

## PARTICIPATION BANKS' CONTRIBUTION TO THE ECONOMY: THE CASE OF TURKEY

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### ABSTRACT

Participation Banking growing with a rising trend in the world, has become a major role in financial market. Participation banks aim to survive with the least damage by marketing derivative products rather than taking actions sometimes 10 ,sometimes 30 times the pecuniary resources by the financial values they have. With a mode of operation ,the participation banking differing from deposit banks has the feature to fill the gaps that deposit can not. Participation banks have an undeniable role in rotating the funds into the economy which has been inactive due to the current account deficit being expected to economy as employment and production.

The aim of the study is demonstrate the volume of participation banking in Turkey and its contribution to the economy of the country. In the study, the structure of the funds which the attendant banks collected and used between the years of 2005- 2013 has been compared with the banking system. As a result of the study, it is revealed that the operating volume of participation banks have increased and it plays a positive role in striving with employment, growth, unrecorded economy in Turkey.

**Key Words:** Participation Banking, Attendance, Interest Free Banking, Banking

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## INTRODUCTION

Financial markets' reaching European standards in Turkey took many years. While 90s and 2000s were the years of deepening the financial markets and increasing number of products in Europe, Turkey spent these years with economic downturns. While the previously formed standards were taking roots, Turkey experienced a shortage because of an absence of properly functioning financial system. While even the best known and most common financial player Deposit Banks could not give any trust to its own people, participation banking couldn't go beyond being nominally exist.

Especially the financial crisis occurred in the beginning of 2000s, has weakened the faith of both domestic and foreign investors in the country's financial stability. During these years while many Western countries, particularly including UK, were getting a share of his cake, Turkey stayed away from this charming area. Turkey headed for alternative ways to get rid of cash insolvency problem which started in 2001 and went on after 2008 and to procure hot Money flow into the country. In this context, Gulf countries which are pristine areas have come to the forefront.

After a close contact with Gulf countries, it is understood closer that Participation banking could be a well operating alternative financial system. Increasing of financial intermediation ends up with economic growth and prosperity (Zaheer and Farooq 2014). Therefore, development of participation banking will make a positive impact on economic growth and increasing prosperity. Moreover, a huge amount of funds pending in the country and being not able to contribute to the economy, have been a part of economic wheel as a result of adherence banking's significant efforts.

In this context, Participation Banks have offered significant contributions by capturing a rate higher than market shares. In this study, the development of attendant banks operating between 2005 and 2012, the change in the structure of funds that they make use and the directions of funds are analyzed.

### 1. The Functioning of Participation Banking

Participation banking can simply be defined as a system in which the movement of money corresponding to a good or a service; while the income being shared according to the basis of profit and loss (Ozsoy, et al, 2013). Participation banks give credits by joining the profit

of the firm in return of joining to the loss.(Kuran, 1986). To do interest-free banking activities that began in 1960s and developed rapidly during 1980s in the world began in Turkey in 1985 with the authorities under the name of Private Finance Authority. With the Banking Law which was enacted in 2005 to solve the portability,identity etc. problems in national and international financial markets, the names of these institutions have been changed as 'Participation Banks' (Aras and Öztürk, 2011).

The Participation Banks whose shares are %6 in Turkey aim to increase their share to %15 within the vision of Turkey. Especially some reasons in the faith subject, Participation banks have a big role for contribution to economy of under mattress saving. The Participation Banks which revise the products produced by the Deposit Banks according to the Islamic functioning also extend the Islamic market product in accordance with the requirements of the age. According to the 2023 forecast, Turkey's GDP is expected 2 trillion\$, banking sector assets 2 trillion \$, participation bank's market ratio % 15 and participation banks asset' 250 billion \$. These figures increase the importance of Participation Bank some more.

For a better understanding of the participation banks' functioning, it is beneficial to know the strategies they use to collect and use funds (Hardly, 2012). In general, participation banks carry on their activities by using the methods such as currency account, participation accounts, forward sale, partnership and profit/loss partnership.

According to the definitions in the 3.article of 5411 'Banking Law' currency account refers to ' the funds that can be opened in Participation Banks and can be withdrawn completely or partially at any moment and in return no payment is paid' ( Official Gazette, 2005). These accounts compared to current account in a bank ,generally are the funds that are used for transferring money and short-term payment ( Akin,1986). Current accounts are important implements to ensure a inflow of funds and people do not have the intention of investment.

One of the most important differences of the attendant banks is the sharing accounts. Sharing Accounts; are said to the accounts opened for participation accounts to the profit and loss in non-interest banks ( Official Gazette; 1999). Sharing Accounts; are the funds that gives results of participating to the profit and loss of using the funds deposited to attendant banks by these institutions, providing no profit to the account holder and cannot guarantee of repay of the capital( BDDK;2001). This system in which the investor evaluating money according to the share of profit, the cash inflow is uncertain because of the probability of loss in projects

financed. The maximum share of the new-established banks that were established to do interest-free banking in Turkey is %20. Consequently, the banks returns the capital and the %80 percent of the profit if it makes any profit with the money it operates itself. It takes back the %20 percentage as profit. When expiration date comes, the account holder becomes a shareholder to the amount of money that he was at the beginning. If there is any profit, he takes his profit share to this rate.

The first implementation of making use of funds is the forward sale. Called as 'Usuary' is a method of fund utilization that seller's adding profit to the buying price and cost that is explained to the consumer (Bayındır; 2005). In 'Usuary' method, the seller gets the opportunity to sell his goods in advance and the consumer gets the opportunity to buy something on hire purchase. Here, firstly the good is determined and the parties agree on the price. Then, the installments and payment terms are determined.

Another method used in here is the 'Usuary'. Usuary is an activity carried by putting forward one part's labor, knowledge and experience and the capital of the other's ( Bayındır, 2007). Partnership which is a financing technique adopted by Islamic Banks, is a contract where the capital is provided by the Islamic Banks and the business ruled by the opponent. Profit is shared according to the pre-determined rates. The damage is met by the Islamic bank except from the related party's violation and negligence of the terms specified in contract. Finally, this loss is reflected to the participation account holders (Khan, 2003). Profit / Loss partnership is the other method that attendant banks use. The method known as ' Special form of partnership' provides both capital and partnership. The difference of this from Partnership is; while in Partnership there are inactive shareholder and entrepreneur who demonstrates his experience and labor, in special form of partnership there are both a shareholder and an active entrepreneur. Besides this, while in Partnership the financial losses belong to shareholder, in Partnership the loss is being shared (Takan, 2000).

Apart from these participation banks can conduct insurance business and financial leasing activities.

## 2. The analysis of Participation Banking in Turkey

The amounts of funds disbursed have increased and direction of these funds have changed as soon as interest-free banking system become more known starting from West and all around

the World. In Table 1 the distribution of the funds that attendant banks collecting according to the accounts are given.

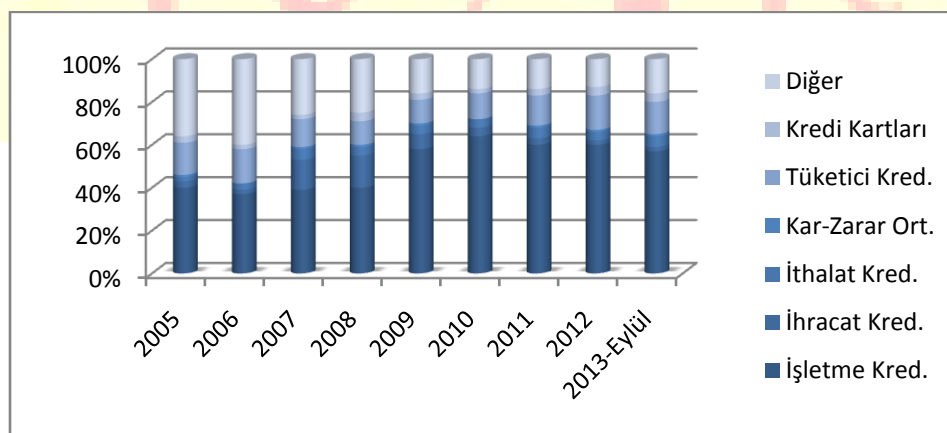
**Table 1: Participation Banks' Collected Funds Distribution to Accounts**

Account Years	Current (Million TL)	Account (Million TL)	Participation (Million TL)	Account (Million TL)	Total (Million TL)
2005	1.962		6.516		8.478
2006	2.434		8.790		11.224
2007	2.786		11.976		14.762
2008	3.423		15.467		18.890
2009	5.041		21.554		26.595
2010	6.488		26.956		33.444
2011	10.175		29.497		39.672
2012	14.800		34.351		49.151

Reference(TCBM; 2013)

When Table 1 is analyzed, it is seen that the number of 8.478 million TL in 2005 reached to 49.151 TL in the end of 2012. The funds collected in Current Accounts followed a horizontal progress but by increasing the saving depositors a bit more because of a crisis began, they continued the raise in the savings until 2010 compared to previous 4 years. Since 2008 when the crisis began, the Participation Banks have provided %28 raise until the end of 2012, and have contributed nearly 50 billion TL to the economy by the end of 2012. Approximately the %70 of this money was used in trade directly. Hence, they put forward both invigorating effect on market and increased the employment. The distribution of the credits that Participation banks make used to their types are presented in the Figure 1.

**Figure 1 : The Distribution of the Funds that Participation Banks Make Use**



Reference:(BBDK; 2013)

As seen in the Figure 1, participation banks use their funds mainly as business loan. The share of the business credits which have %40 share in 2005, have exceeded %50 in 2013. Between the years 2005 and 2010, the share that the sectors take from the funds that participation banks make use are shown in Table 2.

**Table 2: The Funds' Usage Areas**

Years \ Sectors	2005 (%)	2006 (%)	2007 (%)	2008 (%)	2009 (%)	2010 (%)
Agriculture	3,03	3,18	3,33	3,55	1,79	2,19
Manufacturing Industry	42,75	39,14	36,52	44,34	25,15	26,96
Energy	2,42	2,92	2,95	4,35	3,78	5,40
Construction	8,94	10,46	13,74	12,72	17,63	18,10
Trade	8,57	8,67	8,27	6,88	11,17	18,93
Hotel, Restaurant, Bistro	0,76	1,25	0,96	1,29	1,16	1,64
Transportation	3,41	1,97	2,43	3,11	3,18	4,02
Communication	0,64	1,51	0,76	0,63	0,13	1,07
Banking, Insurance	0,38	0,70	7,17	5,55	4,82	4,17
Vocational Credit	0,51	5,60	0,29	1,75	1,90	0,04
Housing	1,99	1,39	4,46	4,07	0,57	1,26
Consumer	9,37	8,90	6,66	6,74	9,03	3,46
Public side	0,05	0,19	0,52	0,72	0,44	---
Other	17,18	14,12	11,94	4,30	19,25	12,76
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Reference:(TÜİK; 2013)

As seen in Table 2, the share of funds in the manufacturing industry began to decline seriously. Besides this it is seen that the percentage of the funds disbursed in manufacturing industry has increased. The request of recycling of the funds discharged from the manufacturing industry.

As seen through the years while %40 decreases in manufacturing credits, %70 decreases in consumer credits are observed, there are %700 increases in Banking- Insurance, %110 increases in Trade, %100 increases in Construction, %100 increases in Energy Sector credits are observed.

When we have a look at the collected funds by the Participations Banks, there is an increase seen since the day they were founded. Participation Banks have collected 61 billion dollars in since the end of 2013 ( Table 3).

**Table 3: Major Financial Aggregates of Participation Banks ( Milion TL) 2013**

Financial Titles	2012	2013	Changing (%)
Collected Funds	49.153	60.951	24
TL	28.991	35.486	22
YP	16.253	21.390	32
YP-Maden	3.909	4.075	4
Credit Allocation	50.669	64.022	26
Total Asset	70.260	91.007	30

Reference: (ZAMAN; 2013)

When Table 3 is analyzed, the funds collected by the banks demonstrated an increase of %24 compared to the previous year. Disbursed funds also demonstrate an increase of %26 percentage compared to the previous year.

Basic financial and numerical data of the Participation Banks in Turkey are shown in Table 4.

**Table 4: Major Financial Numbers of Participation Banks (Million TL, % ) 2013**

Financial Titles	Al Baraka Türk	Bank Asya	Kuveyt Türk	Türkiye Finans	Total	Growth (%)
Total Funds	10.907	19.460	15.600	13.790	59.759	22
Credit Allocation	11.142	20.750	15.031	16.940	63.864	28
Total Asset	15.424	28.388	23.625	23.298	90.736	29
Net Income of the Period	152	161	237	237	786	9
Capital Liability	1.365	2.497	2247	2458	8567	16
Number of Stuff	2961	5184	4505	4081	16.731	9
Number of Section	145	281	262	250	938	13

Reference: (BDDK, TKBB 2013)

While the amount of funds that Participation Banks collected in 2013 was nearly 60 million TL, this amount has increased %22 over the previous year. The disbursed funds have

reached to 64 million TL and demonstrated a %28 increase. In addition to this, the number of branches and staff of Participation Banks are presented in Table 5.

**Table 5 : The Number of Branches and Employees in Participation Banks (2003-2013)**

Years	Number of Section	Growth (%)	Number of Staff	Growth (%)
2003	188	71	3.520	61
2004	255	36	4.789	36
2005	290	14	5.740	20
2006	355	22	7.114	24
2007	422	19	9.215	30
2008	530	26	11.022	20
2009	569	7	11.802	7
2010	607	7	12.677	7
2011	685	13	13.851	9
2012	829	21	15.356	11
2013	930	12	16.650	8

**Reference:** (TKBB, BDDK, TCMB, 2013)

When comparing 2013 with 2003, an increase of %340 in the number of branches, %336 in the number of staff employed is seen.

In parallel with developing economy and financial system, a significant increase in number of employment figures has been experienced in Turkey. The banks which have the highest employment rate are listed as foreign banks (2.357 people), participation banks (1.505 people) and public banks (1.348 people) (BDDK 2012).

Banking sector is a high-labor saving sector due to its structure. Therefore, with a comparison of other sectors taking into active size, the industry's own employment numbers can be relatively low.

It is seen that the share of the employment volume in banking sector is very limited in total employment when evaluated by considering the nearly 21,3 million employment number as of 2009 in Turkey (TUIK, 2011).

Even though the share of the participation banks in banking activities is relatively small, when the development of participation banks is thought the amount of share is expected to raise



(Karakaya and Er, 2013). However, both the high growth of the industry and the high level of contribution to the total employment, gives importance to the banking sector in terms of employment (Ayan,2012).

The share of the participation banks to the increasing employment in Turkey, gets up to about %29. Moreover, not only the financial data but also the numerical data indicates that the share of the participation banking in Turkey is increasing and continue to increase .

### CONCLUSION

Participation banks are the institutions which carry out all the activities of deposit banks according to the Islamic laws. Besides this, participation banks quite affected from the crisis differ from deposit banks like all the financial shareholders about the damages from crisis.

The main reason of divergence is the lack of a real transaction on credit based applications held by participation banks. There is a structure under all the funds that participation banks make use and this structure makes the participation banks more resistant against the crises.

Participation banking in Turkey has shown a serious development and evolution in the last 10 years. The share of participation banks in the sector has increased from the point of the amounts of funds, number of branches, employment and the growth figures. In addition to this, some changes have occurred in the disbursed and collected funds' structure. The changes in the funds that participation banks collected are an important signal for the funds owners where they can use their money. Within this context, looking into the disbursed funds, it is observed that there is significant increase in the fields such as trade, construction and energy. Direction of this increase reveals that participation banks disbursed funds began to focus on the sectors which form the bones of the market and these funds have employment enhancing and revitalizing effect on market.

When investigating the extended credit of Participation Banks in Turkey, for their employees whose have experiences in the construction and energy sector would come to the forefront. Even the Participation Banks have low share in the total Banking sector, current situation and developments shows that these shares rise rapidly.

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