

The Macrotheme Review

A multidisciplinary journal of global macro trends

The Functioning of the Islamic Banking System in Turkey and the First State-Backed Interest-Free Banking Example: Ziraat Participation Bank

Fatih AZMAN and Ahmet Tayfur AKCAN

Necmettin Erbakan University, Department of International Trade, Konya, Turkey

Abstract

Turkey is one of the world's leading country in the field of interest-free banking. Turkey has different field in interest-free banking because of mission, vision and banking policies which are followed by Turkey. Ziraat Participation Bank which is the biggest bank of Turkey has been managing interest-free banking system lagally in Turkey since beginning of 2015. In addition target of Turkey is one of the leader of global interest-free banking in the world in 2023. Through this country has a different position from other countries around the world in this field. At this work mention history of interest-free banking firstly, and then give information about the functioning of Turkey, and finally it gives information about Ziraat Participation Bank which is first interest free banking of public.

Keywords: Interest-Free Banking, Turkey, Ziraat Participation Bank, Banking

1- Rise of Islamic Banking System And It's Development of the World

Participation banks are kind of Islamic financial institutions based on the Islamic Fundamentals. The most important feature of the Participation Banks, participants are sharing rather than interest income earned profits and revenues (Usulcan, 2013).

Showing progress since the 1970 Islamic financial system has made significant progress towards integration with the international financial with the 2000s. Islamic banking develops tools, methods and services to respond to different financial demands and needs (Soner, 2013). Naturally provided in this oil-rich development will not be wrong to say that the effect of more funds in Islamic countries. Sukuk-Islamic bond system has been used since the early 2000s. Sukuk is still a striking vehicle and gradually began to find more uses nowadays (Alvi, 2006, s.3).

The basic principles of Islamic economics were identified through the basic sources of Islam, the provisions given in the consensus of Islamic scholars and the literature that written general principles of Islamic jurists. According to these principles commerce is halal but usury, waste, stinginess and interest is forbidden (Aktepe, 2014). Profit is the transformation of money that in a production process from capital goods again dope money or any other case. Profit is the share of the capital and labor (Sümer, 2016).

Interest is one of the forbids in Islam which is based on the participation banks. Interest is a non-profit money according to Islamic beliefs. It blunts the feelings of virtue in the people. It interferes the social assistance paralysis. It destroys individual freedom of borrowers (Özsoy, 1994), (Kalaycı, 2013).

The products of Islamic finance system is thought to be used in about 75 countries in the world since 1975. These countries are mainly in the Middle East and Southeast Asia in the past. It is seen that England and West Germany began to spread rapidly as the product of the Islamic finance system in European countries today. In addition, the Gulf countries and the Islamic investment funds established in countries like Malaysia are considered as interest-free finance development and to significantly contribute to growth (Yıldıran, 2011).

2- Islamic Banking Development Process in Turkey

The first details of the system are regulated with the communiqué issued Treasury and Foreign Trade Undersecretariat 25 February 1984 and T. C.(Republic of Turkey) Central Bank 21 March 1984. The laws and regulations of this system infrastructure has been completed with issued as a result of various communiqués and regulations (Eskici, 2007).

Albaraka Türk Finans Kurumu Inc. and Faisal Finans Kurumu Inc. Founded in 1985 are established in accordance with Islamic banking principles are the first institution in Turkey. These are followed by these companies; Kuveyt Türk Evkaf Finans Kurumu Inc. founded in 1989, Anadolu Finans Kurumu Inc. founded in 1991, İhlas Finans Kurumu Inc founded in 1995, Asya Finans Kurumu Inc founded in 1995. During the 2001 crisis in Turkey İhlas Finans Kurumu Inc bankrupt and closed in 2001. In the same year acquired by Ülker, Faisal Finans "Family Finans" named after and founded Türkiye Finans Participation Bank, the bank merged with Anadolu Finans in 2005 (Sümer, 2016). Ziraat Participation Bank which will be asked in this study began operations in 2014 as a state-owned.

Profit is obtained by the sharing of a real income as a result of a real production. The interest, mostly from the manufacturing economy, the common term today is the result of rent economy.

Participation banks has contributed to the economy from different angles. It saves the funds of non-system into the financial system. It provides gain to the investors. There are the regulatory effects of the income distribution. It contributed to the growth of the economy by transferring funds to the real sector (Doğan, 2013).

In addition, the participation bank system causes a decrease the unrecorded economic activities. It contributes to public finances through various taxes. It also provides the continuity and increase employment by reason of the direct funding of the real sector (Ece, 2011: 4).

The details of the participation banks in Turkey are shown in table 1.

Table 1: Participation Banks in Turkey

Commercial Title	Year of foundation	Historical Development
Albaraka Türk Participation Bank Inc.	1985	It belongs to Middle East-based Albaraka Banking Group. 54,06's% of the Bank's capital belongs to this group. 9.38% belongs to the other groups. 17.11% of the shares are publicly traded.
Asya Participation Bank Inc.	1996	It began operations in 1996 with Asia Finance Corporation Inc. title. In 2005 the name was changed to Asia Participation Bank Inc. 52.53% of the Bank's capital is public. The rest of the shares are owned by shareholders.
Kuveyt Türk Participation Bank Inc.	1989	This bank established with "private financial institution" status in 1989. 62.23% of its capital is owned by Kuwait Finance House. 9% of the capital belongs to the State of Kuwait Social Security Institution. 9% of the capital is owned by the Islamic Development Bank. 18.71% of its capital to the General Directorate of Foundations, 2% belong to other partners.
Türkiye Finans Participation Bank Inc.	1984	It was founded in 1984 with the title of Faisal Finance. The company that owns the shares of Dar Al-Maal Al-Islamic S.A. OLFO in Switzerland shares the Group S.A., 1998 has been transferred to the company. The company that owns the shares of Dar Al-Maal Al-Islam Group has transferred the shares of the company OLFO Switzerland in 1998. In the same year acquired by Ülker, Faisal Finans "Family Finans" named after and founded Türkiye Finans Participation Bank, the bank merged with Anadolu Finans in 2005.
Ziraat Participation Bank Inc.	2014	It is processed in the next section.
Vakıf Participation Bank Inc.	2015	All of the shares belong to the Republic of Turkey Prime Ministry General Directorate of Foundations, Bayezid Han-ı Sani Foundation, Mahmut Han-ı Evvel Bin Mustafa Han Foundation, Mahmut Han-ı Sani Bin Abdulhamit Han-Evvel Foundation ve Murat Paşa Bin Abdusselam Foundation.

Reference: BDDK, 2011, www.ziraatkatilim.com.tr, www.vakifkatilim.com.tr

3- Turkey's First State-Sponsored Participation Bank: Ziraat Participation Bank

Ziraat Participation Bank of the Republic of Turkey was founded with the entire capital of 675 million Turkish liras paid by the Republic of Turkey Treasury. It was established in 15/10/2015 with the permission of the Banking Regulation and Supervision Board. Capital was increased by 72 million TL in 24/05/2016. Thus, the total paid-up capital reached 747 million TL (<http://www.ziraatkatilim.com.tr>).

Ziraat Participation Bank offers the following services;

- Housing Finance
- Vehicle Financing
- Hajj and Umrah Financing
- Education Financing
- Individual Workplace Financing
- Individual Housing Finance
- Durable Financing
- Natural Gas Conversion Financing

According to the 2015 data there are 22 branches and 307 employees of the Ziraat Participation Bank. Due to the establishment year in 2015 it was closed with a loss of 12 million TL. Other operating expenses borne up costshas created the largest part of the loss for this period. The most important source of incomes are for dividends received from the funds invested.

Table 2: Ziraat Participation Bank Financial Datas End 2015

Assets (Thousand)	December	Balance Sheet Share
Liquid Assets and Bank	279.641	12,8
Securities	129.893	6,0
Granted Funds	1.690.106	77,6
Other Assets	77.795	3,6
Total Assets	2.177.435	100,0
Liabilities (Thousand)	December	Balance Sheet Share
Deposit	1.256.305	57,7
Non-Deposit Resources	212.441	9,8
Other Liabilities	44.159	2,0
Equity	664.530	30,5
Total Liabilities	2.177.435	100,0
Selected Income and Expenses	December 2015	
Dividend Income	86.425	
Profit share expense	17.976	
Net Profit Share Income /	68.449	
Net Fees and Commission Income	(74)	
Commercial Profit / Loss (Net)	2.998	
Other Operating Expenses	68.089	
Provision for Loans and Other	15.029	
Profit Before Tax Provision /	(11.708)	
Provision for Taxes	(274)	
Net Profit / Loss	(11.982)	

Reference: <http://www.ziraatkatilim.com.tr/>

It can seen the ratios of Ziraat Participation Bank at Table 3.

Table 3: Ziraat Participation Bank Ratios last 2015

Ratios	2015
Capital	%
Standard Capital Ratio	47,41
Equity / Total Assets	30,52
Shareholders' equity / (Total Assets + Non-Cash Loans)	25,79
Equity / (Deposits + Non-Deposit Resources)	45,24
Asset Quality	
Total Loans / Total Assets	77,62
Non-Performing Loans (gross) / Loans	0,00
Non-Performing Loans (gross) / (cash loans + Loans)	0,00
FX Assets / Liabilities FC	70,54
Liquidity	
Liquid Assets / Total Assets	12,84
Liquid Assets / (Deposits + Non-Deposit Resources)	19,04
Profitability	
Net Profit (Loss) / Average Total Assets	-0,55
Net Profit (Loss) / Average Equity	-1,80
Net Profit (Loss) / Average Paid-in Capital	-1,78
Income and Expenditure Structure	
Dividend Income / Expenses Dividend	480,76
Dividend Foreign Income / Expenses Non-Dividend	6,02
Total Income / Total Expenses	88,66
Dividend Income / Total Revenue	94,39
Dividend Foreign Income / Total Revenue	5,61
Dividend Expenses / Total Expenses	17,41
Dividend External Expenses / Total Expenses	82,59

Reference: <http://www.ziraatkatilim.com.tr/>

4- Results

Participation banking is a process in the developing world. The participation banking system has attracted the attention of the whole world today. This system can be a lot of investment banking in the future that contribution to the financial system can not be ignored.

The organizations referred to as participation banks in Turkey, economic and social institutions are the result of the requirements of social needs in a cultural sense. Participation banks provide to enter the financial system of beliefs or other reasons unused resources. In this way serves as a bridge between the savings owners and entrepreneurs.

Ziraat participation bank is a new bank by comparison with the participation of banks in Turkey. Nevertheless Ziraat Participation Bank promises fort he future of Turkey financial system.

Turkey is a country that recently both important in terms of economic growth and geopolitical breakthrough. Through the development of participation banking system, which remains inert in the domestic economy and the global Islamic capital movements can be introduced into the country's economy.

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