for the average Muslim a form of mobilizing resources within the framework of certain moral and social priorities. In economic terms, the traveling costs for such journey can be regarded as expenditures from accumulated surplus income, or as one may put it "the expenditures may be entered as transfer payments for invisible imports or travel".25

By launching the PSSD accounts, which works similar to that of the Tabung Haji, Malaysia (discussed in the following chapter), the PAB has taken another step in the experiment on the shifting of its operations from conventional to Islamic banking. During the initial launching of the PSSD, it received nearly one million pesos funds from about 1,300 depositors all over PAB branches in Mindanao (including the Makati Branch, Metro Manila).26 However, its proportion to other types of accounts was relatively small.27 As at 30th June and 31st December 1983, deposits from the PSSD amounted to P 0.883 million and P 0.469 million respectively. For the first semester, this innovative 'pooled funds' yielded a gross income of P 0.029 million. The profit rate of this form of PLS deposit mobilization amounted to P 0.021 million or an earning of P 0.10185 for every peso deposit (that is 10.2 percent). This profit rate is compared above the market rate of return (interest) on regular savings account.28 The PSSD scheme also provides facilities for inward remittances by the Filipino Muslim workers in the Middle East.

Inward Remittances and Investment Programme

Developing the banking habits of Filipino Muslims constitutes a dynamic motivation for the PAB's corporate mission. To improve the channels of overseas employees' earning, the PSSD account was given a special function of fund transfers by Muslims who have relatives working abroad to defray pilgrimage costs. A unique feature was introduced to allow the opening of the account in the name of Muslims who intends to perform hajj and the account
number being provided to his relative working abroad who would then remit regular accounts to the PAB for credit to the said account.

Negotiations in Jeddah for an arrangement to provide remittance and an investment programme tie-up between the PAB and the DMI-owned Islamic Investment Company of the Gulf (IICG) were broached in 1984. This resulted in the exchange of a draft Memorandum of Agreement that after being submitted to the Central Bank of the Philippines, dragged on. As a source of legal documentation for the expanding global operations of Islamic banks, the draft agreement illustrates the extent of progress made in business linkage by the PAB.

The correspondence linkage between the PAB and IICG includes remittance programme, investment programme, and administrative service co-operation. Under the remittance programme, both the PAB and IICG maintains each account against each in US dollars for establishing correspondence and clearing of *hajj* funds of Filipino pilgrims and remittance. With mutual agreement, standard fees or charges against remittance are defined and shared between them in a percentage ratio according to Shari'ah. In addition the IICG makes available its facilities to PAB and provides servicing and promotion of the PAB remittance programme.

Under the investment programme, the PAB and IICG act as an agent of each. PAB assists and makes available facilities to Filipino investors the IICG's *mudarabahs* and other financial investment introduced by DMI Group, including the IICG Group Savings Scheme, when necessary, in the Philippines. In exchange the IICG assists and makes available its facilities for the promotion and marketing of the PAB in its Tabung *Hajj* Saving Scheme (PSSD), equity stock subscription and Islamic *mudarabah* in the Philippines. In addition, the IICG will be ready to give advice for business development or financial technique of PAB based on Shari'ah when and where necessary in the Middle East and elsewhere.
Under the administrative services co-operation, both the institutions provide services and correspondent through each other in relation to the provision of servicing of foreign exchange requirement of the Filipino Muslim pilgrims, transmission of annual fees and hajj funds (via IICG). In addition, the IICG must provide, on request, the training of PAB personnel at its offices on terms and conditions agreed upon.

In the event of any dispute raised between the two parties that is not amicably resolved, regarding the agreement or the implementation thereof, on notice of either party, the dispute will be submitted to arbitration in accordance with the rules of the International Chamber of Commerce in Paris, provided that such rules do not contradict with the Islamic Shari’ah.

Problems Faced by Philippine Amanah Bank

In terms of its overall performance, the major problems and constraints of PAB are as follows:

1. The general lack or absence among the Muslims of the habit or practice of capital formation through cash savings in depository institutions.

2. Lack of sufficient capital among the Muslims to avail of the PAB equity or partnership venture.

3. Lack of sufficient capital on the part of the PAB, particularly its loan portfolio due to its authorized capital limitations, to expand its loan and investment operations.

4. Lack of adequate skills among the Muslims, particularly the prospective entrepreneurs, in projects development and management, thus affecting their credit standing in the society.
5. Skepticism of some people, including some Muslim, on the viability of adopting Islamic banking in the Philippine scenario, due to the inability of the PAB to (fully) implement the Islamic banking system.\textsuperscript{30}

6. Lack of adequate Shari'ah competent advisor and supervisor to offer advice and supervise the PAB's Islamic-based transactions.

7. Being a specialized rather than a full-fledged Islamic bank, it cannot operate fully on the basis of Islamic principles.

8. Lack of personnel manning the bank.

9. The capital structure of the PAB was seen by the Muslim foreign investors as too small to warrant an attractive investment opportunity. This had constrained the bank's capability to conduct international banking transaction.

10. Inadequate infrastructural facilities contributing to slow growth.

11. High rate of unsecured loans which turned out to be a burden on current operation during the second decade of operation.\textsuperscript{31}

\textit{Proposed Guidelines on Islamic Banking Operation}

The imperfections of the PSSD/PLS account were to bring to focus the ineffectual framework and the inadequacies of the PAB's accounting mechanism for its Islamic banking operations. It was the consultative questionnaires prepared by the Supervision and Examination Sector of the Central Bank that took the PAB to task, from which the 1985 Proposed Guidelines emerged.\textsuperscript{32} This proposal was submitted to the special Commission on Reorganization of Banks and the Central Bank of the Philippines.
a) Proposed Amendment to the Charter

The present charter of the PAB has been found to be ineffective in comprehending the operational requirements of carrying out Islamic banking business. Although the proposal was not intended to make the PAB a model Islamic bank, it was envisaged that the bank's charter would conform to the concept and philosophy of Islamic banking, while its other corporate character, as a commercial bank would remain. The proposed Executive Order amending the PAB’s charter are:

1. The draft amendment contains a definition of terms such as depositor, Islamic bank, Islamic banking business, Islamic current account, Islamic participation account, share, the Shari’ah, ribā, and zakat. These terms have their meanings based and adopted from the Model Islamic Banking Act, the Islamic Banking Act of 1983 of Malaysia, the Law of Establishment and Statutes of the Faisal Bank of Egypt, and the Islamic banking law of Pakistan.

2. New provisions are inserted expanding the corporate powers of the PAB to authorize it to engage in Islamic commercial operations and banking services. It empowers the PAB to accept certain types of PLS accounts and to act with full legality on behalf of the depositors’ group in investing such deposits on a profit and loss sharing basis.

3. The authorized capital of the PAB is increased and its recapitalization is to be undertaken by a private offering and public offering of the unsubscribed shares. The capital account of the PAB is restructured to establish a clear separation between the ordinary capital resource and the Islamic share capital resources.

4. A new provision details the rights and guarantees of investors. Another amendatory clause is added to govern the disposal of shares which charges the control or ownership of the PAB.
5. A proposal is made to create within the PAB a Shari’ah Supervisory Council to offer advice and to undertake reviews as regards the application of the principles and rulings of the Islamic Shari’ah on the PAB’s transactions.


b) Proposed Chart of Accounting

In what follows, the general criteria and accounting policies set up in the Tentative Chart of Accounts are outlined:

1. The modification adopts the generally developed Islamic principles and accounting rules on the basis of which the balance sheet and profit and loss statement and the provisions for the zakat shall be prepared or computed.

2. The main accounts are so charted as to include the asset structure and the liability entries, which embody the Islamic deposit accounts and forms of mudarabah/musharakah investments for commercial operations and documentary credit transactions.

3. The accounting mechanism observes the statutory requirement for reserve settlement and for clearing transactions of PLS accounts consistent with Central Bank regulations and monetary policy directives.

4. The accounting system represents an understandable record from which the Auditor and Shari’ah Supervisory Council of the bank can effectively examine the bank’s practices and procedures in order to ensure that all transactions yield legitimate (halal) profits.
The Islamic method of accounting has been, to a great extent, standardized over the years. The varying degrees of experience of Islamic banks and differing effects of regulatory measures have contributed to the discussion on movement towards greater uniformity. After the great achievement through the drawing up of guidelines on an accounting practice for Islamic bank which can be replicated throughout the world by the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) based in Bahrain, the PAB found no more difficulties in its accounting process.\(^{33}\)

**Present Outlook and Future Version of PAB**

Under the secular business environment, the PAB has made a breakthrough in its conduct of Islamic banking and services. However, the bank continued to use profit-sharing mechanism along with interest not simply to substitute one technique over another, but as a transitory measure pending the approval of the PLS scheme. A study committee of the Presidential Commission on Government Reorganization (PCGR) has recommended in principle to privatize the ownership of the PAB. In effect, the PAB can place the PLS system of banking in its proper context once the privatization of the bank is worked out. But, however, the PAB is faced with dilemma, as the government support is still necessary for the public to have confidence in the bank.\(^{34}\)

The monetary authorities in the Philippines must be more receptive to the PLS operation for they see that it has a comparative advantage. For one thing, the importance of an Islamic-based PLS system can be reckoned to gain access to the petrodollar market in recycling wealth or to gain interest from Muslim investors elsewhere. For another thing, the full-fledged Islamised PAB is also tremendously likely to bring in prosperity and wealth to the Philippines. This is materialized via the increasing volume of business activities specially designed for the Muslims in Mindanao to take part in the growth and development of Brunei, Indonesia, Malaysia, the Philippines-East Asian Growth Area (BIMP-EAGA). For the full achievement in utilizing the scheme to
its full extent, the PAB in new version can be efficiently and Islamically legitimate means of capital formation for the Muslims in Mindanao. In fact, some pointers in the evolution of the PLS accounts of the PAB could well guide the structures of an autonomous economic and financial system envisaged for the ‘north-south’ relations in the Philippines. In addition, the Islamic banking industry is likely to provide the institutional linkage between the Philippines and the Islamic world of business and trade.

Having taken those points into consideration coupled with the inefficient operation and poor performance of the PAB, in 26th January 1990 under the Republic Act No. 6848, the PAB was then replaced by another image of full-fledge Islamic Bank under the name Al-Amanah Islamic Investment Bank of the Philippines (AIIBP). Its authorized capital was increased to P 1,000 million divided into 10 million share of P 100 each. The new version of PAB has a religious supervisory council. Its banking operations in terms of deposits and investment are based on the principles of Shari’ah, similar to the Bank Islam Malaysia Berhad banking model.

The foregoing study shows that whatever be the condition of Muslims in Mindanao, i.e., an Autonomous Region for Muslim Mindanao or a separate Islamic State, in either case, the future prospects of the institutionalized of Islamic banking and finance as a capital formation for the development of Muslim Mindanao and of the country, in general, is bright.

SINGAPORE

Introduction

Singapore consists of the main island of Singapore and some 63 offshore islands. It is a multiracial, multilingual and multi-religious city-state of about 3.9 million people. The Chinese comprises 77.2 percent of the total population. The Malay are a minority of about 14.1 percent, while Indians
account for 7.4 percent and persons of other ethnic groups 1.3 percent. Islam is the religion of 14.9 percent residents aged 10 years and above of which 86.3 percent of Muslims are Malays, whereas most of remainders are Indian, with minorities of Arab and Chinese origin.

Singapore is arguably one of the most impressive economic success stories in Asia. Lacking in natural resources and limited in physical size, the island state has triumphed against formidable odds not only to become South-East Asia's first Newly Industrializing Country (NIC) but also to be classified as a developed economy from 1996 by the Organization for Economic Co-operation and Development (OECD). It has also been credited with the distinction of being the most economically competitive NIC and has long remained the financial centre of the region. Enjoying sustained levels of high Gross Domestic Product (GDP) growth since independence, and the reputation of having the highest home ownership rate in the world, with 90 percent of the population owning their houses. Singaporeans are poised to experience a standard of living comparable to that of Switzerland by the year 2000. The island's impressive economic credentials are a source of national pride to Singaporeans and go some way towards explaining the continued political hegemony of the People's Action Party, the ruling party forming the government, since its election to office in 1959.

Singapore economy expanded by a healthy 7.8 percent in 1997 contributed mainly by the global electronic cycle. Although the impact of regional economic activity slowed down began to filter through to segments with a high reliance on regional demand, resulting in an overall deceleration of growth momentum. Helped by the diversified nature of the Singapore economy, industries servicing markets in developed economies were less affected, thereby providing some support to overall growth in 1997.

Although the Singapore economy was less affected by the regional recession, it even worked with the international community to address the
regional economic crisis, pledging loans of US$ 1 billion to Thailand and US$ 5 billion to Indonesia to help them resolve their economic difficulties. However, the Singapore economy is not exempted from the spreading economic turmoil. The Asian crisis has slashed trading volume, causing push the city-state into recession, with an estimated GDP growth in the third quarter of 1998 to be -1.5 percent, rotting with unemployment rate of 4.5 per cent.

It is true in the sense that the Malays who are indigenous people, especially Muslims, in relation to their educational attainment and economic status are generally significantly lower than that of the rest of population. The attempt to forge a unique Singaporean national identity was perceived with cautions by the Malays. For some Malays, it appears that this will put them at a disadvantage. In the area of political representation, there is no electoral constituency in Singapore today where the Malays constitute a majority. Nevertheless, Malays representation exists in the Singapore government, although this is not proportionately reflective of the size of the Malay community in the republic. Malay opposition political parties such as the Persatuan Kebangsaan Malaya Singapura (PKMS) continues to exist but have not succeeded in their attempt at parliamentary representation in various elections.

In order to reassure the Muslims that the government upholds the principles of religious freedom and care for their religious well-being, a council for Muslim religious affairs, the Majlis Ugama Islam Singapura (MUIS)- the Islamic Religious Council of Singapore was established in 1968, under the provisions of the Administration of Muslim Law Act 1966 (AMLA). The MUIS, a statutory body, has been charged with the responsibility for regulating the administration of Muslim Law in the state encompassing duties such as collection of zakat and fitrah (religious tithes and duties), management of the pilgrimage to Makkah, organization of religious schools, administering mosques, and waqf properties, co-ordinating family development programmes, issuing halal certificate and issuing fatwa (religions decree). Another body set
up by the government and the Muslim community, MENDAKI, with the objective to help bring about uplifting the socio-economic status of the Malays. MENDAKI (The Council for the Education of Muslim Children) was formed in August 1982, to promote educational advancement of Muslims especially children. The government has indicated that it recognizes that it is in the interest of all to have Muslim Singaporeans better educated and better qualified and to increase their contribution to Singapore's development.\textsuperscript{51}

**Voluntary Fund Mobilization among Singaporean Malay-Muslims**

During the period of compulsory acquisition of land by the government for urban renewal and development, many mosques have been adversely affected. Muslims have viewed with concern the demolition of their mosques as land upon which they stand is regarded as inalienable. Twenty-five mosques have been demolished since 1968, where between 1975 and 1986, eight new mosques have been built.\textsuperscript{52} In fact, mosques are least affected during the period between 1963 and 1973, only 11 had to make way for public development scheme, while 172 temples were affected.\textsuperscript{53}

For the second-generation mosques, allocated at alternative sites, whose building and management are reflective of the institutionalized approach in fund mobilization. The unique features of this second generation of mosque is the method of funding their cost of construction, maintenance and expansion. To be specific, in September 1975, MUIS inaugurated the Mosque Building Fund (MBF) into which Muslim employees, employers and self-employed contributed voluntarily each month a specified minimum sum, says S$ 1.00. In this connection the MUIS utilizes the machinery of Singapore's compulsory savings scheme, the Central Provident Fund (CPF) for this purpose. Despite at service cost, this centralized collection not only ensures a regular flow of funds and facilitates planning, it also reduces transaction costs, since it is no longer necessary to solicit donation periodically. The fund is also being utilized for the reconstruction, refurnishing, management and maintenance of old mosques in
Singapore. There is, thus, participation by Muslim en masse in the building and management of new mosques in particular and old mosques in general. It is a method reflective of Singapore’s development philosophy that of self-help, especially with respect to financing. For a country with a Muslim minority, Singapore is probably the only country in the world, which has successfully systematized collections for the construction and maintenance of mosques.

The same method is also applied by the MENDAKI. Following the example of the MBF, it calls on every working Muslims to have a small monthly contribution deducted from his salary or to make GIRO\textsuperscript{54} contributions.

Another case of fund mobilization coming close to the process of Islamic banking in Singapore is conducted by KEMAS (Kongress Ekonomi Masyarakat Malayu Islam Singapura or Organisation of Malay Islamic Economic Congress of Singapore). At the congress, held in 1985, it was noted that Malay business had difficulty in obtaining bank credit, and Malays in obtaining employment in major banks, industries, and trading and shipping organizations at managerial and executive level even if they were suitably qualified academically.\textsuperscript{55} At the core of the congress proposals was the establishment of a financial institution, DANAMIS, to mobilize funds and to use these funds to increase the involvement of Malays/Muslims in the business sector.

Specially a two-fold function is envisaged for DANAMIS: (1) it would serve as a voluntary saving scheme for *haji* (along more or less the same lines as the Tabung Haji Malaysia) with monthly contributions ranging from S$ 3 to S$ 20; and (2) to build up an investment fund, again through voluntary contributions to promote the economic interests of its members. Proposing to use the same collection machinery as the MBF and MENDAKI and based also on the mass resource pooling principle, the KEMAS projections indicate that a S$ 100 million fund could be built up in around 10 years. Thus, the volume of resources to be mobilized is far greater than the other two schemes. Unlike the other two schemes, where participants do not expect direct (monetary) returns,
this scheme is somewhat different. It will have to generate adequate net returns to allow it to carry through its ambitious proposals. Thus, considerable management and financial skills will be demanded. Further, to economize on manpower and other resources, its proposals should be carefully dovetailed with those of other existing programme.

The emergence of DANAMIS can play an important role in the voluntary sector. By providing Islamically permissible avenues of investment, it should be able to close the void existing at present and at the same time assist Muslim business. If successful, it will be among the first to break new ground in a Muslim-minority country.  

Islamic Finance among Minority-Muslim Business

Another Islamic Financing activities are practised by the non-Malay Muslim in their business operations, Minority-Muslim Businesses (MMBs). These groups of Muslims constitute around 14 percent of the total Muslim population in Singapore. The MMBs has been focused here for two very good reasons. Firstly, the majority Muslim (Malays) are not prominent in business activity. Secondly, while the minority Muslims from the days of their earliest settlement in Singapore have been engaging in commerce, providing a profile of their present, among other things, saving and investment behaviour. It follows that the non-Malay Muslim, i.e., Arab, Pakistani, Chinese and Indian are engaged in various types of business organization. Among them the Indian, being largest in number, are prominent in this case. According to the data revealed by the Survey of Wholesale and Retail Trades, Restaurants and Hotels 1985, 44.3 percent of the Indian MMBs are sole proprietorship, 28.1 percent private limited companies and 27.1 percent partnerships.  

Source of Finance

Own and family savings represent the main source of initial investments. This is observed to be the case for those who inherited the business as well as
for those who started off as employees. For the latter, the practice of mudarabah may have been employed but its extent could not be determined. This reliance on internal sources could be due to the maintenance of traditional norms, low start-up costs or difficulty of obtaining funds from formal sources.

For subsequent investment, though there is increased reliance on financial institutions, reliance on retained earnings for the running of the business remains heavy. A few informants have indicated that the presence of a large number of banks in Singapore made it relatively easy to obtain credit and discounting facilities. This reliance on conventional or non-Islamic financial institutions may be regarded as being inconsistent with the requirements of Islam. It may be noted that their use of non-Islamic financial institution is presumably due to the absence of formal Islamically institutionalized options available in the country at that time. Possibly recourse is made to other informal (that is unregulated by the state) options, such as mudarabah, and qard hasan (benevolent loans). But again the extent of their use could not be determined.

A proposal was made in 1985 by the ministry in charge of Muslim affairs to set up an investment institution to be run on Islamic principles. Its aim is to mobilize available Muslim funds for investment in order to increase the Muslim share of the economy. While this proposal has yet to see fruition, it could provide a workable Islamic arrangement in a non-Islamic environment.

Current feature and future prospect of Islamic Banking in Singapore

As far as Islamic banking is concerned, there is no restriction on the part of Singapore’s government on any private banking and financial units to offer interest-free banking services. As remarked in 1994 by Mr. Richard Hu, the city-state’s finance minister, “There is nothing to stop the private banks from starting it as there is a market for it ….if they feel it is viable, then (there is) no objection from us.” He added that interest-free banking was so structured that instead of paying interest on deposits, the banks share profits. “The system is quite a
sensible way of doing business and I believe that eventually private banks in Singapore may start it".  

The first bank to offer Islamic banking services is the Singapore's Overseas-Chinese Banking Corporation (OCBC). It offers savings and current accounts that are officially considered interest-free.

Until now, there must be many financial institutions in Singapore that offer Islamic banking services either in the form of Islamic windows, separate departments or full-fledged. As previous to this, many firms especially the small MMBs, for religious or other reasons, were wary of dealing with conventional financial institution. They were asked to rate the success of an Islamic bank in Singapore. Their answers revealed only a negligible degree of awareness and understandings of such institutions and their practices. This is by no mean surprising, since at that time the Islamic banking system have been brought into sharper focus only fairly recently in the wake of the world-wide Islamic resurgence. Its penetration into global banking industry was fairly limited. At present, of the age of no boundary, its acknowledgement must be widely spread and its demand and popularity must also increase and gain momentum. With the Islamic banking industry is already developed in Malaysia, many of such institutions which already have their branches in Singapore may be at services to the interesting clients.

For the country like Singapore to become a truly Asia's Premier business and financial centre, its consideration to broaden its banking and financial industry to engulf Islamic alternative must be emphasized. Its banking and financial services must be diversified like that of the structure of its economy so that its ambition to become the premier island of financial centre in Asia can be more materialized. This will be true if the twenty-first century gives the Islamic banking its due in Singapore.
THAILAND

Introduction

The kingdom of Thailand, formerly known as Siam, is the only nation-state that never been politically, but socio-economically colonized by the Western influence. Most Thai nationals are ethnic Thai. A large minority has mixed ancestry. There are Indian and Chinese minorities, whereas large Thai-Malays live in the South. In Thailand, Muslim represents the second largest religious group, after Buddhism, constituting about 4 percent as claimed by the government, of the total population. Muslim organizations believe that Muslims make up 9.9 percent of the total population. This would mean that in Thailand out of the total number of population of 62.6 million in the third quarter of the year 2000 the mean percentage of both data, that is around 7 percent would make up about 4.6 million Muslim population. Although, they constitutes the majority group in the four southernmost provinces of Thailand, i.e., Satun, Narathiwas, Pattani and Yala, they are also spread all over the kingdom of more than 70 provinces. Obviously the Malay-Muslims constitute the largest single ethnic group within the Muslim community mostly concentrating in the southern regions. The non-Malay Muslims such as Chinese (Haw Chinese), Indian, Persian and Muslim-Siamese live in the northern, central plain, east and northeast regions. Bangkok Muslims are diversified but most of them are of the Malay stock.

Socially, the Malay-Muslims are a strong group, because they live in area contiguous to Malaysia and continue to be drawn towards Malay culture. The non-Malay Muslims as well as those Malay-Muslims residing in non-Muslim predominant area like in the city of Bangkok have assimilated more or less into Thai society linguistically and socially and are hardly distinguishable from other non-Muslims in many ways except, of course, in the area of religious observances.
The Muslims in Thailand are basically of rural background. The majority of them are farmers and small holders. In southern regions, a large number of them engaged in fishery. In Bangkok and other urban centres of Thailand, the majority of Muslims are in better conditions because they work as trader, government employees, agro-based industrialist especially in the production of halal food, tourism, commerce, banking, medicine and law. There are also Muslims in the police force and military. As a whole, the economic profile of the Muslims differs little from that of their Thai-Buddhist counterparts.

The Muslims in Thailand are given a complete freedom in the practice of their religion. In fact, government assistance is provided to the Muslims to subsidize their religious activity. Legally, the freedom of religious belief is recognized and guaranteed in Thailand. There are some laws that have been specially issued for Muslim citizens in this predominantly Buddhist society. The Royal Decrees on Patronization of Muslim citizen 1945 and the Masjid Act (1947) are the two major laws issued in this country. In addition, the Sheikhul Islam of Thailand, which is called Chularajamontri, is vested with powers to look after various Muslim affairs. Muslims in the four southernmost provinces are given special privileges to be governed under the Shari’ah laws on matters relating to family and inheritance. The Ministry of Education, with the good services of Islamic scholars has designed a special Islamic education programme to be incorporated in the general curriculum, in addition to providing support for the pondok school system in the form of subsidy, of course, with some condition. Obviously there is no unitary views about the Thai government intervention in the affairs of the Muslims in Thailand. Some has viewed those government programmes as part of the assimilation scheme aimed at social integrating and de-Islamising the Muslim society in Thailand.

Politically, the problem of Malay-Muslim secessionism used to harass the kingdom. Malay-Muslim separatist insurgent movement led by a number of organizations such as Pattani United Liberation Organization (PULO) Barisan National Pembesaran Pattani (BNPP) or the National Revolution Liberation
Front and other splinter groups were not as formidable as the Moro-Muslim secessionism in the Philippines. Their movements have been reduced so far to a negative level. The desire for cultural, social and economic autonomy by the Malay-Muslims is often viewed with apprehension by the Thai authorities, who are suspicious about them, as secessionist motives. The Malay-Muslims on the other hand, view the reluctance of the government to allow them to pursue their legitimate cultural, social and economic aspirations as evidence of the Thai government design to subjugate them. But successive Thai government, in their efforts to draw out positive responses from the Muslims, have given the Muslim community a range of religious concessions. This strategy had had the effect of motivating 'assimilated' Muslim to undertake the political socialization of their Malay-Muslim brethren and to develop more positive attitudes towards Thailand. With the revival of democracy in Thailand in 1979, Malay-Muslim participation in the political system, as citizens of Thailand and not just Malay-Muslims or Muslims, has been significantly growing especially in terms of their influences in the parliamentary pursuit to draw out more religious rights for the overall Muslims in the country.

**Economic Crisis and Banking Condition of Thailand**

Before we discuss the state of Islamic banking and finance in Thailand, it is better to go through the overall banking and financial condition in the contemporary Thailand.

From the best candidate to join the long established club of the Asian Tigers (Korea, Taiwan, Hong Kong and Singapore), Thailand deserves the comment as the cradle of the Asian Crisis. Since it was from Bangkok that the panic first spread to the rest of the region. The proximate result of Thailand’s crisis was a sorry state of its finance companies. The magnitude of losses faced by the finance companies, at about Bt 700 billion has definitely put an unbearable strain on the Financial Institutions Development Fund (FIDF)’s
capacity, designed to provide stability to the banking system by supporting troubled financial institutions to rescue ailing banks.\textsuperscript{72}

As the Thai economy suffered from a severe contraction during 1997-1998, domestic financial institutions saw their asset qualities deteriorated sharply leading to acute cash-flow problems and confidence crisis among depositors. To keep the financial system from a complete breakdown, the Thai authorities stepped in. Specifically, the government suspended 56 finance companies in 1997, nationalized 4 medium-sized banks (Bangkok’s Bank of Commerce, Bangkok Metropolitan Bank, First Bangkok City Bank and Siam City Bank) in Jan-Feb 1998, and took over seven finance companies in May 1998.

On 14th August 1998, the government intervened in two small banks (Union Bank of Bangkok and Laem Thong Bank) and another five ailing finance companies. Also, in July 1999, the FIDF took over Nakhornthon Bank, which was successfully privatized in September. A small finance company was closed in August 1999 after its recapitalization plan was not approved by the central bank.\textsuperscript{73}

In addition to the intervention measure, the government decided to provide capital support to non-intervened financial institutions. The Thai authorities realized that because of the sharp rise in financial institutions’ non-performing loans (NPLs), their capital funds would descend rapidly and could lead to a meltdown in which most, if not all, of domestic financial institutions could become insolvent. On 14th August 1998, the government announced a financial restructuring package consisting of the implementation of Tier-1 and Tier-2 Capital Support Facilities.

The capital injection under the tier-1 facility was supposed to take the form of an equity exchange with 10-years tradable government bonds. Conditions include: (1) institutions advance end-2000 loan classification and provisioning (LCP) rules; (2) existing shareholders bear associated costs; and
(3) viable restructuring plans are approved by the Bank of Thailand (BOT). As a first step, public resources under this scheme could be used up to a tier-1 capital adequacy ratio (CAR) of 2.5 per cent. Therefore, the government will match any capital provided by new investors at least up to regulatory minima.

As far the tier-2 capital support, capital injection under this facility will be done by the government taking debentures issued by financial institutions with a maturity of 10 years in exchange for non-tradable government bonds with matching maturity and carrying market-related interest rates. Since draw-downs under this facility would be in the form of exchange between financial institutions' debentures and the government's bonds, this facility would not impose a burden on public finances.

Despite the government's capital support programmes, only few financial institutions applied for the assistance. The small number of applications for the government's programmes may, however, be due to its stringent requirements. Amongst the critical comments for the government programmes are: -

- That the tier-1 support facility does not give enough incentives for existing shareholders to join the programme. In particular, to meet the end-2000 LCP rules, for some cases, might be equivalent to writing down their entire existing capital. (The gap between the current level of allowances against bad loans and the requirement according to the end-2000 LCP rules is larger than the existing net worth).

- Although the tier-2 programme aims to provide compensation against losses incurred from corporate debt restructuring or making new loans, because the conditions allowed the government to convert debentures into stock if the capital adequacy ratio falls below 8.5 per cent, financial institutions were reluctant to join the programme for fear of eventually losing control to the government. Furthermore, financial institutions would not get any real liquidity injection as the scheme was simply an
exchange between the institutions’ debentures and government’s bonds.74

As for the recapitalization outlook of Thai banks, the continuing improvement in the country’s macro-economic conditions and investors confidence75 would be positive factors for Thai banks chance to raise new capital.

Despite the government’s financial reform efforts, domestic financial institutions still suffered huge losses as a result of their rising NPLs. In 1999, 13 banks recorded the net losses (unaudited) of Bt 173.5 billion, compared to the losses of Bt 154.43 billion recorded in the same period last year. High NPLs, declining interest revenues, and the tight provisioning requirements are cited as chief attributes for the losses.76

Nevertheless, at the start of 2000, Thai banks had experienced a significant improvement in NPLs from 45 percent to 35 percent. But, however, an analyst77 calls a reduction a ‘myth’. He says the likelihood and wide spread fear is that debt restructuring as currently practised is mostly a matter of sweeping dirt under the carpet. Over half of bad debts that have been restructured, since the crisis hit often through difficult negotiations between lending banks and borrowing companies, have fallen back into the NPL category. As in many of the worst hit crisis countries in Asia the Thai government spent a lot of money it did not have bailing out business and recapitalising banks. According to Rob Collins, an analyst at Univenture, a chemical company in Bangkok, “The national debt has gone from zero percent to 60 percent of GDP and it will continue to rise as the government bails out the banking system”.78

Islamic Financial Movement in Thailand

Islamic banking practice in Thailand has been through long year of transitional stage from the self-managed informal arrangement to government-
regulated Islamic co-operative and Islamic window which can be studied under the followings:-

*Informal Arrangement.*

The Muslims in Thailand are not immune to the influence of Islamic resurgence of the last and present decades. They, too, are caught in the rising tide of Islamic awakening and the growing sense of Islamic identity has led to a desire to infuse Islamic values into their social lives. Islamic studies literature explodes in volume and depth of analysis. Literatures which previously focused on the political problem of Muslim in the south and ethnicity and religious norms are now given more attention to social and economic pursuits including Islamic banking.

The matter related to Islamic banking in Thailand has been focused lately in early 1990s. Before this, many Muslim observant had avoided transaction with the bank for fear to get involved with interest. Although some religious scholars are of the opinions that there is no harm in giving (receiving) interest to (from) non-Muslims or non-Muslims banks, they are quick to add that the ideal thing for Muslim minority living in the non-Muslim state is to organize and support Islamic banking.

The pious and practising Muslims who want to avoid interest transaction find themselves in a dilemma. Many of them especially in rural area of the south deposit their money with the well-to-do people or businessmen especially the Chinese, who are trustworthy and guarantee such return. This has caused advantage to the Chinese for they have utilized the funds for their well-being. Moreover, in Bangkok and its surrounding provinces during the past decade, the process of rapid expansion of the city has made Muslims billionaires, by selling their inherited lands, for they were farmer and owned large pieces of land.  It happened that they had to take their money deriving from selling their land to make a deposit in Malaysia where Islamic banking service is available. Many Malay-Muslims who live in the borderline also do the same to avoid
interest transaction. This process proves demerit to the country's economy as large amount of money is being kept outside the economic system. Some of the commercial bank, for the purpose of raising deposits from the Muslims, opened special scheme, the *hajj* deposit account. But due to interests being offered on this account due to lack of proper understanding about Islamic banking, it ended up not only unsuccessful but also created bad attitude from the Muslims.

Within the Muslim community, both in urban and rural areas, there is now increasing awareness that their dependency on outsiders for daily transactions of agricultural products and necessary items can only be broken through their unity and effective co-operative arrangement. The Muslim poor in the slum areas of Bangkok are now turning to the idea of the co-operative system to relieve themselves of the high prices of their daily needs purchased from Chinese merchants. The same co-operatives also serve as a source of financial assistance to members in need of such relief, of course, free of interest. The profits realized, if any, being used to help needy Muslim students as well as put aside for future interest-free loans to members. Many of such co-operatives are common among Muslim society, but their objectives are primarily for self-relief and their ventures are not so large and diversified to be characterized as a commercial unit. Their recognition from the government is not significant.

*Formal Arrangements (Islamic Savings Co-operative)*

This idea of getting an Islamic financial institutions recognized and sanctioned by the Thai government embodied when Den Tohmeena, a Pattani domicile candidate having been able to hold high position in Thailand's government as a former Vice-Minister of Health-care and Home Affairs, who by predestine of the only God had an opportunity to join ASEAN Shari’ah Administration Conference Workshop held in Manila, the Philippines in 1983. There he had witnessed the progress of Islam in the Philippines especially the existence of Islamic financial institution, the Philippine Amanah Bank. Like
Thailand, the Philippines constitute a small number of Muslims, but they could have access to Islamic banking and why the Muslims in Thailand could not. With this inspiration, he, after return, called a number of Islamic scholars to a meeting that wound up with a resolution for the Thai Muslims to have an Islamic bank. Later, he arranged a number of seminars which were participated by many Islamic intellectuals and specialists from Bank Islam Malaysia Berhad and also the director general of Co-operative Department to discuss several aspects of Islamic banking and to draw out various possibilities regarding its establishment. In this connection, a study on the potentiality of Islamic banking scheme conducted by Committees of National Economic and Social Development revealed that in order to implement the establishment of an Islamic bank in Thailand, efforts should be started from the setting up of small units in the form of co-operatives. Then such units will have to undergo expansion to become Islamic finance companies and ultimately an Islamic bank can be progressively established. In addition, in order to set up an Islamic bank, a legal framework must be drawn and be passed by the parliament. This process will take long time. Instead the establishment of Islamic co-operative will be much more easier with respect to adoption of Co-operative Act to Islamic principles. The setting up of new co-operative is also encouraged by the government.

Ultimately, the first Islamic savings co-operative in Thailand was legally registered under the Co-operative Act 1968 on 30th October 1987 under the name of Islamic Savings Co-operative of Pattani, Ltd. (ISCP). Located in the province of Pattani, it commenced operation on 1st January 1988. From the registered number of 360 members in 1988, the number has increased to 8,186 in 1998, with operating branches in 12 districts in the province of Pattani. Savings deposits with the ISCP rose from Bt 138,944 in 1988 to Bt 17,312,266.86 in 1997 and to 20,119,419.08 in 1998. Mudarabah deposits in 1998 amounted to 6,359,327 or 24 percent of the combined deposits. Working capital of the ISCP also increased from Bt 736,633.83 in 1988 to Bt 43,074,658.46 in 1997, Bt 49,658,022.91 in 1998. Whereas the regular shareholding
funds increased from Bt 576,490 in 1988 to Bt 15,940,590 in 1997 and Bt 20,254,290 in 1998. From only Bt 6,294 profits realized in 1988, during 1993-1996 it could have generated over Bt 1 million in profit. However, due to economic crisis, in 1997 it could generate a profit of Bt 822,451 only. But in 1998, the amount of profit recovered slightly to reach Bt 863,114. The ISCP enabled to pay zakat amounting to Bt 135,164 in 1998, whereas in 1989 the amount was Bt 11,018. The ISCP is now expanding its services to include al-rahn (Islamic pawning) which is in the experimental stage and expected to gain popularity from the public under the existing economic condition. All those figures show that the operation and performance of the ISCP are progressive and can be classified as a steady growth, showing that it received warm support from the Muslim community.

Only after 3 years of the ISCP’s inception and gaining popularity, Mr. Den Tohmeena, the chairman of the ISCP, had ventured establishment of more such institutions in order to expand systematic operational base of the Islamic-based financial business and promote more public understanding and popularity of the viability and profitability of the system for future ultimate aspiration of having an Islamic bank established. Ibn Affan Savings Cooperative, Ltd. (ISC) was officially registered in the province of Pattani under the same Act with subscribed shareholding funds of Bt 200,000 from 100 members. The number of its member later increased to 1,101 in 1998, operating through 4 offices with its headquarters in Pattani and 3 branches in Saiburi (Pattani), Yala and Narathiwat, having total working capital of Bt 34,626,975. During 1992-1998, 6 years of its operation, the ISC experienced some disturbed growth. Although the ISC incurred losses of Bt 149,713 and 578,710 in 1997 and 1998 respectively, its shareholding funds increase steadily during the period. In 1997, ISC’s shareholding funds rose by 24.39 percent from Bt 3,940,010 from 1996 to Bt 4,900,900. But in the following year (1998) the rise was only by 8.64 percent to 5,324,490. Total deposits with the ISC including wadiah, savings, mudarabah, and hajj accounts in 1998 was Bt 27,540,171, of which mudarabah account constituted the largest portion amounting to 23,786,925 or 86.37
percent of total deposits. The years of crisis, thus, had a negative affect over the ISC’s operation and performance arising mainly due to high rate of NPLs and low business activities. The collapse of the Muamalat Savings Cooperative (MSC) which was set up 2 years before the economic crisis (1997) also undermined ISC’s performance as well as public confidence on this type of co-operative\textsuperscript{94}, having unsecured deposits of Bt 400,000 with the MSC. The ISC has set up strategies to cope with the difficulties. Among them it will reduce unnecessary expenditure, manage loan rehabilitation and restructuring and set up a target to be implemented for better performance. Of course, its future progress depends largely on the overall economic condition, public confidence, and well management. Investment in real estate development causes some worry, unless unsecured loan from this sector can be reduced, its working capital will increase and thus investment and profit of the ISC will increase.\textsuperscript{95}

Another newcomer to join the industry is situated in Bangkok. Being registered under a type of servicing rather than savings\textsuperscript{96}, the Santichon Islamic Co-operative, Ltd., (SIC) was legally registered under the same Act on 11th November 1996. It was set up to provide an alternative Islamic co-operative services to the Muslims in Bangkok and its surrounding provinces including Nonthaburi, Samuth Prakarn, Ayodhaya, Nakorn Nayok, and Chacherngsao. The initial shareholding fund was Bt 1,224,700 contributed by 122 members. At the end of December 1998, the SIC’s member increased to 737 having shareholding funds of Bt 2,759,600 and generating a net profit of Bt 133,673.87 as against last year it was Bt 54,296.17.

Deposits with the SIC in savings account increased from Bt 2,387,411 in 1997 to Bt 4,557,432. The mudarabah deposit, which was open in 1998, accounted for Bt 960,000 or 17 per cent of the total deposits.\textsuperscript{87} The future prospect of the SIC is promising mainly supported by the better conditions and volume of business activities of Muslims in Bangkok and its surrounding provinces. Within the next few years, the SIC is likely going to catch up with other older established Islamic savings co-operatives.
Common feature of Islamic Co-operatives

All Islamic co-operative bears more or less similar features in terms of their objectives, methods of operation and regulation. They are registered under the Co-operative Act 1968, by which their accounting methods will be regulated and audited by the Department of Co-operative Account Auditing. All Islamic co-operative must comply and live up to the required co-operative accounting standard. At the end of any financial years, all co-operatives must arrange annual members’ meeting by which all members will be informed about the overall performance and operation of the co-operative during the year as well as the operation or target of the coming year will be sought out. Usually, being small in their size in terms of capitalization, the financial circulation of the Islamic co-operative will not exceed Bt 100 million. Common objective and operations of the Islamic co-operative are as follows:-

a) Objectives

1. to procure and sell necessities to its members.

2. to procure factors of production and other raw material needed by its members.

3. to collect and sell output on behalf of its members.

4. to receive deposits and encourage savings.

5. to lend money and capital for investment on interest free basis under the principles of wadiah and mudarabah.

6. to encourage economization, improvement of standard of living, helping each other and self-reliance among members.

7. to promote education, standard of health and spirit for the betterment and peacefulness of society.
8. to stimulate market innovation, design and improvement of technology employed applicable in the process of production and marketing

9. to provide better understanding related to the co-operative and business administration according to Islam.

10. to manage hajj and umrah programme and other religious facilities for its members.

11. to affiliate with the government and other co-operative to achieve the objectives of legislature under Co-operative Act 1968.88

b) Operational Funds.

All the operational funds for the co-operative, which bring about the most benefits to its own operation and its own members, come from various sources as follows:

1. Monthly shareholding funds from its members (regular shareholding funds)

2. Special shareholding funds (mudarabah funds)

3. Deposits under wadiah funds

4. Donation of either money or assets

5. Government subsidy (provincial development funds)

c) Business operation of the co-operative

All funds derived will be invested in business for the benefits or return to the members. There are a number of channels through which the funds can be invested on the principles of Shari'ah, such as buying-selling business joint venture investment projects, occupational extension business and others.
1. Buying-selling Business

In this type of business the Islamic co-operative will invest in selling commodities such as car, motorcycles, fertilizer, fuel, gas, land and real estate, and other in cash or credit on the basis of murabahah.

2. Joint venture investment projects

There are 4 types of joint venture investment in general.

2.1. Joint venture project between the co-operative and its members. It is the assistance projects to its members, such as housing and real estate development, an insurance company project and land development project.

2.2. Joint venture investment project between its members and the co-operative. Under this type, the co-operative invests part of the project and opens an option for its interested members to join. A member of projects of this type have been launched by the ISCP such as land development, fruit tree orchard and other.

2.3. Occupational Extension Project. In addition, to the investment projects mentioned above, there are some occupational extension projects to supplement the investment funds either to extend the existing enterprises or to start a new one to its members. This type of investment by the ISCP includes an investment to fish and cow farming group, and an investment to selling small-assorted shops.

2.4. Housing Construction Project. This is a special type of project that includes the construction of new houses, the annexation and completion of the furnished ones.
d) Monetary welfare to the members.

Under this scheme, the Islamic co-operative manage occasional and periodical programme for the welfare of its members such as public healthcare, summer vacational camp for children, weekend Islamic teaching. Some co-operatives such as ISCP distribute a lump sum of money to the family of deceased member to match the fund for the funeral and burial rituals. zakat funds collected and received from the members will be administered according to the rule of Shari’ah. Most of the co-operatives have set up zakat fund division to channelize the funds according to the rule of Shari’ah. Obviously, the practice results in general welfare of the community.

Of course each Islamic co-operative has its own religious supervisory board to provide advice and supervise its own operation to be complied with the Islamic principles. It is interesting to note that all co-operatives, working on interest-free, deposit money with the bank for safe custody especially those of current and savings account. Return (interest) from such deposits (savings deposits) to the co-operative is utilized for public utilities as advised by its own religious supervisor and by some religious scholar. Most of co-operatives have no vault to keep such large amount of money and, therefore, they are forced to make such deposits with the bank for the sake of safety and convenience. This has resulted a loophole for the Islamic co-operatives to inevitably involve with interest transaction despite the returns of such deposits are not meant to constitute part of the profit. It may evoke some doubt from the public, unless they can avoid deposits of such liabilities either by having their own vault or the money be utilized for investment in short period. But, of course, such deposits which are liabilities of the co-operative are not meant to be invested or, in other word, all of such liabilities cannot be invested since they must be available on demand. However, if the amount deposited with the conventional bank is in the category of interest-free basis, which are available in some banks i.e. Islamic window, then all suspicions towards the co-
operatives’ operation involving interest will not emerge and their operations will be more conformed to Islamic Shari’ah.

**Islamic Banking in Thailand**

The establishment of an Islamic bank in Thailand can bring a number of advantages to Muslim society and to the country as a whole. First and foremost, it can refrain Muslims from involving with interest transaction and enable them to be more comply with Islamic Shari’ah regarding their economic activities. Second, It encourages savings and investment and hence capital formation required for economic growth and development in which Muslim can take part in the process. Third, It will absorb money that scattered outside the economic system into the system and hence facilitate more utilization of the circulation of the supply of money in the country.92

Considering those advantages, a number of Muslim parliamentary members who had formed a unity group named *Wahdah* in February 1986 under the leadership of Den Tohmeena, acted in this regard on behalf of Muslim society. The group, which has a primary objective to improve the religious rights and status of Muslims as a whole through the parliament, has achieved in gaining religious right for Muslims such as on the matter of scarves wearing for Muslim girls students, name conversion to Muslims name, etc.. They are now working hard towards gaining government sanction to set up an Islamic bank in Thailand.

In 1995, the Prime Minister Banharn Sillapaacha expressed keen interest to set up an Islamic bank in conjunction with the government economic development scheme in southern Thailand’s provinces in collaboration with Malaysia and Indonesia, i.e. Indonesia, Malaysia Thailand - Growth Triangle Development Project (IMT-GT). As a matter of fact, Indonesia and Malaysia have already implemented Islamic banking, the setting up of an Islamic bank in Thailand will be desired for better implementation of the growth project.93

Obviously, with the setting up of Islamic bank, Muslims, being a majority in the
South, are keen to take part in the process of growth and development of the country, once they are given an opportunity to access to permissible mean of capital formation. However, the expression of the prime minister was not materialized due to the end of his term in position.

Under the successive Prime Minister, General Chavalit Yongchaiyut, the implementation of Islamic banking began to take shape. In the meantime, the Ministers' Resolution has commissioned the Economic Department of the Ministry of Finance and Bank of Thailand to pave the way for the specialized banks of the government to offer Islamic window immediately before the year-end of 1997. For the full-fledged Islamic banking, the Ministry of Finance has been delegated to undertake study of its details and viability of its establishment. The Muslim group of parliamentary member, Wahdah, was proposed by the Minister of Finance and Bank of Thailand to draw up a legal framework for Islamic Banking Act to be passed by the parliament.

During this period, Savings Bank (Bank Omsin or Omsin Savings Bank) and Bank for Agriculture and Co-operative etc., have opened up Islamic windows to offer Islamic banking services through their banking infrastructures in some branches with separate accounting and operating system along Islamic lines, advised and supervised by religious scholars nominated by Sheikhul Islam Office (Chularajamontr). In this connection the Bank of Thailand has drawn up some guidelines for any interesting commercial banks that want to provide Islamic banking services. The guidelines includes:

1. The proposed bank must inform its decision to offer Islamic window unit, including name of the branch, to the Bank of Thailand at least 7 days before the commencement.

2. Under the interest-free banking operation, the bank must raise its capital and deposits and that the funds must be operated free of interest. Moreover, the bank cannot borrow from other institution involving interest transaction.
3. All property, liability and obligation, and accounting system of Islamic window must be completely segregated from other conventional operations.

4. The bank must inform its client and Bank of Thailand with regard to its Islamic banking operations.

5. Profit from interest-free banking operation of the bank before its distribution to the depositors and investors must be correctly audited after deducting its expenditure and provision for bad debt and reserve for depreciation of property.

6. The bank must nominate at least a religious supervisory councilor and must inform the Bank of Thailand in case of any change.

7. In case the bank wishes to offer more Islamic banking services other than already granted, the bank must have prior permission from the Bank of Thailand.

8. The Islamic banking operation of the bank must comply with the rules and regulations of Commercial Banking Act with respect to, such as, statutory requirements and etc.

9. The Bank of Thailand has a right reserve to all amendments it deems fit with respect to Islamic banking operation.

Among the commercial banks offering Islamic window, Bank Omsin or Omsin Savings Bank is more progressive. It started providing Islamic window in the beginning of 1999 with a pilot-branch in a provinces of Satun situated in the south of Thailand due to its readiness and less competition. Later its branches in the provinces of Pattani and Yala provide Islamic windows. The bank accepts three types of deposits, i.e. wadiah, hajj and umrah, and mudarabah. It provides financing based on the principles of murabahah (cost-plus), ijarah (leasing), hire-purchase and mudarabah (profit-sharing). The bank has also set
up zakat division of respective branches derived out from the profit and that the zakat will be distributed according to its respective branches advisory councilor's consideration. At end-July 1999, total deposits with Islamic windows of the bank amounted to Bt 28,984,311. The bank recently provided more branches' Islamic windows in the province of Narathiwas, Hadyai, Songkhla and Bangkok.\textsuperscript{96} In future, it is expected to expand more Islamic window operation to cover about 60 units of its branches.\textsuperscript{97}

However, the system of Islamic window offered by the conventional banks has drawn up public protest and doubt. The leaflets of protestation distributed by many organizations added to its suspicion. Many protestants demand a full-fledged Islamic bank instead of Islamic window through conventional bank. They viewed such arrangement as 'selling goat in pig store'. In other words, they do not want to support permissible banking transaction offered by unethical institutions. In addition, they viewed such government arrangement, i.e., Islamic window, as a mean to absorb funds from Muslim depositors to support cash-flow problem of the government's bank during economic crisis. They also provoked realization among Muslims to prevent and eliminate interest-based banking system instead of promoting efficiency of the conventional banking institutions. If the government is really sincere and willing to implement Islamic banking in Thailand, Islamic Banking Act should be passed and an Islamic bank should be established. The help to eliminate and alleviate poverty and economic difficulties of the society is better than to foster the progress of fake economy, i.e., to support ailing banking institutions.\textsuperscript{98}

The protestation is not surprising. As the matter of fact, people have right to resist or agree to any issue. To some extent, the protest has an advantage of drawing up public interest relating to Islamic banking which in turns promote wide understanding of the system among people particularly Muslims. However, one strategy my be adopted to give them a chance to try i.e. a chance for conventional bank to offer Islamic window and whenever a clear violation is noticed, they may be reminded to correct or close the operation.
Moreover, if an Islamic bank of Thailand is going to be established, arrangement of how to raise capital is not difficult. Rather inadequate competent personnel and banking infrastructures may prove to be cumbersome. Thus, in the initial stage of Islamic banking development in Thailand, cooperation of conventional banks in terms of Islamic window must be welcomed.

However, the protest has severe impact on Islamic banking development in Thailand. On the one hand, some Muslims and Muslim organizations are reluctant to deposit and invest their money with Islamic window offered by conventional banks for being doubtful. On the other hand, a number of commercial banks that show keen interest in opening up Islamic window seem to have the same doubt and dare not take the step.99

With respect to the Islamic Banking Act, the matter becomes highly politicized. Under the New Aspiration Party-led government under the Prime Minister, General Cavallit Yongchaiyut, the implementation of Islamic Banking Act and Islamic bank has been about to take shape. However, the economic crisis caused him to step down and immediately the Democrat Party under the leadership of Chuan Leekpai succeeded in forming the government and eventually he became the Prime Minister in 1997. Under Chuan Leekpai, the proposed legal framework of Islamic Banking Act was dropped without any clear explanation.100 This has upset Muslims all over the country, for over a number of years of struggling to have an Islamic bank established in Thailand has come to an end under the decision of the Prime Minister Chuan Leekpai.

Many Muslim organizations including Sheikhul Islam, Chularajamontri, showed their disagreement against the Prime Minister’s decision. Those who previously protested against the system of Islamic window and demanded a full-fledged Islamic bank are now disappeared into the thin air, when the final decision of not passing Islamic Banking Act was made.
The Future of Islamic Banking in Thailand

Despite the decision of the Prime Minister Chuan Leekpai has upset Muslim community in Thailand, they do not give up the hope of having a full-fledged Islamic bank. Many Muslim intellectuals have opined that the decision of the Prime Minister was unwise. For he deprived the country of its opportunity to gain commitment from the Muslim community, having total scattered money outside the economic system amounting to approximately Bt 2.7 billion, in the process of capital formation necessitated in the process of economic development.¹⁰¹

Under the present condition of economy, the crisis caused severe impact to the overall economic activities. Even some sectors of economy which are believed to be less affected by the crisis, such as food-produced industries for the people have to eat, are not exempted from the turmoil. Many food-producing industries had to close down due to cash-flow problem. According to vice-professor Dr. Winai Dahlan, a chairman of Fat and Oil Research Centre, Department of Medicine, Chulalongkorn University, Bangkok, Thailand, “the crumple of Thai economy is mainly caused by interest. He quoted the comparison of the West the term of 'currency' as the 'blood' that needed by several organs of human body. Finance company and banks are, hence, duties as blood vessels. Similar to human body all business sectors need money, as the body needs blood. Interest is, thus, viewed as an 'invisible heart' that injects money into business sectors like human heart that injects blood to several parts of organ of the body to stay survived. The difference in the interest rates is the key principle for the finance companies and banks to stay in business. When they cannot redeem their debt, they cannot pay back and that causes bankruptcy. In this way the country experiences heart attack. With no other way out, the Thai government has to call in the IMF rescue. The IMF rescue package not only causes more public debt, several regulations or conditions imposed by the IMF are proved to be 'invisible foot' that lessen national heritage of Thailand. Thus, the invisible heart brings in invisible foot".¹⁰²
If the country adopts to implement Islamic banking, Thailand could have access to borrowing on the basis of interest-free from various countries of the world especially from the oil-rich Arab countries. The government's plan to implement the IMT-GT project also needs financial intermediary operating on interest-free basis if the country wishes to obtain Muslims' commitment, who speak the same language and possess the same tradition with the people of Malaysia and Indonesia, in the scheme. Their commitment means half of the success. Another progressive programme that constitute major part of export revenue to the country is the production of 'halal food' (Islamic permissible or edible food). According to Wan Mohd. Nour Matta, former speaker of Parliament of Thailand, “halal food products constitute a food for over 1,300 million Muslims all over the world. Thailand has the potentiality of her halal food production development that can supply to the Muslim world markets. With the popularity of Thai food becomes well-known and quality of Thai product meets international standard, Thailand’s halal food industry is promising for Thai Muslims”¹⁰³ For the halal food product of Thailand to be internationally accepted and remained competitive in the world market, it must be effectively produced only by Muslims.¹⁰⁴ Certainly, for the expansion of halal food industry, large volume of capital must be needed. And this kind of capital can only be provided through Islamic banking system, so that the food produced will not be contaminated by dirty finance that involves interest.

Under present situation, Thai economy confronts with severe illness caused by interest mechanism. The country is looking for a suitable method that can heal such illness. Islam can be another alternative concept that can cure such ailing economy, only if the person in power does not have any pessimism against Islam. With the close connection of businessmen, industrialists, and, particularly, bankers to the persons in power, Islamic bank finds various obstacles to be established. With the help of present situation, when the country is in a dire need of an alternative method to heal and cure economic crisis, it is possible that the successive government may seriously
consider establishing an Islamic bank. If not, Thai Muslims have to wait for a long time to come.

Thus, Islamic banking institutions can be organized even in many Muslim-minority countries in South-East Asia. Despite the fact that their performance, magnitude and development may not be able to compare with that of the Muslim-majority countries, the existence of Islamic banking institution in Muslim-minority countries shows that the size of Muslim population is not a barrier. Although they may face many obstacles to access to such system, their will-power to exercise Islamically permissible means of livelihood will remain with them forever and that will bring them to an ultimate goal.

NOTES & REFERENCES


2. *Asiaweek*, Hong Kong, Asiaweek Limited, September 1, 2000, p. 64.


of Southeast Asian Studies, 1988, pp. 23-24. But for more detail of these points, see Majul, Cesar Adib, op. cit. pp. 159.


13. Business and commercial practices including modes of finance among the Moros have been earlier influenced by Islamic Law and jurisprudence with the blending of Adat law (law of tradition) [Buat, Mohd. Musib M., "Muslim Businesses in Mindanao" in Ariff, Mohamed (ed.), The Muslim Private Sector in Southeast Asia, Singapore, Institute of Southeast Asian Studies, 1991, p. 29.


15. Those who perceive that all bank including Philippine Amanah Bank (PAB), in one kind or another, involves interest transaction, find it more practical and convenient to avoid banking deposit. As the time passes and then conception towards the new version of the PAB, which is more conformed to Islamic Shari'ah, become clear. This type of deposit may loose its significant as they will find more and more convenient to make
such deposit or, even, investment with the institution (PAB) rather than among themselves.


23. Social grants of the PAB consisted of: (a) unsecured loan for rehabilitation of hard-hit areas of conflict; (b) land purchases for the
resettlement and rehabilitation of rebel returnees and evacuees; and (c)
advances for financing consultative and negotiation activities. [Ibid, p. 
108].


27. Consider the table below, PSSD deposits are relative small.

Comparative Liabilities of PAB and its Deposits* (in million pesos)

<table>
<thead>
<tr>
<th>Deposits</th>
<th>1985</th>
<th>1986</th>
<th>1987**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand</td>
<td>17.7</td>
<td>26.8</td>
<td>29.7</td>
</tr>
<tr>
<td>Savings</td>
<td>22.2</td>
<td>26.1</td>
<td>30.5</td>
</tr>
<tr>
<td>PSSD</td>
<td>0.7</td>
<td>0.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Time</td>
<td>146.7</td>
<td>132.0</td>
<td>135.1</td>
</tr>
<tr>
<td>Total</td>
<td>187.3</td>
<td>185.4</td>
<td>196.7</td>
</tr>
</tbody>
</table>

** Figures have been rounded.


29. Ibid, pp. 119-121.

30. Buat, Mohd. Musib M., "Islamic Banking and Finance: Implications on Economic Planning and Project Development" (paper presented at a 
symposium on Islamic Banking and Finance, Manila, 13 December 1983, sponsored by the SGV Development Centre and Philippine Amanah Bank.


34. The study has been quoted in Mastura, Michael O., “Islamic Banking: The Philippine Experience”, op.cit., p. 133.


41. Ibid, p. 32.


43. Ibid.

44. Ibid.


48. The awareness of the special position of the Malays is enshrined in Article 89(2) of the Constitution of Singapore which states that the government “shall exercise its functions in such a manner as to recognize the special position of the Malays, who are the indigenous people of the state, and accordingly it shall be the responsibility of the government to protect, safeguard, support, foster, and promote their educational, religious, social and cultural interests and the Malay language. [Singapore Constitution, Order in Council, 1958].

49. The other includes ‘Angkatan Islam dan Persatuan Malayu Singapura’. See Ministry of Communications and Information, *Singapore 1986*,


54. Giro refers to as banking service by which payment can be made by transferring credit from one account to another.


58. Tyabji, Amina, op.cit., p. 70.

60. Ibid.

61. The statement was quoted by the Business Time during a two-day official visit to Malaysia, and was reproduced in *Islamic Economics Bulletin*, Aligarh, Indian Association for Islamic Economics (IAFIE), Vol. 4, No. 4, July-August 1994, p. 2.

62. The remark was quoted by the Economic Time, 9th June 1994, and was reproduced in the *Islamic Economics Bulletin*, ibid.


64. Tyabji Amina, op.cit., p. 73.

65. Officially deny, there is a contest, but the rivalry between two of Asia's greatest cities, Hong Kong and Singapore, is heating up. They are both free ports with ambitions to become Asia's premier business and financial center after Japan. Bacani, Cesar, "Who has the Edge? - Hong Kong versus Singapore", *Asiaweek*, Hong Kong, Asiaweek Limited, Vol. 24, No. 47, November 27, 1998, p. 60.

66. Siam, as the country was known, managed to remain an independent state because, among other things, the French who occupied Laos and Cambodia and the British who occupied Burma (Myanmar) and Malaysia wanted a buffer state between their colonial possessions. Whereas in terms of social norm and economic pursuit, the country is more inclined to western influences.


68. In the city of Bangkok and its surrounding provinces like Ayodhaya, Nonthaburi and Pathumthani, there concentrates Muslim from the Malay stock. They can be traced back into the 18th century. Most ancestors of the Malays who are Muslim that came to settle in Bangkok are from the
Kingdom of Pattani who was ruled under the Kingdom of Siam. During that period, for some reason, the Sultan of Pattani rebelled against its royalty, the King of Siam, then, sent force to curb the rebel. A lot of Pattani subjects were swept and taken to the city of Bangkok and its surrounding provinces. [RISEAP, ibid, p. 209. Also in Council of Islamic Affairs of Bangkok and the Foundation of Islamic Center of Thailand, Muslim in Thailand, Bangkok, 1998, pp. 12 and 41].

69. Generally the pondok school is private-run institute. In exchange of support from the government offered, the government must gain control over such institute. This control is, of course, viewed by most of the Islamic teachers and principals as a kind of government interference. They usually refrain from such assistance.

70. Prapertchob, Preeda, "Mobilization of Resources Through Waqf in Thailand", in Ariff, Mohamed (ed.), The Islamic Voluntary Sector in Southeast Asia, op.cit., p. 234. To recall some part of history about Thai government policy toward Muslim minority, it is interesting. In 1938 an ultra-nationalists government took power, which was determined to assimilate the Malay-Muslims. The 1939 Thai Custom Decree attempted to turn all minorities into Thais. Officially government policy is that all Muslims are ‘Thai Muslims’, irrespective of ethnic background, and should integrate more fully into Thai society. This applied mainly to Muslims in the south of the country. Many Muslims are also encouraged to use Thai names and to revert their Thai names into Muslim names will face high degree of difficulties or will not be granted. Many things of the like also happened against Muslim such as rename of their ancient place’s name, Buddhist migration into their land was encouraged, and etc. Even though these conditions have been better off in recent period as more and more freedoms are being provided for Muslim, because many Muslim Cabinet members can reach high rank in politics, sit in the parliament, acting for the favour of Muslim mass. But, however during
those period of undercurrent, many uprising evoked in the form of guerrilla or secessionists. Many of whom could not tolerate left for Malaysia and Saudi Arabia. [Cf. RISEAP, op.cit., pp. 209, 217].

71. Recently such concessions are as Muslim girls can cover their head with scarves in schools and government departments and at the time of posing a photo for identity card and passport, Muslim recruited soldiers can leave their duties on the occasion of Muslim festivals, Muslims are not forced to pay homage and royalty to the government status, flag and to the King to the extent that would cause them infidel, etc.


74. Ibid, pp. 10-11.

75. The lack of investor’s confidence both feeds and is fed by substantive economic problems. As the stock market has faded and economic reforms stalled, overseas investor have fled. In the first six months of the year 2000, foreigners withdrew more than US$ 650 million from the market. And after rising much of 1999, private consumption has dropped steadily this year (2000), according to the Bank of Thailand [Cheng, M. and Gearing, J., “Slow-Motion Reform”, Asiaweek, Hong Kong, Asiaweek Limited, Vol. 26, No. 30, 4 August 2000, p. 59].

76. Manoleehagul, Pisarn, op.cit., p. 11.

77. The analyst, who is quoted here, asked not to be identified [Cheng, M. and Gearing, J., “Slow-Motion Reform”, Asiaweek, op.cit.].
78. Ibid.

79. The process of selling inherited land is common among Muslims in Bangkok. Most of them, mostly uneducated, sell their land because they want to get rich without much effort. In such case the money will be quickly spent and finished in no time. Some of them sell land in the city because, on religious purpose, they want to be rid of the city full of evils, and with the money they get, they buy land and settle down elsewhere far from city. Some Muslims who are well educated and farsighted, instead of selling their land, they manage on their land by building up apartments and commercial centers. They become very active in business. But, however, with no Islamic banking facility in the country, in order to raise the capital needed, they have to resort to commercial banks.


83. ISCP (Islamic Savings Cooperative of Pattani Ltd.), *Annual Reports* (various financial years).

84. The collapse of Muamalat Savings Cooperative (MSC) was mainly due to poor management and lack competent manager and staffs who mostly do not really know how to run such organized financial institution. Most of them are Islamic teachers having no degree of management.
The collapse of MSC obviously undermined public confidence towards Islamic type of savings cooperative. It is said that even the ISCP, which is firmly established, faced some difficulties during the collapse as people made their withdrawal from ISCP for fear of loosing their deposits. But after the panic subsided and widespread explanation, they started to return their deposits [Interview with the ISCP’s Acting Manager, Mr. Wae Asae Waehama, April 2000].


86. Santichon Islamic Cooperative Ltd. (SIC) is the first cooperative to be set up under the category of servicing, with a view to be able to exercise more aspects of financing and investment rather than being a savings institute. This helps the SIC to expand its structure of capital in future. [Santichon Muslim Foundation, *Santichon Muslim Foundation 10th Anniversary & Santichon Islamic Cooperative Ltd.*, Bangkok, Santichon Islamic Foundation, 1996, p. 34].


88. *Annual Reports* of various Islamic Savings Cooperatives in Thailand.


90. Ibid.


92. It has been estimated that savings of the Muslim community in Thailand including zakat funds, money with the Islamic Savings Cooperatives and within other institutions outside country as well as in the house amount to approximately Bt 2,700 million. With the setting up of an Islamic bank in the country, these amounts of money will not be scattered [Navarat,
According to the group of Pattani’s Board of Trade, under the consideration of Asian Development Bank located in Manila, specifies that Islamic banking would be the heart core of the success of IMT-GT. [Tohmeena, Den, op.cit. pp. 50 and 57-59.


The strategy of launching a pilot branch in the province of Satun by Bank Omsin (or Omsin Savings Bank) is a wise decision. In Satun, Muslims constitute a majority and mostly advance in terms of education and Muslims are less pessimistic towards conventional bank and are more integrated lingually to Thai culture. Moreover, in other southernmost provinces, i.e., Pattani, Yala and Narathiwas, there are many Islamic Savings Cooperatives that are well-established and gaining popularity. The launch of Islamic window by Bank Omsin in these three provinces as its first step might prove to be inefficient due to high rate of competition.


Interview with Surin Pitsuwan, former Minister of Foreign Affairs, during his visit to India on 9th July 2000.


104. Many *halal* foods in Thailand are being produced by non-Muslims or non-Muslims industries. By getting *halal* Certificate from Sheikhul Islam Office, Chularajamontri, they can produce food products with label ‘*halal*’ attached. But for a real Muslim observant, this method creates some doubt (*shubha*), as how can a non-Muslim produced food to be consumed by Muslim. This is ridiculous.