

PARTICIPATION BANKING AND ITS CONTRIBUTIONS TO THE TURKISH ECONOMY¹

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Abstract: *In this study, participation banking, which focuses on providing banking services in accordance with religious rules and its contributions to Turkey's economy, are investigated. Participation banking is discussed in general, and the methods of using funds in participation banking are also evaluated. In addition, its differences are compared with conventional banks. With the development of participation banking in Turkey, it can be stated that the place of participation banking in the financial system is different from other banks. The distribution and number of branches of participation banks in Turkey, which continue to serve in the finance sector together with the conventional bank branches and continue their operation by trading, and operate with a different structure in the banking sector, are evaluated together with the role of the employees in participation banking. In the study, general problems of participation banking are evaluated by considering strengths and weaknesses and suggestions are made to solve the problems. Moreover, the contributions of participation banking to the Turkish economy are analyzed.*

Key words: Participation Banking, Turkish Economy

JEL Classification Codes: G20, G21

1. INTRODUCTION

Participation banks transfer the amounts they collect from the customers with surplus capital to the real sector in need, shares the profit/loss in certain proportions on the basis of partnership, operates according to certain criteria, and carries out financial transactions in accordance with the said criteria. It is a model that collects funds in accordance with the principles that accept these situations, whether it makes a profit or loses, and provides funds through methods such as becoming a partner, engaging in commercial activities, leasing. There are more than one recipe for interest-free banking. The common point of all the definitions is that they are financial institutions that enable them to choose and benefit from the applications of Islamic banks according to the beliefs of the people (TKBB, 2021). Accordingly, interest-free banking; by paying interest to financial institutions or meeting the financial needs of individuals or institutions that do not accept inappropriate returns from such institutions according to their religious beliefs (Odes, 2020). In

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other words, by collecting three different types of funds as participation banking, current, participation and special fund pools; demanded by savers.

According to Islamic banking rules, it is a type of finance that tries to gain additional income by buying or renting goods, services or rights in advance, selling or renting to savers for a period of time, the funds it collects, and establishing some partnerships. Interest-free banks use the capital they obtain from frugal people in trade and industry, in accordance with the rules of finance without interest, and mutually share the resulting profits or losses with their saving customers (Odes, 2020).

The word "participation" in the names of participation banks is used to express that a banking service is made according to the conditions of participation in both profit and loss in the type of financial service provided. Dividend accounts, which are created due to the provision of capital, are an important detail that distinguishes interest-free banks from conventional banking. The supply of raw materials, unprocessed products or processed materials, real estate, machinery or all kinds of equipment that will be required in trade and industry can be achieved through such methods. Participation banks do not allow any kind of transaction such as riba and net information of which are not known exactly, involving a high degree of risk, and generating income by taking advantage of price fluctuations that may arise in the future. Drink, lottery, gun and cigarettes etc. Financing and banking transactions are not carried out regarding product types and activities that are harmful to the general health of the public (TKBB, 2021). Interest-free banking, which has a history of 60 years in the world and 30 years in Turkey, is generally known as a participation bank.

Financial institutions continue their activities by collecting funds through profit and loss sharing, and by providing funds to investors with different financing methods, they enable them to invest in accordance with the principles of interest-free banking. Participation banks, which carry out the financial transactions of those who are far from the interest-bearing banking system of conventional banks, in accordance with their beliefs and focused on profit and loss, started to develop in Turkey after 1985 and by taking their place in the sector, offering new alternatives to both savers and investors, they are increasingly becoming a part of the Turkish economy. There are a total of 1305 branches of 6 participation banks operating in Turkey. Branch openings continue to increase day by day.

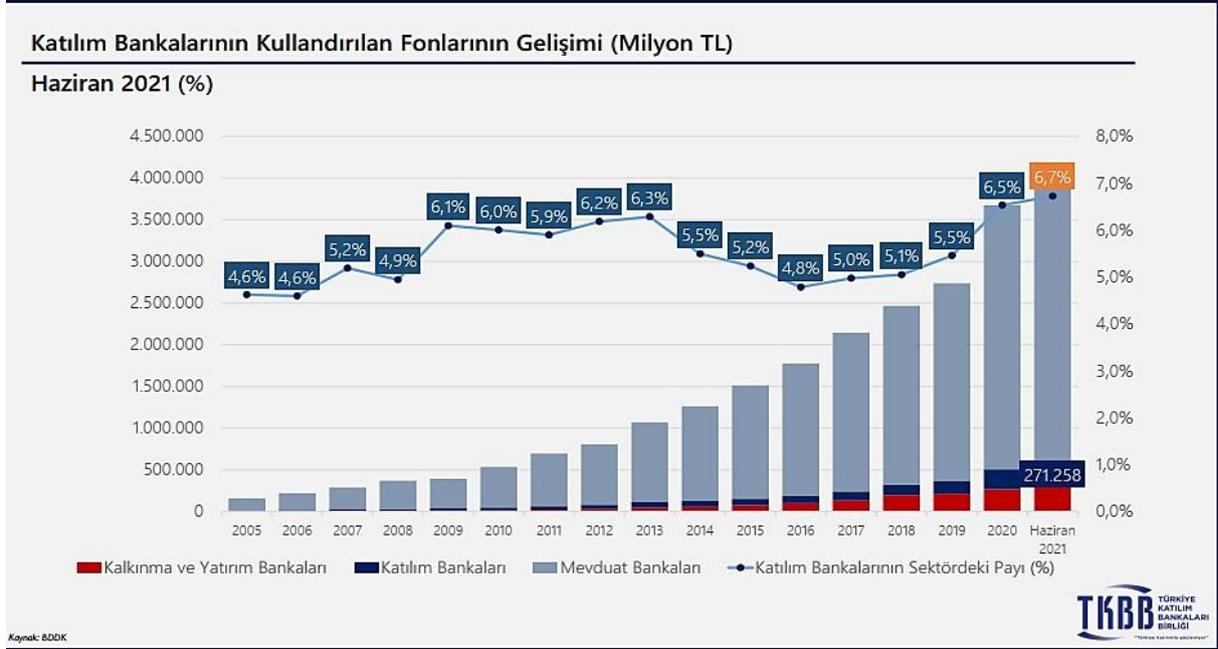


2. CONTRIBUTIONS BY PARTICIPATION BANKS TO THE TURKISH ECONOMY

The financial sector in our country consists of commercial banks, participation banks, development banks and investment banks. Among these, commercial and participation banks have the authority to collect funds. Although they are partially similar to traditional banks in terms of functionality, participation banks differ from these banks in terms of funding and funding methods. Even though participation banks, known as interest-free banks since their establishment and offering Islamic banking activities, provide services in parallel with conventional banks, they can only fund some products that are suitable for interest-free banking from the transactions carried

out by interest-bearing banks, in accordance with the participation banking procedure (Arslan, 2017).

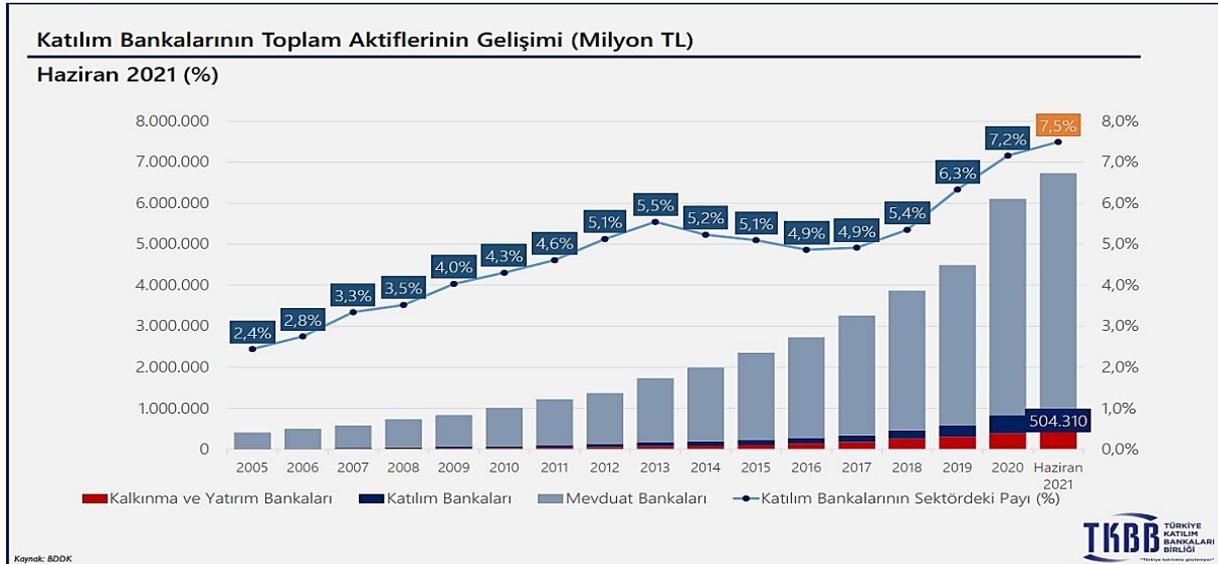
Table 1: Development of Funds Used by Participation Banks



Source: Participation Banks Association of Turkey – 2021 / BRSA

Participation Banks are the financial institutions that make significant contributions to the economy of the Turkish Banking System and undertake complementary duties.

Table 2: Development of Total Assets of Participation Banks



Source: Participation Banks Association of Turkey – 2021 / BRSA

Idle funds were brought into the economy together with participation banks. In order to bring the ineffective fund types that are not included in the financial system, it provides profit to those who save. It has the effect of regulating income distribution, recording unrecorded economic actions, helping the development of the economy by transferring resources to the real sector, paying corporate tax and value added tax. Institutions that contribute greatly to its finances which are mentioned above are participation banks. Through participation banks, the individuals that do

not go to other institutions that provide savings due to their beliefs, in the country and abroad, the savings called under the pillow and the gold kept in safe deposit boxes, foreign currency, lands as real estate, buildings, etc. will have entered the production processes. On the other hand, the additional resources that are being provided for production increased the production and also caused a decrease in the demands on the resources of the banks. In addition, the banks will have worked less with the Central Bank and since another method will be introduced to reduce the speed of issue, the pressures related to inflation caused by the release due to bank loans will be reduced. Participation banks increase efficiency in the banking system. The elastic structures of the participation banks operating in Turkey continue to make a different contribution to the economy by making the banks' systems one of the elements that compel them to work more efficiently, with various financing methods (Dogan, 2008). The percentage distribution of funds collected by participation banks is shown in Table 3.

Table 3: Share of Participation Banks in the Sector

	2021/June	2020
1- IN FUND THAT HAS BEEN COLLECTED	9.7%	9.3%
2- IN FUND USED	6.8%	6.5%
3- IN TOTAL ACTIVE	7.5%	7.2%
4- IN EQUITY	5.1%	4.6%
5- ON NET PROFIT	5.9%	5.4%

Source : <https://tkbb.org.tr/veri/sektormukayese>

Participation banks are financial institutions that lay the foundation for a solid and balanced economic structure. All kinds of activities in the economy to pull down the riba rates will make a positive contribution to the economy. For this reason, interest-free banks will continuously contribute to the construction of an efficient and balanced economic structure in our country, with the financial methods they will apply to reduce the resources they provide and the current riba ratio (Dogan, 2008).

In Turkey, economic growth and financial developments are the most basic objectives of public service state organs. One of the factors affecting the development is the indispensable financial sector, which carries the burden of real economy. Conventional and participation banks in the financial sector in Turkey still continue to make a reaction that accelerates economic development by providing credit and fund opportunities, ensuring the continuation of economic investment and expenditure expenses (Afsar, 2007).

The financial sizes of the participation banks in Turkey and the funds they have collected are as seen in Table 4.

Table 4: Financial Amounts and Ratios Used in Analysis

MAJOR FINANCIAL BANKS AND BANKING SECTOR SIZES							
		Participation Banks			Banking Sector		
		2021 June	2020 December	Change (%)	2021 June	2020 December	Change (%)
FUNDS COLLECTED	TM	118.137,89	102.620	15.1	1.721.252,85	1.553.985	10.8
	FM	182.802,14	149.513	22.3	1.846.856,85	1.619.749	14
	FM-MINE	72.493,05	69.884	3.7	301.337,44	290.487	3.7

MAJOR FINANCIAL BANKS AND BANKING SECTOR SIZES

	Participation Banks			Banking Sector		
	2021 June	2020 December	Change (%)	2021 June	2020 December	Change (%)
TOTAL	373.433,08	322.017	16	3.869.447,14	3.464.221	11.7
FUNDS USED	280.003,76	240.133	16.6	4.103.420,07	3.675.203	11.7
NON PERFORMING LOANS (GROSS)	9.628,93	8.713	10.5	149.356,92	152.202	-1.9
TOTAL ASSETS	504.309,63	437.092	15.4	6.730.310,68	6.107.832	10.2
EQUITY	32.000,25	27.603	15.9	631.364,86	600.804	5.1
NET PROFIT	1.990	1.651	20.5	33.792	30.731	10

Table 5: Distribution of the number of branches and working personnel of the Participation Banks and the banking sector in Turkey by years

PARTICIPATION BANKS AND BANKING SECTOR EMPLOYEES

	Participation Banks			Banking Sector			
	2021 June	2020 December	Change (%)	2021 June	2020 December	Change(%)	
Number of Employee	17.181	16.849	2	202.054	203.224	-0,6	
Number of Branch	Domestic	1.276	1.251	2	11.090	11.114	-0,2
	Abroad	4	4	0	76	75	1,3
	Total	1.280	1.255	2	11.166	11.189	-0,2

Source: <https://tkbb.org.tr/veri/sektormukayese> (Access Date: 18.12.2021)

3. CONCLUSIONS

Interest-free banking tries to serve its customers in different fields for retail, commercial and investment purposes. In participation banking, the working principles are different from classical banks in terms of both banking transactions, fund collection and utilization methods. Fund collection in participation banks is done through current and participation accounts. Participation banks, which provide interest-free banking services, are financial institutions established for people who are sensitive to interest and who want to include their gold, foreign currency and TL savings at home and abroad in this economic cycle. Participation banks are the most important financial elements that turn the wheels in the mechanism of the interest-free banking system. By converting the idle funds into savings, it ensures that the funds are used more actively. It contributes positively to the shrinkage of the informal economy in the country with the services and activities provided by the participation banks, and to the increase of the state's revenues in terms of taxes with the result of this situation. In order not to damage the reputation of participation banks, it is necessary to increase the paid-up capital of participation banks in order to transfer

resources to projects by using Islamic finance methods such as mudaraba etc. and to be able to be funded in large-scale projects that will have a high cost to the institution.

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