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TODAY'S APPLICATIONS OF PARTICIPATION BANKS: EVIDENCE FROM TURKISH ECONOMY

Müjgan Hacıoğlu DENİZ[1]

Abstract

Obviously, conventional banks all over the world have lost $400 billion due to the global credit crisis; on the contrary, Islamic Financial System together with Participation Banks have not been affected almost. Global financial crisis has increased the general interest towards participation banks all over the World and the curiosity of investors and businessmen from developed-economies also began shifting to interest-free financial instruments. It can be said that many of the conventional banks all around the globe have been left no choice but to fire their employees; however participation banks (interest free-banks) have continued to hire new employees and grow further. The fact that stability and endurance of interest-free banks against present financial shocks has shown this kind of banking system, participation banks as a remedy for weaknesses of today's existing financial system and started to be seen as an alternative to conventional banking system. Generally, principles on which interest-free financial system was built, causes financial transactions to be precise and stable. In order to provide people with responsibility and justice, participation banks has to consider the understanding of labor, risk, equal conditions and production which is called as ivad. As Turkish economy has been one of the best performing economies during the global financial crisis due to its strong financial system, including both conventional and participation banks together, some important lessons for future banking applications can be taken from the Turkish Case. Even Turkish participation banks provide more innovative instruments and various kinds of financial services, they still have a long way to go.

Key words: Participation Banks, Interest-free Banking, Riba, Sukuk, Conventional Banks, Islamic Law, Global Credit Crisis,

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[1] Istanbul University, Faculty of Economics, Department of Economics
E-mail: hacioglu@istanbul.edu.tr ; Tel: (+90) 212 440 0000

Introduction

An early market economy and an early form of mercantilism, sometimes called "Islamic Capitalism", were developed between the eighth (8^{th}) and twelfth (12^{th}) centuries. The monetary economy of the period was based on the widely circulated currency the gold dinar, and it tied together regions that were previously economically independent.

A number of economic concepts and techniques were applied in early Islamic banking, including bills of exchange, partnership (*mufawada*, including limited partnerships, or *mudaraba*), and forms of capital (*al-mal*), capital accumulation (*nama al-mal*), cheques, promissory notes, trusts, transactional accounts, loaning, ledgers and assignments. Organizational enterprises independent from the state also existed in the medieval Islamic world, while the agency institution was also introduced during that time. Many of these early capitalist concepts were adopted and further advanced in medieval Europe from the 13th century onwards.

Islamic banking (***participant banking*** *or* ***interest-free banking***) is or banking activity that is consistent with the principles of sharia law and its practical application through the development of islamic economics. Sharia prohibits the fixed or floating payment or acceptance of specific interest or fees known as riba or usury for loans of money. Investing in businesses that provide goods or services considered contrary to Islamic principles is also haram ("sinful and prohibited"). Although these principles have been applied in varying degrees by historical Islamic economies due to lack of Islamic practice, only in the late 20th century were a number of Islamic banks formed to apply these principles to private or semi-private commercial institutions within the Muslim community. (Al-Araby, 1959: 10)

Mirza Basheer-ud-Din Mahmood Ahmad was perhaps the first person to discuss Islamic Economics in detail in his books *Nizam-e- Nau* (1942) and *Islam ka Iqtisadi Nizaam* (1945). (Nizame Nau -New World Order of Islam-, 1942: 89-*91)* Later work included that of Naeem Siddiqi and Maulana Maududi. (http://www.alislam.org/library/books) The writings of Muhammad Hamidullah (1944, 1955, 1957 and 1962) should be included in this category. Also the *Iqtisaduna* (Arabic: "Our Economics") is a major work on Islamic economics by a prominent Shia cleric Muhammad Baqir al-Sadr. Written between 1960 and 1961, it is al-Sadr's main work on economics, and still forms much of *the basis for modern Islamic banking.*

In the next two decades interest-free banking attracted more attention, partly because of the political interest it created in Pakistan and partly because of the emergence of young Muslim economists. Works specifically devoted to this subject began to appear in this period. The first such work is that of Muhammad Uzair (1955). Another set of works emerged in the late sixties and early seventies. Abdullah al-Araby (1967), Nejatullah Siddiqi (1961, 1969), al-Najjar (1971) and Baqir al-Sadr (1961, 1974) were the main contributors.

The early 1970s saw greater institutional involvement. The Conference of the Finance Ministers of the Islamic Countries held in Karachi in 1970, the Egyptian study in 1972, the First International Conference on Islamic Economics in Mecca in 1976, and the International Economic Conference in London in 1977 were the instrumental as the involvement of institutions and governments led to the application of theory to practice and resulted in the establishment of the first interest-free banks. The Islamic Development Bank, an inter-governmental bank established in 1975, was born of this process. (www.isbd.org, April 2012)

The present membership of the Bank consists of 56 countries. The basic condition for membership is that the prospective member country should be a member of the Organization of Islamic Cooperation (OIC), pay its contribution to the capital of the Bank and be willing to accept such terms and conditions as may be decided upon by the IsDB Board of Governors.

1. Principles of Islamic Finance and Banking System

Islamic Banking has the same purpose as conventional banking: to make money for the banking institute by lending out capital. But that is not the sole purpose either. Adherence to Islamic law and ensuring fair play is also at the core of Islamic banking. Since Islam forbids simply lending out money at interest; Islamic rules on transactions (known as *Fiqh al-Muamalat*) have been created to prevent this evil.

The basic principle of Islamic Banking is based on risk-sharing which is a component of trade rather than risk-transfer which is seen in the Conventional Banking system. Islamic banking introduces concepts such as profit sharing (*Mudharabah*), safekeeping (*Wadiah*), joint venture (*Musharakah*), cost plus (*Murabahah*), and leasing (*Ijar*).

1.1. Islamic View of Riba

The word "Riba" means excess, increase or addition, which according to Islamic Law (Shariah terminology), and it implies any excess compensation without due consideration (consideration does not include time value of money). The definition of *riba* in classical Islamic jurisprudence was ***"surplus value without counterpart"***, or "to ensure equivalency in real value", and that "numerical value was immaterial." Prohibition of riba/interest is part of Islamic guidance designed to play a key role in ensuring a just and equitable financial system. (Siddiqi, 2004: 34)

Applying interest was acceptable under some circumstances. Currencies that were based on guarantees by a government to honor the stated value (i.e. fiat currency) or based on other materials such as paper or base metals were allowed to have interest applied to them. When base metal currencies were first introduced in the Islamic world, the question of "paying a debt in a higher.number of units of this *fiat* money being *riba*" was not relevant as the jurists only needed to be concerned with the real value of money (determined by weight only) rather than the numerical value. For example, it was acceptable for a loan of 1000 gold dinars to be paid back as 1050 dinars of equal aggregate weight (i.e., the value in terms of weight had to be same because all makes of coins did not carry exactly similar weight).

Islamic economics stands for abolition of riba and maysir *in* financial dealings as well as on a regard for the interest of others in one's pursuit of material gains. (Ulgener, 1964: 4) Gambling (Maysir, maisir; Qimar) as a game to spend money and expect larger outcomes was widespread practiced in the pre-İslamic time of the Arabs. The Quran prohibited gambling alongside alcoholics in Sura Al Baqarah (Sura 2), Verse 219: "They ask you concerning wine and gambling. Say: 'In them is great sin, and some benefit for men, but the sin is greater than the benefit. [...]"

Gambling differs from trade as what one receives is the other's loss, it is a zero sum while trade exchange generates typically a win-win situation. There is some concerns among Muslims whether investing in stock market resembles gambling by nature; while the majority of scholars accepts trading of company shares as long as the companies are not involved in forbidden areas or involved in riba. The reservation of some Muslims may remain, especially if they feel uncomfortable regarding the proper intentions of themselves.

1.2. Fundamentals of Islamic Banking and Its Instruments

The term "Islamic Banking" and interest-free banking refers to a system of banking or banking activity that is consistent with Islamic Law (Shariah) principles and guided by Islamic economics. (Al-Suud, 1957:15-6) In particular, Islamic law prohibits usury, the collection and payment of interest, also commonly called riba in Islamic discourse. In addition, Islamic law prohibits investing in businesses that are considered unlawful, or haraam (such as businesses that sell alcohol or pork, or businesses that produce media such as gossip columns or pornography, which are contrary to Islamic values). (Siddiqi, 2004: 13-5)

Furthermore the Shariah prohibits what is called "Maysir" and "Gharar". Maysir is involved in contracts where the ownership of a good depends on the occurrence of a predetermined, uncertain event in the future whereas Gharar describes speculative transactions. Both concepts involve excessive risk and are supposed to foster uncertainty and fraudlent behaviour. Therefore the use of all conventional derivate instruments is impossible in Islamic Banking. In the late 20th century, a number of Islamic banks were created to cater to this particular banking market. (Ulgener, 1964: 5-6)

It can be said that there is a gradual evolution of the institutions of interest-free financial enterprises across the world; for instance, the current existence of financial institutions in Iran, Pakistan and Saudi Arabia, the Dar-al-Mal-al-Islami in Geneva and Islamic trust companies in North America.

To sum up, the operations and activities of the banking institutions must comply with Shariah principles. Obviously the abolition and total prohibition of the practice of lending money at interest would be like an economic revolution which would altogether change our present economic concepts and practices. However, the prohibition of interest would not put an end to the practice of building up and storing capital by the individual; but it would put an end to the banking system as it is widely known today. (Al-Suud, 1957: 9) Let's look at a little bit Islamic Financial transaction terminology, some leading instruments and operations of these banks are as follows:

Usury in Islam

The criticism of usury in Islam was well established during the lifetime of the Islamic prophet Muhammad (s.a) and reinforced by several verses in the Qur'an dating back to around 600 AD. The original word used for ***Usury*** in this study is ***Riba***, which literally means "*excess or addition*". (Al-Suud, 1957: 11)

Bai' al 'inah (sale and buy-back agreement)

Bai' al inah is a financing facility with the underlying buy and sell transactions between the financier and the customer. The financier buys an asset from the customer on spot basis. The price paid by the financier constitutes the disbursement under the facility. Subsequently the asset is sold to the customer on a deferred-payment basis and the price is payable in installments. The second sale serves to create the obligation on the part of the customer under the facility. There are differences of opinion amongst the scholars on the permissibility of Bai' al 'inah, however this is practised in Malaysia (a set of strict conditions must be complied) and the like jurisdictions.

Bai' bithaman ajil (deferred payment sale)

This concept refers to the sale of goods on a deferred payment basis at a price, which includes a profit margin agreed to by both parties. Like Bai' al 'inah, this concept is also used under an Islamic financing facility. Interest payment can be avoided as the customer is paying the sale price which is not the same as interest charged on a loan. The problem here is that this includes linking two transactions in one which is forbidden in Islam. The common perception is that this is simply straightforward charging of interest disguised as a sale.

Bai' muajjal (credit sale)

Literally *bai' muajjal* means a credit sale. Technically, it is a financing technique adopted by Islamic banks that takes the form of *murabahah muajjal*. It is a contract in which the bank earns a profit margin on the purchase price and allows the buyer to pay the price of the commodity at a future date in a lump sum or in installments. It has to expressly mention cost of the commodity and the margin of profit is mutually agreed. The price fixed for the commodity in such a transaction can be the same as the spot price or higher or lower than the spot price. Bai' muajjal is also called a *deferred-payment sale*. However, one of the essential descriptions of riba is an unjustified delay in payment or either increasing or decreasing the price if the payment is immediate or delayed.

Mudarabah

"Mudarabah" is a special kind of partnership where one partner gives money to another for investing it in a commercial enterprise. The capital investment comes from the first partner, who is called the "rabb-ul-mal", while the management and work is the exclusive responsibility of the other party, who is called the "mudarib".

The Mudarabah (Profit Sharing) is a contract, with one party providing 100 percent of the capital and the other party providing its specialist knowledge to invest the capital and manage the investment project. Profits generated are shared between the parties according to a pre-agreed ratio. If loss happened, the first partner "rabb-ul-mal" will lose his capital, and the other party "mudarib" will lose the time an effort he invested in running the business. (Al-Araby, 1959: 10)

Murabahah

This concept refers to the sale of goods at a price, which includes a profit margin agreed to by both parties. The purchase and selling price, other costs, and the profit margin must be clearly stated at the time of the sale agreement. The bank is compensated for the time value of its money in the form of the profit margin. This is a fixed-income loan for the purchase of a real asset (such as real estate or a vehicle), with a fixed rate of profit determined by the profit margin. The bank is not compensated for the time value of money outside of the contracted term (i.e., the bank cannot charge additional profit on late payments); however, the asset remains as a mortgage with the bank until the default is settled. (Al-Suud, 1957: 11)

Musawamah

Musawamah is the negotiation of a selling price between two parties without reference by the seller to either costs or asking price. While the seller may or may not have full knowledge of the cost of the item being negotiated, they are under no obligation to reveal these costs as part of the negotiation process. This difference in obligation by the seller is the key distinction between Murabahah and Musawamah with all other rules as described in Murabahah remaining the same. Musawamah is the most common type of trading negotiation seen in Islamic commerce.

Ijarah

Ijarah means lease, rent or wage. Generally, the Ijarah concept refers to selling the benefit of use or service for a fixed price or wage. Under this concept, the Bank makes available to the customer the use of service of assets / equipments such as plant, office automation, motor vehicle for a fixed period and price.

Sukuk (Islamic Bonds)

Sukuk, plural of Sakk, is the Arabic name for financial certificates that are *the Islamic equivalent of bonds*. However, fixed-income, interest-bearing bonds are not permissible in Islam. Hence, Sukuk are securities that comply with the Islamic law and its investment principles, which prohibit the charging or paying of interest. Financial assets that comply with the Islamic law can be classified in accordance with their tradability and non-tradability in the secondary markets. (Çalık, www.albarakaturk.com)

Takaful (Islamic Insurance)

Takaful is an alternative form of cover that a Muslim can avail himself against the risk of loss due to misfortunes. Takaful is based on the idea that what is uncertain with respect to an individual may cease to be uncertain with respect to a very large number of similar individuals. Insurance by combining the risks of many people enables each individual to enjoy the advantage provided by the law of large numbers. See Takaful for details. (www.tekafulsigorta.com)

Wadiah (Safekeeping)

In **Wadiah**, a bank is deemed as a keeper and trustee of funds. A person deposits funds in the bank and the bank guarantees refund of the entire amount of the deposit, or any part of the outstanding amount, when the depositor demands it. The depositor, at the bank's discretion, may be rewarded with *Hibah* (see above) as a form of appreciation for the use of funds by the bank.

2. Development of Modern Participation Banks Across the World

The modern interest-free financial sector all over the world is little more than 35 years into its development. Origination of retail and institutional deposits has been a resounding success, but origination of interest-free investment and funding opportunities has presented an immense and continuing challenge. The development of interest-free financial sector has been upon the productive use of money for the growth of the economy and the benefit of the community. It is obvious that it is an asset-based system; if money is to be invested, it should be through physical ownership of tangible assets. Although we know there are now more than a 150 established interest-free banks and financial institutions, they have been incorporating gradually over several decades. (Cox, 2000: 69)

Asset origination and diversification became a significant issue for newly established institutions that had limitations to internal resources. Suitable investment assests were required for client deposits which enable the bank to retain sufficient cash flow to meet its retail obligations. Unfortunately creating an interest-free asset base in a financial environment driven by interest really complicates matters. Asset origination and diversification became a significant issue for newly established institutions that had limitations to internal resources. As a result of this, while retail development was handled directly by Islamic institutions, a number of international banks were appointed agents to assist with the development of wholesale assets loan. Through these appointments, it was possible to get an access to instant market experience and also to diversified global relationships again to accelerate low risk asset generation. So the international trade and commodity markets rapidly became the principal focus of the interest-free finance largely due to the huge turnover of trade in physical assets. (Cox, 2000: 71)

Participation Banks (Islamic Banks) have grown recently in the Muslim world but still have a very small share of the global banking system. (Saeed, 1996: 15) However, it is important that shariah-compliant assets reached about $400 billion throughout the world in 2009, according to Standard & Poor's Ratings Services, and the potential market is $4 trillion. According to this accounting; Iran , Saudi Arabia and Malaysia have the biggest sharia-compliant assets.

In 2009 Iranian banks accounted for about 40 percent of total assets of the world's top 100 Islamic banks. Bank Melli Iran, with assets of $45.5 billion came first, followed by Saudi Arabia's Al Rajhi Bank, Bank Mellat with $39.7 billion and Bank Saderat Iran with $39.3 billion. Iran holds the world's largest level of Islamic finance assets valued at $235.3bn which is more than double the next country in the ranking with $92bn. In November 2010, *The Banker* published its latest authoritative list of the Top 500 Islamic Finance Institutions with Iran topping the list. Seven out of ten top Islamic banks in the world are Iranian according to the list. Expansion into Islamic banking services.

In May 2012, Trend News Agency reported that the Chairman of the International Bank of Azerbaijan, Jahangir Hajiyev, announced that his bank would expand into Islamic banking services. The expansion will take place in countries such as Turkey, Azerbaijan, and Kazakhstan. For last two decades in Turkish economy, participaton banks have developed rapidly and began to use various kinds of islamic financial instruments. Since 1988 when the first Islamic Banks have emerged in Turkish financial life and then expansion into Islamic Banking services day by day in Turkish economy may enable the country to become a regional center for Islamic financing in the nearest future.

Generally, interest-free financial services have measurably improved during the last two decades and the demand for new products is ever-increasing. Even it can be said that the "mudaraba" portfolios actually laid the foundations of the interest-free-fund management industry. To sum-up, the interest-free banking/participation banking sector has originated a variety of structured financing and investment products with some distance from establishing valid interest-free alternatives to the mainstream capital markets.

3. 2008 Global Financial Crisis and Its Reflections on Participation Banks

The last global crisis emanating from US financial markets and spreading to other developed and fast developing countries like China, India and Brazil, is threatening a global meltdown which leaves the entire world poorer and full of forebodings regarding future as well. It started as a credit crunch due to highly over-stretched leverage, and it was aggravated by the complexity of the products and has reached its zenith due to moral failure generating conflicts of interest and mismatch between incentives of the various groups and individuals involved in the saga. (Siddiqi, October 2008)

According to Nejatullah Siddiqi, risk shifting is also gambling. One who buys risk exchanges a definite amount of money (the price) for an uncertain amount of money, whose delivery itself is not certain. Credit Default Swaps (CDS) are an appropriate example. The millions of loans made by a bank are each subject to the risk of default (credit risk) in various degrees. As Joseph Stiglitz and Bruce Greenwald (2003: 271) have rightly pointed out that credit is not homogenous like money. The risks attached to each loan are unique. The institution undertaking to pay for all defaulters among, say a million borrowers has no scientific basis for measuring the risk it is taking. Here, the law of large numbers does not apply and it is just taking chances, that is gambling. As a result, the banks that so protect themselves against credit risks are emboldened to give more and more loans. That is how aggressive lending policy gained an impetus. Shortly, the sub-prime mortgage crisis would not have occurred without the speculative deals like CDS.

Today's financial institutions including banks, investment companies, insurance companies etc., are being managed by hired professionals. Obviously, those who govern financial conglomerates by virtue of owning enough shares have motives different from ordinary shareholders. Almost the entire population in developed countries is involved in supplying capital through purchase of stocks, bonds, insurance policies, pension funds, etc. While these 'principals' are interested in profits, they should care about many other things too, among them stability, jobs, social justice, and anxiety free communities. But these hired managers who consider profit maximization, to be their mission as it earns them maximum bonus and continued employment. There are those amongst middlemen who earn fees and they earn more when transactions multiply. In such an environment where no one cares about others, focused as everyone is on his or her own interest, public interest is supposedly guarded by regulators. Therefore, it should be asked: "How can the same self-focused assembly of individuals throw up regulators who would work to protect and promote public good remains a moot question for neo-classical economics. An answer to this question is, however, provided by the public choice school: public servants too, elected as well as appointed, seek to maximize private again."(www.siddiqi.com mns/CurrentFinancialCrisisAndIslamicEconomics.htm)

4. Participation Banks in Turkey Before and After the 2008 Financial Crisis

The first interest- free bank formed in Turkey on 18th February in 1985 was Albaraka Turk. Initially they were called as interest free banks, but later by means of a change in legislative regulations in Turkish Parliament they have been started to call participation banks. Today there are different brands and 560 branches of the participation banks across Turkey. Here are some ratios and figures belongs to interest-free banks/participation banks formed in Turkey.

By the end of 2012, according to the data announced by BDDK, Association of Turkish Banks (TBB) and Association of Participation Banks (KBB); Turkish Banking Sector which provides employment for 201.496 people, constitutes 60.91% of the whole financial system in Turkey, and total active of the sector is $771 million, has highly integrated into the world economy and because of this, Turkish Banking Sector is rather vulnerable to global interactions. However, the sector has managed to stay out of the global financial crisis. Out of the whole banking sector in Turkey, 91.02 percent belongs to conventional banks, 5.13 per cent belongs to participation banks and 3.85 percent belongs to development and investment banks. Considering the growth figures of 2012, while annual growth rate of ***conventional banks*** is ***11.41%***, growth rate of ***participation banks*** has become ***25.18 %*** annually.

Participation Banks appropriate almost all collected usable funds to the need of financing reel sector (productive sector) via the methods of profit or loss-partnership on the basis of financial leasing, projects and corporate financial support (purchase and sale). Shortly, Participation Banks are the institutions which complete and develop Turkish financial system, actually participation banks finance and give credits to real sector.

Table 1. Intensity of Mortgage Credits Across the Turkish Banking Sector

Indicators of Intensity for Mortgage Credits										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	201 202 2011
Conventional Banks	100	100	100	95,2	94,4	95	95,5	94,8	94,5	93,3
Development and Investment Banks	0	0	0	0	0	0,2	0,3	0,2	0,1	0
Participation Banks	0	0	0	4,8	5,6	4,8	4,2	5,0	5,5	6,7
Total	100	100	100	100	100	100	100	100	100	100

Source: BDDK Structural Developments at Banking Sector, December 2011, p.31

Table 2.Turkish Financial Sector Size and Sector Distribution

Development of Bank Numbers between the years 2000-2012										
	2000	2001	2002	2003	2004	2005	2006-2007	2008-2010	2011	2012
Conventional Banks	55	46	40	36	35	34	33	32	31	32
Development &Investment Banks	18	16	16	14	13	13	13	13	0,113	13
Participation Banks	6	5	5	5	5	4	4	4	4	4
Total	79	67	61	55	53	51	50	49	48	49

Source: www.bddk.or.tr, BDDK Structural Developments at Banking Sector, p.13. www.bddk.org.tr/WebSitesi/turkce/Raporlar/TBSGG/12011tbs_genel_gorunumu_mart2013.pdf

Table 3. Number of Branches of Participation Banks in Turkey

Name of the Participation Banks	Number of Domestic Branches	
	2010	2011
Asya Participation Bank	175	200
Albaraka Turk	109	122
Kuveyt Turk	139	178
Türkiye Finance Participation Bank	182	182
Total	605	682

Source: www.bddk.org.tr, BDDK, Structural Developments at Banking Sector, December 2011, s.15.

Table 4. Turkish Banking Sector in the Sector Groups (2011, in millions,%)

BANKS	NUMBER OF BANKS	MILLION TL	PERCENTAGE %
CONVENTIONAL BANKS	32	335.477	91,0 %
PARTICIPATION BANKS	4	20.067	5,4%
DEVELOPMENT AND INVESTMENT BANKS	13	13.231	3,6%
TOTAL	49	368.775	100%

Source: BDDK, Structural Developments at Banking Sector, December 2011, s.15

Table 5. Key Financial Figures for Participation Banks in Turkey

	Key Financial Figures in 2012	**% Change Comparing the Figures in 2011**
Net Profit (in millions TL)	916 million TL	%14 increase
Collected Funds (in billion TL)	49 billion 200 million TL (out of which %59 Turkish currency, %41 Foreign Currency)	%23 increase
Total Actives	70 billion 244 million TL	%25
Net Worth	7 billion 400 million TL	%19
Used Funds (in billion TL)	50 billion TL	%22 increase

Source: www.ekonomi.milliyet.com.tr, 07.03.2012

www.finansgundem.com/haber/iste-katilim-bankalarinin-2012-kari/327565

Table 6. Number of Participation Banks Branches and Employees

	2012	**% Increase**
Number of Branches	829	%21
Number of Employees	15.356	%11

Source: www.ekonomi.milliyet.com.tr, 07.03.2012.

Even the number of participation bank branches and employees in Turkey has increased during the first quarter of 2013. According to BDDK Report on General View of Turkish Banking Sector, number of branches has been 836 and number of employees has reached 15.689 by the march of 2013. Between march 2012 and march 2013 employee population has changed 1.565 people at participation banks. Also a big increase occurred in number of branches between march 2012 and march 2013 such that 141 new branches has opened and 7 new branches has added during the first quarter of 2013. (BDDK, 2013: 9)

Conclusion

In conclusion considering the last global financial crisis, a world of banking and finance without *riba* and *maysir* will be suggested as the best alternative to the current scenario. In this new environment risk sharing will replace risk shifting and morality, advising people to be moderate in their material pursuits and considerate about public good in their private decisions. Actually participation banks and their system of risk sharing coupled with new financial instruments will serve as the corrective to self- destructive outgrowths of current financial capitalism. On the other hand, it will be noted that for this alternative model to be robust and resilient, morality has to be rooted in spirituality. This will provide a basis for willing acceptance of social norms, state supervision, regulation and intervention in the market based on values rather than interests.

As a result, as we can see the ratios and various data about participation banks in Turkey, financial crisis which has started at the sub-prime mortgage markets in USA in 2008 and then upset the global financial system, could not disturb participation banks in Turkey. On the contrary, during the last four years interest-free banks have grown much more and become stronger within Turkish financial system. Namely, after the crisis participation banks in Turkey have increased their profits and revenues. Also the number of branches of these banks have increased and expanded their operations across the country. Although the size of these Banks in Turkey are not enough for a developing Islamic country but, the trend shows us that size and role of participation banks in Turkey are increasing day by day. This means Turkish interest-free finance system is on good way to achieve its target. With this last global financial crisis and its still ongoing effects make conventional banking system to be criticized and probably it would put an end to the banking system as we know today. However, it is obvious that such a radical change of practices in classical banking system cannot be achieved overnight. That is to say, what has taken centuries to build up cannot be destroyed easily even by a deep global crisis.

Shortly, it should be said that "productive loans" not permissible in Islam except when they take the form of partnership. In an Islamic state, the function of a bank would not be mainly to lend at interest and create credit. Their main duty should be to provide facilities to members of the community in need of finance in return for reasonable charges. Finally, in a truly Islamic financial system, investment and saving would be governed by ethical principles which are not well known in our modern materialistic world. The interest-free banking system, consistently finance and give credits to real sector (productive), produces universal welfare through an all-embracing co-operative endeavor; whereas the conventional financial system produces gross inequalities and glaring injustices in the distribution of national income, fosters accumulation of wealth in the possession of the few and causes misery and anxiety for the masses, especially for poor people.

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