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PROPOSED GUIDELINE IN TRANSFORMING KHAIRAT DEATH FUND TO ISLAMIC MICROFINANCE IN YAHA COMMUNITY, YALA, THAILAND

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Abstract

The khairat death fund is vital in easing the financial burden on families of the deceased and ensuring proper handling of their affairs. However, there is little research on converting the khairat death fund into an Islamic microfinance institution. This study investigates the fund's background and practices and proposes a management model that aligns with community-based financial institutions and Islamic microfinance standards. Through qualitative methods of in-depth interviews with seven head officials of the death khairat money in Yaha subdistrict, Yala, Thailand, the study reveals that the fund originated to mobilize community support during member deaths. The fund is managed by a committee with clear rules to ensure equal service to members. The study identifies the potential for five Khairat Death Funds to be established as Islamic microfinance systems based on Wakalah and Murabahah principles, contributing to the fund's evolution into a significant financial instrument in the future.

Keywords: Khairat Death Fund, Islamic Microfinance, Wakalah, Murabahah, Thailand

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Introduction

In rural areas of southern Thailand, mosques or Muslim communities often establish Khairat Death Funds to ensure that funerals for fellow Muslims are conducted properly and in accordance with Islamic requirements. These organizing mosques are considered organic associations (Muhamat, 2014). Such social death funds (khairat) are crucial, as many Muslims in rural areas are self-employed and not covered by any other death funds (Mirza et al., 2022). The average cost of a funeral for a deceased Muslim (Mayyit) in this region is around THB 14,000, varying with family and community traditions. To assist with funeral costs, the Khairat Death Fund (KDF) was established to help manage these expenses for its members. In Thai Muslim communities, when a member dies, other community members provide financial assistance, known as "nawat death", which varies based on the giver's economic ability and relationship with the deceased. While the cost may be manageable for wealthy families, it can be burdensome for poorer families, making the KDF's role crucial in providing necessary financial support.

Despite its widespread practice in southern Thailand, the operation and management of the KDF have not been thoroughly studied. This research aims to explore the origins of the KDF, its current practices, and the potential for transforming it into an Islamic microfinance (IMF) institution. In Thailand, the KDF is managed by either the village mosque or community members, but a deeper understanding of its functions and effectiveness could enhance its impact on low-income families facing funeral expenses. Ultimately, this insight could help build a robust Islamic microfinance model for the community.

Literature Review

Role of Microfinance

Microfinance (MF) programs can help reduce income inequality by providing small loans to individuals without access to formal financial institutions, enabling them to invest in productive activities. Despite their importance in improving borrowers' well-being, MFIs cannot assist effectively if their own financial performance is poor (Hemtanon & Gan, 2022). In Thailand, MFIs fall into three main groups (Bird et al., 2011): formal MFIs like commercial banks and SFIs regulated by prudential regulations; semi-formal MFIs like cooperatives, SGPs, and VFs with legal status but not regulated by prudential regulations (Tambunlertchai, 2015); and informal MFIs, such as village-level saving groups not regulated by government legislation.

Microfinance plays a crucial role in supporting communities by providing essential financing to reduce inequality and boost productivity (Jachimowicz et al., 2022). For the poor, financial services are vital for managing expenses that often exceed their income due to lifecycle events (e.g., marriages, home construction), emergencies (e.g., sickness, death), and investments (e.g., education, festivals) (Beegle & Christiaensen, 2019; Katterbauer et al., 2022).

Islamic Finance Contract

Murabaha contract is the resale of a commodity from seller to buyer at profit margin. The buyer agrees to purchase the commodity at the new price, usually repaid in instalments. Commonly used for financing assets or working capital like raw materials, machinery, or equipment, murabaha must meet specific criteria to be Shariah compliant: the financier must first own or procure the commodity, the commodity must be tangible, and the buyer must know and agree to both the purchase and resale prices.

Islamic Microfinance products must align with the vision of MF. Murabaha contracts are tools to finance IMF products, aiming to enhance the spiritual quality and prosperity of members. This prosperity should be achieved both in this world and the hereafter, recognizing the dual aspects of human existence (Ratnasari et al., 2021).

Wakalah refers to a contract in which a party (muwakkil) authorizes another party as his agent (wakil) to perform a particular task, in matters that may be delegated, either voluntarily or with

imposition of a fee. (Bank Negara Malaysia, 2013). Wakalah and kafalah contracts are widely used in Islamic financial products such as investment, financing, and insurance (Harahap & Sudiarti, 2021).

Previous Studies

Hawariyuni & Kassim (2019) found that IMF significantly alleviates poverty and enhances microenterprise performance in Indonesia through instruments like mudharabah, musyarakah, and murabahah. Their integrated model, based on Bank Rakyat Indonesia Syariah Micro, aims to enrich existing social and economic models. Jeawkok et al. (2019) studied how Ban Plong's funds managed according to Islamic principles enhance community welfare, emphasizing duties, participation, democratic administration, access to information, and fraternity benefits. Saengtong et al. (2022) explored the development of a funeral welfare fund in Narathiwat, Thailand, highlighting principles of decision-making, cooperation, mutual benefit, and joint monitoring to align with Muslim lifestyles and foster community welfare.

Methodology

This qualitative study uses in-depth interviews and documentary research to analyse the background and current practices of the KDF and to propose the guidelines for transforming the KDF into Islamic micro finance in the Yaha community, Yala, Thailand.

Population and Sample

The target group and sample of the research are categorized as follows:

1) Research Question on the Background and Operation of the Khairat Death Fund: For this research question, qualitative research employs in-depth interviews. The key informants are the head or Imam managing the Khairat Death Fund for 7 out of 12 units, equivalent to 58 percent of the population. Key informants in this study must fulfil the following criteria. (1) being a person related to the KDF in Yaha community, i.e., the founder of the fund, the head KDF (2) The head of KDF committee with experience working in the welfare fund in Yaha community for at least 5 years.

Table 1 Key informants

No.	Name	Village	Name of Key Informants	Position
1	KDF Siyok	Siyok	Mr.Yusoh Panaejaka	Head/Imam
2	KDF Bangoysinae	Bangoysinae	Mr.Haron Yokor	Head
3	KDF Bangoydiyae	Bangoydiyae	Mr.Doloh Doka	Head
4	KDF Yalor	Yalor	Mr.Muhamad Lateh	Head
5	KDF Lakor	Lakor	Mr.Ab.ronee Neureng	Head/Imam
6	KDF Yaha	Yaha	Mr.Sittimas Mohd.	Head/Imam
7	The Association of Imam Yaha	Yaha	Mr.Suwan Saleah	Head

2) Research Question on Transforming Khairat Death Fund into Islamic Micro Finance: For this research question Documentary research methodology analysing document include the reporting book of KDF, academic publication such as article on Islamic micro finance. Thus, the document will be selected based on relevance and credibility.

Research Tools

This study uses in-depth interview format include the background and the operation of KDF in Yaha community. The research tool is designed and presented to three experts for critique. The tool will be evaluated in terms of its alignment with the research objectives, its comprehensiveness, appropriateness, and communicative effectiveness.

A trial will be conducted with three individuals from a group similar to the study's target group to verify the content's accuracy and appropriateness. The questions will be reviewed to ensure they comprehensively cover the relevant theories or concepts and align with the research scope.

Based on the feedback obtained, the content of the interview will be revised before being used for actual data collection.

The interview questions are divided into two sections. The first section covers the background of the KDF, including information on the founder, the establishment of the KDF, and the factors that have engaged the community. The second section focuses on the operations of the KDF, such as how contributions are collected, the involvement of the committee, the disbursement of funds, and other related aspects.

Data Analysis

The data obtained from the in-depth interviews will be analyzed, synthesized, compared, and descriptively written in a rational manner.

Results

The Background and the Operation of Khairat Death Fund in Yala, Thailand

From the interview there are two factors behind the establishment of KDF in Yala, Thailand and the factors are mutual assistance in the community and to release financial burdened of the deceased.

1) Mutual Assistance: Regarding the objective of Khairat Death Fund, all key informants provided information that the purpose of establishing the fund was based on mutual assistance. And the problem of the villagers in the area is when a family member's death occurs. In the process of managing Mayit (funeral) at present, it is necessary to have different expenses, and on many occasions, there have been deaths. Family members are financially difficult and unable to find money for administrative expenses of the Mayyit. Therefore, religious leaders and villagers need to raise money to help manage the Mayit, with the aim of helping each other.

The key informant of the KDF has provided information that:

“The fund group aids based on mutual assistance as God commanded the society Islam supports good deeds and forbid the doing of evil as commands in the Holy Quran “And help one another in righteousness and piety and do not help one another in evil deeds and enmity. (Al Quran, Al Maidah: 2). The fund committee has adhered to this principle since its inception from the fund's establishment to the present.”

2) To Release Financial Burden: The KDF helps members not to incur debt incurred from expenses related to the management of the Mayyit. The KDF can also help protect assets, or maintain the property of the deceased to the heirs or property of the deceased relatives as well. The key informant provided information that the KDF has helped alleviate the suffering of its members in the event of a fatal accident for a member of the fund.

“The Khairat Death Fund of the Lagor community was established in 1985. The initiative began when it was observed that the death of impoverished individuals left them without the means to handle burial expenses. This led to financial difficulties, where the Imam had to cover half of the costs, with contributions from other villagers. This recurring issue prompted the villagers to create a fund to ensure that all members had equal rights to funeral arrangements. In the first year, there were 400 members, and the fund received contributions totalling THB 8,000.”

“Most of the time, when there is a death incur in the family of villagers who have no money, they will be pledging 1 kilogram or 2 kilogram of rubber plantations to cover the administrative cost of funeral expense. Fortunately, with the establishment of KDF such problems are solve” This study evaluates the practice of khairat death fund in Yala, Thailand based on the payment and distribution of fund as follow.

3) Operation of Khairat Death Fund: The Khairat Death Fund was established through the collective input of local residents, led by community elders. All of KDF 's head is the educated person, respected by villagers and also have other position like Imam committee of government office, subdistrict administrative organization member. “At first, when we started, it began with

my own thoughts. Then we started and collected money from our nearby neighbors, with everyone contributing to the fund."

The membership registration fees range from THB 40 to THB 120, while contributions vary between THB 20 and THB 50. Contributions amount to THB 7,400, THB 10,000, THB 15,000, THB 15,550, THB 19,500, THB 26,000, and THB 35,000. Funeral expenses, averaging THB 15,000, are typically covered by the deceased's family, with funds allocated according to community customs. Disbursements are made immediately upon the occurrence of death, with collection for the new period continuing until one week after the event. This is to ensure swift funeral proceedings and easing financial burdens for families unable to meet these costs.

Proposed the Guideline for the Development of Khairat Death Fund in Yaha Community
Base on the result of the study there are five number of Khairat death fund which have potential to develop into Islamic microfinance. These KDF have the amount of contribution from THB 15,000-THB 35,000.

This study proposed model to establish the Islamic micro finance in Yaha community into three phases.

Phase I

- 1) At the occur of death events, the committee of KDF collect the contributions fund within seven days from member base on Tabarru contract (KDF pools)
- 2) The Committee of KDF receive 5 percent of KDF pools as wakalah fee.
- 3) The disbursement of burial management expense of total THB 12,000.
- 4) The disbursement of THB 1,000 for public donations.
- 5) The estimated reserve fund for microfinance is 18 percent.

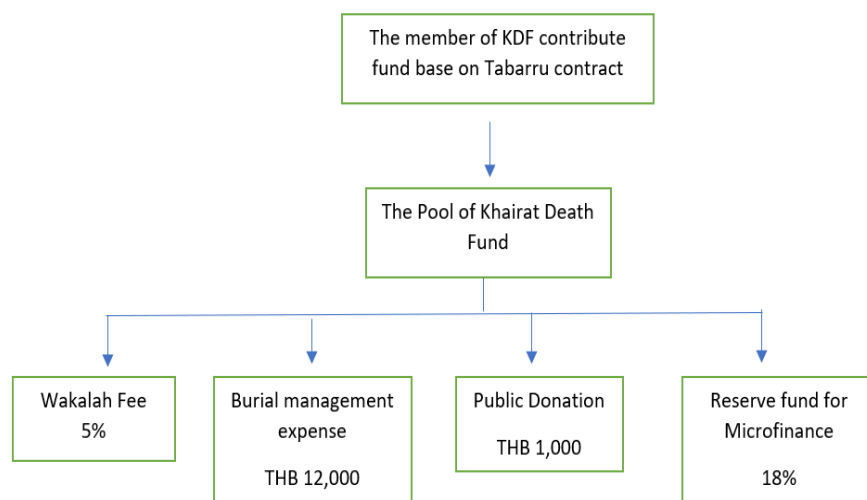


Figure 1 The Model for Transforming KDF to Islamic Microfinance Phase I (Initial Phase)

Phase II

There is the extension of operating in IMF phase I in IMF phase II.

- 1) After five KDF have enough amount of IMF pools (around THB 100,000), the KDF is able to give finance to its member.
- 2) The appointment of management team by appointing one person to become financial controller for KDF. Salary base on wakalah or fixed amount of salary.
- 3) The net of IMF pools, there is 30 percent of IMF KDF reserve fund to as a risk protection for IMF KDF.
- 4) 70 percent to finance the member base on Murabah contract (cost-plus financing) to KDF member to purchase such as furniture, electrical items, motor bike etc. The member applies for finance in pair and guarantor in pair.

5) The profit from murabah contract divides into 2 section, 1) dividend to the member of KDF and 2) as a retain earning and with the expansion the profit could be disburse as fringe benefits.

Phase III

Phase III is the expansion of phase II and there is additional operation in helping the KDF member in qard hasan (benevolent loan), where the member can get some amount of money or can be considered as the shortest financing contract for emergency, or unfortune events happen to the members of KDF. These events such as accidents, natural calamities etc.

KDF should leverage its Islamic finance expertise to collaborate with various entities, such as community cooperatives, to facilitate experience sharing. Consequently, Islamic cooperatives could act as mentors, transferring knowledge and aiding in the development of sustainable human capital for KDF.

Conclusion and Discussion

The Khairat Death Fund in the southern provinces of Thailand plays a crucial role in providing funeral benefits to its members, covering both funeral arrangements and expenses. By offering support during times of loss, the KDF fosters mutual aid within the community. This initiative is particularly valuable for low-income families, who constitute the majority in these villages, as it helps reduce and eliminate funeral poverty.

The KDF's current operations in Thailand are well-structured, with a clearly defined committee overseeing its activities. Recognizing the potential of the KDF to evolve into an Islamic microfinance institution, we propose a three-phase development plan utilizing Islamic financial transactions, such as wakalah and murabaha. This transformation could significantly enhance financial support for the community, reinforcing the KDF's role in promoting social welfare and economic stability.

The proposed guideline for Islamic microfinance by the KDF in Yala, Thailand aligns with the principles outlined by Hemtanon & Gan (2022). If successfully established in the long run, this initiative could significantly contribute to the financial inclusion of KDF members. It would facilitate access to financing for various household activities, such as renovating homes, purchasing motorbikes, or investing in productive and income-generating ventures through the use of the Islamic contract of Murabahah. Ultimately, KDF's microfinance programs have the potential to assist in reducing income inequality. For the collaboration with other institution there is a potential to collaborate with cooperative inside community and this in lign with Noipom (2013).

Limitation and Recommendation

The study, limited to background and the operation of KDF in Yaha community only. It is suggesting to explore the organization level of KDF where we have prepared the guidelines in transforming the KDF to Islamic microfinance. The KDF has the potential to evolve into a marketable IMF product. Government agencies should support the KDF Committee by enhancing skills, providing budget support, fostering information exchange networks, and developing knowledge and competence to ensure self-reliance and sustainability. Moreover, micro-takaful models, as exemplified by Malaysia and Indonesia, hold significant potential for mitigating poverty and deprivation. This social finance instrument, akin to mutual insurance, operates on the principle of risk sharing. By pooling contributions from individuals, micro-takaful provides financial support to members in times of need. Rooted in concepts of brotherhood, solidarity, and mutual assistance, this approach fosters a sense of community and offers a safety net for vulnerable populations.

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Data Availability Statement: The raw data supporting the conclusions of this article will be made available by the authors, without undue reservation.

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