

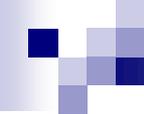


**Republic of Turkey**  
**Undersecretariat of Treasury**

**Participatory Finance in Turkey**

**M. Alper BATUR**  
**Head of Department**

**6<sup>th</sup> MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP**  
**March 17<sup>th</sup>, 2016**  
**Ankara**



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## NOTES

- This presentation exclusively addresses the questions raised by COMCEC Secretariat for `Member Country Presentations` Session

# OUTLINE

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## ❑ Setting the Scene

❑ A quick glance at Turkey and the Financial Sector

## ❑ Interest-Free Finance in Turkey

❑ Participation Banks

❑ Participatory Insurance (Takaful)

❑ Lease Certificates (Sukuk)

❑ Capital Markets and Private Equity/Venture Capital

## ❑ Strategies and Initiatives

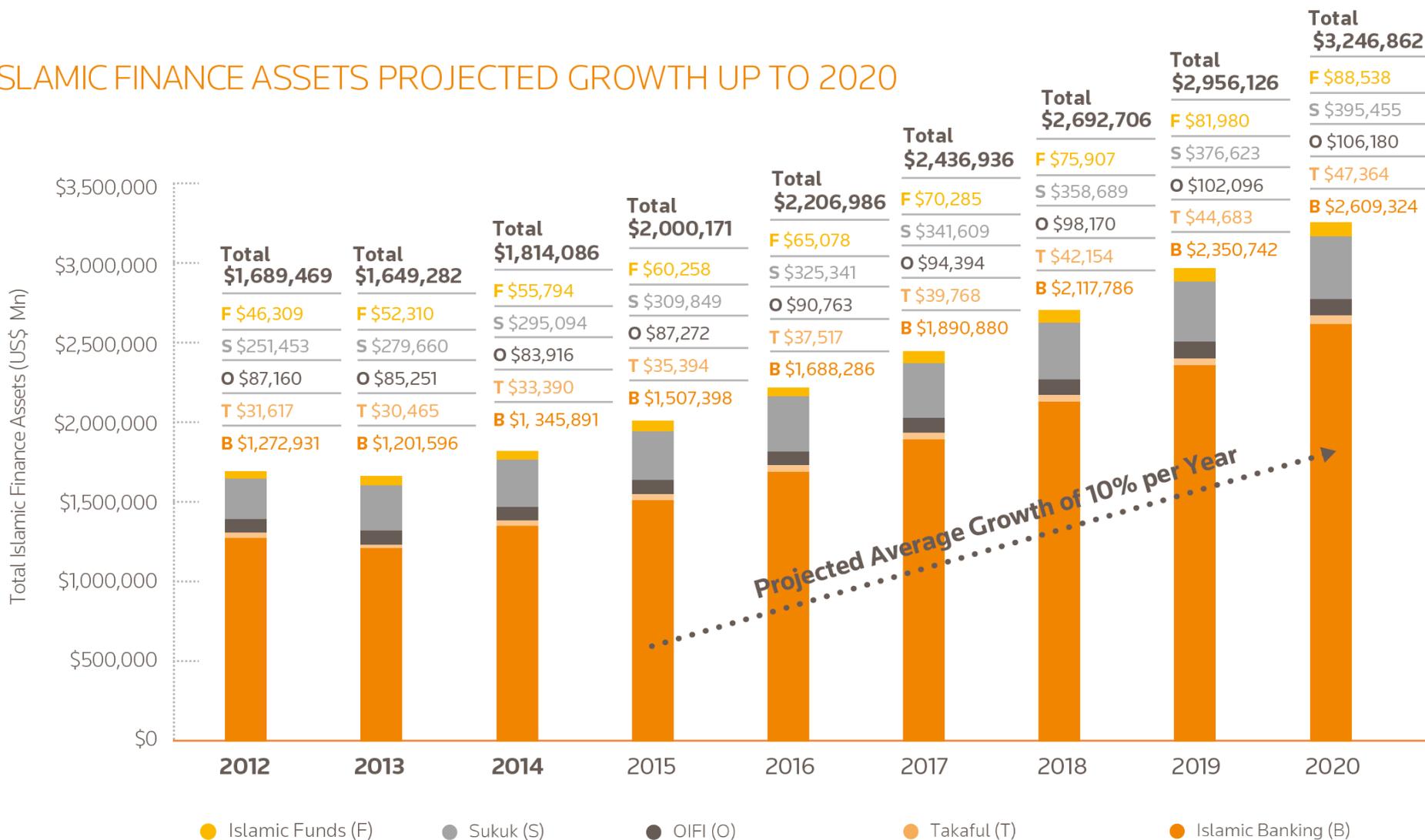
❑ Istanbul International Financial Center Program

❑ Turkish Participation Banking Strategy Document

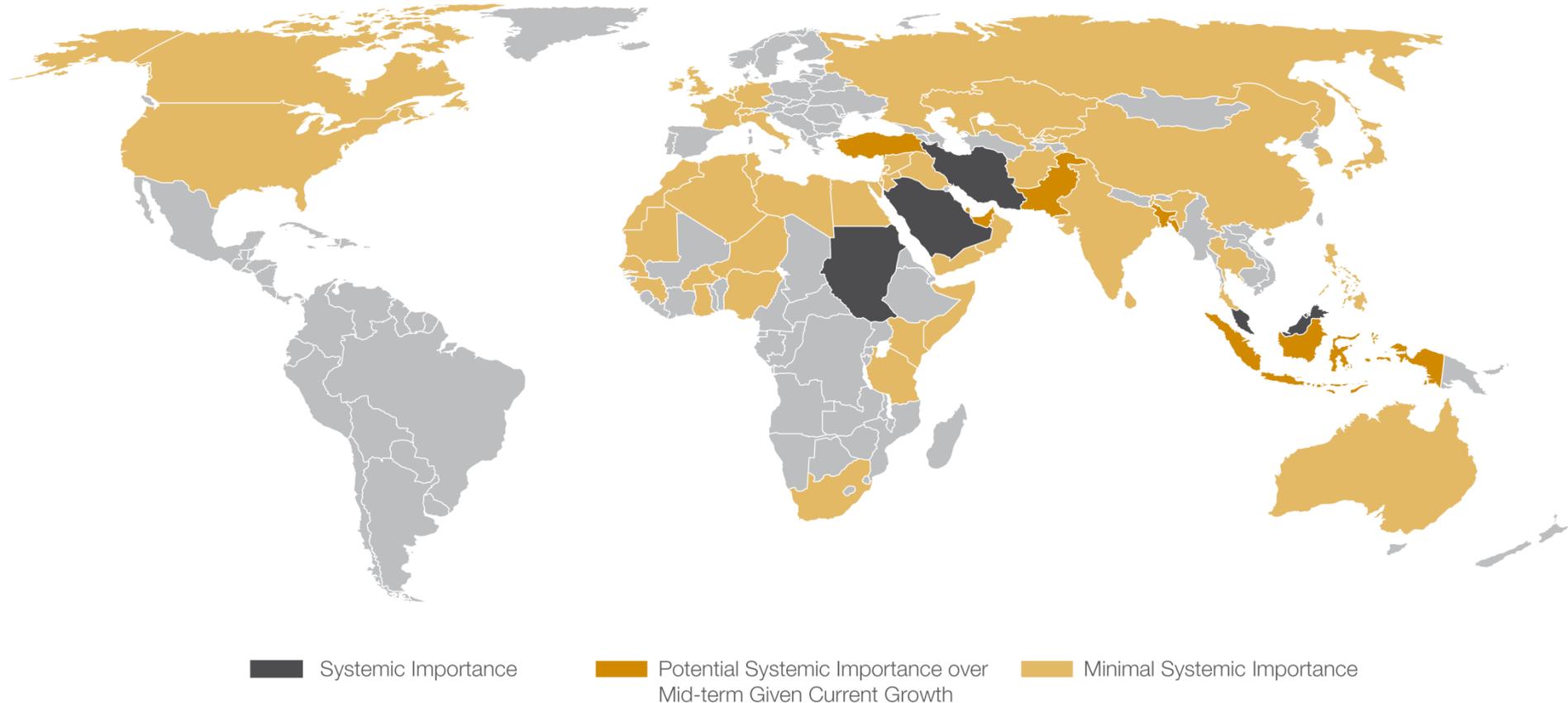
❑ Interest-Free Finance Coordination Board

# 2020 PROJECTIONS

## ISLAMIC FINANCE ASSETS PROJECTED GROWTH UP TO 2020

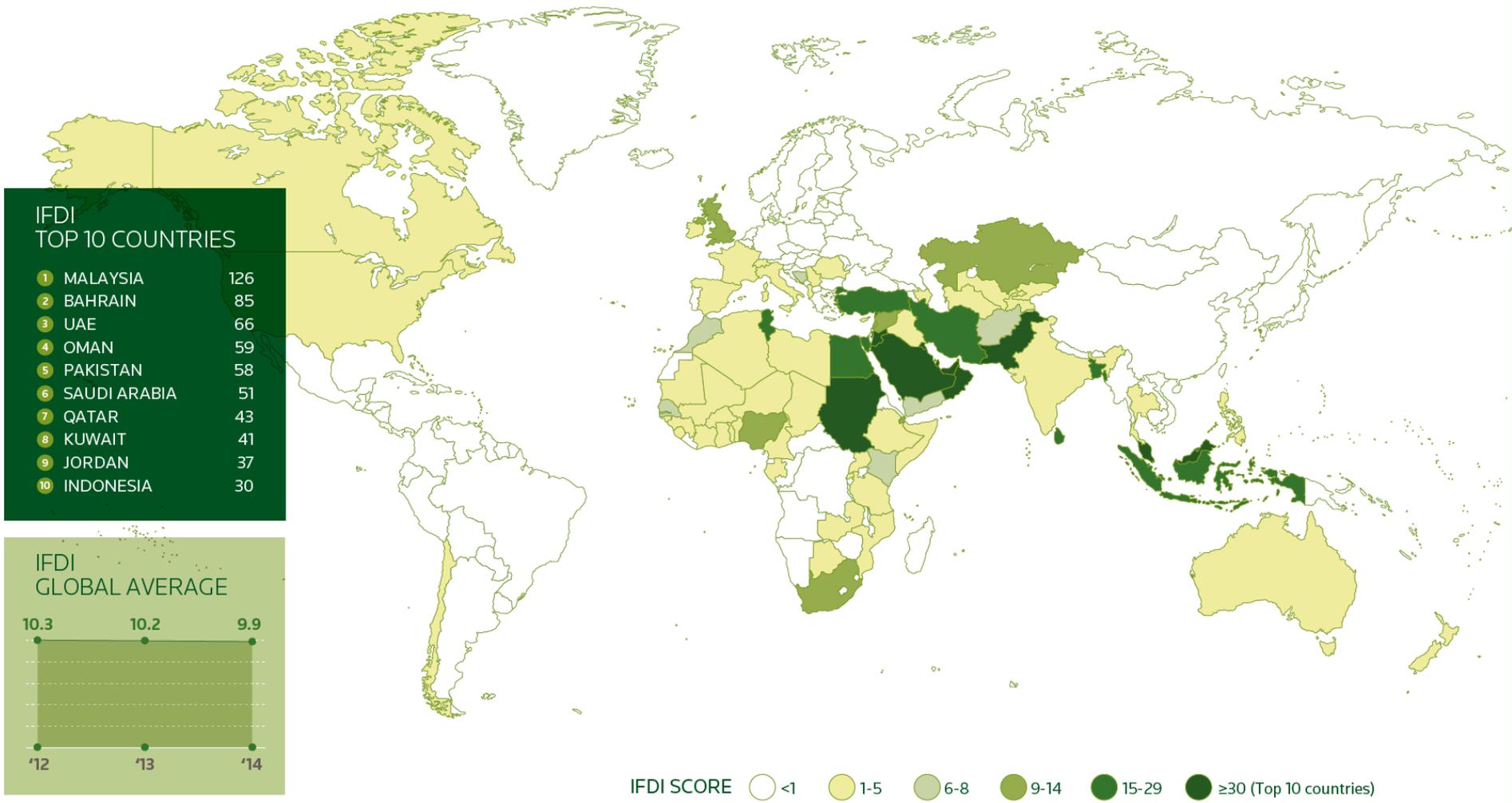


# Islamic Finance Markets by Systemic Significance



Criterion: The Islamic financial sector becomes systemically important when the total Islamic banking assets in a country comprise more than 15% of its total domestic banking sector assets and / or hold at least 5% of the global Islamic banking assets.

# IFDI TOP 10 COUNTRIES



## Top 15 Largest Islamic Finance Economies (2014)

Rank	Country	Islamic Finance Assets (US\$ Mn)	Islamic Banking Assets (US\$ Mn)
	<b>Global</b>	<b>1,814,086</b>	<b>1,345,891</b>
1	Malaysia	415,418	173,956
2	Saudi Arabia	412,955	325,394
3	Iran	345,447	328,777
4	UAE	161,443	127,281
5	Kuwait	97,576	87,749
6	Qatar	86,524	71,620
7	Bahrain	72,825	68,367
8	Turkey	53,883	44,597
9	Indonesia	40,396	21,711
10	Bangladesh	23,150	22,471
11	Pakistan	18,279	12,563
12	Egypt	13,487	12,869
13	Sudan	10,651	10,651
14	Jordan	8,219	7,872
15	Switzerland	6,885	

Source: ICD/TR- ISLAMIC FINANCE DEVELOPMENT REPORT 2015

## A \$4.1 trillion potential of Islamic banking within OIC (2012)

Top **Current** Islamic Finance Markets

Top **Potential** Islamic Finance Markets \*

COUNTRY	US BILL, 2012	COUNTRY	US BILL, 2012e
Malaysia	\$412	Turkey	\$775
Saudi Arabia	\$ 270	Iran, Islamic Rep.	\$512
Iran	\$185	Saudi Arabia	\$461
United Arab Emirates	\$118	United Arab Emirates	\$381
Kuwait	\$81	Indonesia	\$375
Qatar	\$71	Malaysia	\$374
Bahrain	\$47	Egypt, Arab Rep.	\$221
Turkey	\$38	Qatar	\$179
Indonesia	\$33	Kuwait	\$145
Bangladesh	\$18	Morocco	\$139
Pakistan	\$14	Pakistan	\$96
Egypt	\$12	Bangladesh	\$88
Sudan	\$8	Nigeria	\$63
Switzerland	\$7	Bahrain	\$60
Jordan	\$5	Jordan	\$60

\* The optimal scenario assumes full regulatory support for Islamic finance in OIC markets and a 100% Islamic banking penetration with the proportionate Muslim demographic of OIC countries.

Source: Thomson Reuters- State of the Global Islamic Economy Report, 2013

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# Republic of Turkey at a Glance

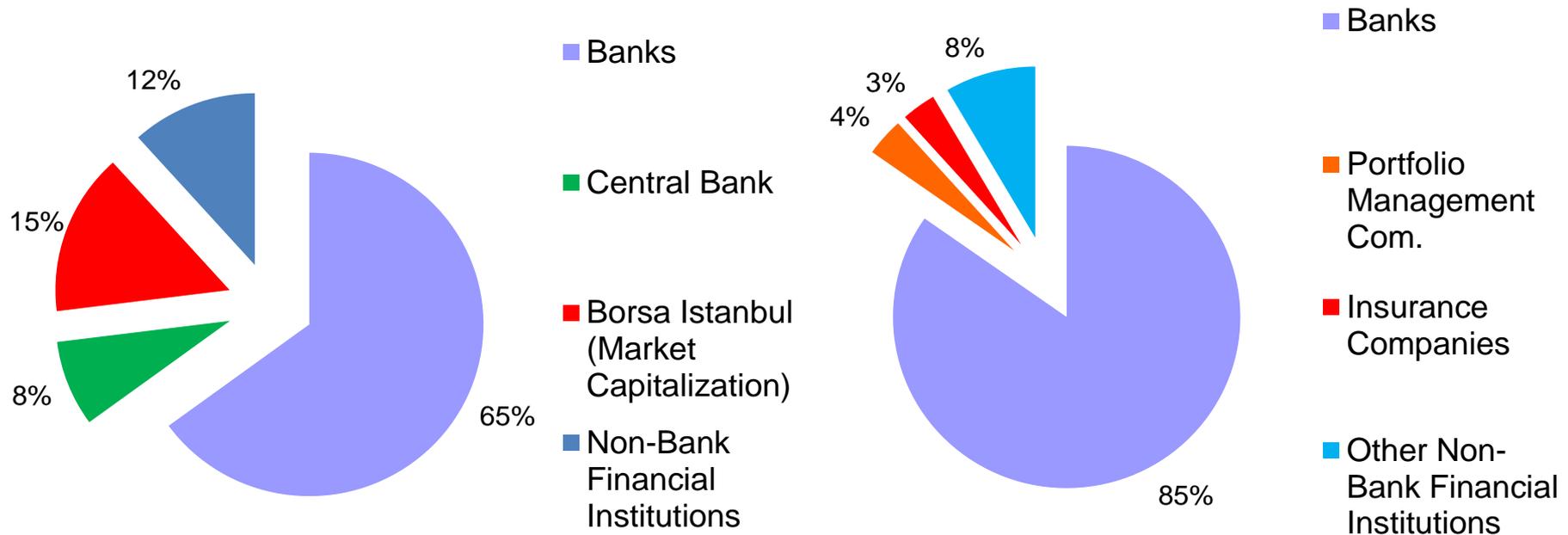
<b>Government</b>	Parliamentary Democracy
<b>Population</b>	77.7 million (2014)
<b>Labor Force (Population)</b>	29.2 million (2014)
<b>Median Age</b>	30.7 (2014)
<b>Neighboring Countries</b>	Bulgaria, Greece, Syria, Iraq, Iran, Azerbaijan, Armenia, Georgia
<b>Major Cities (Population)</b>	Istanbul (14.3 million), Ankara (5.1 million), Izmir (4.1 million), Bursa (2.8 million), Antalya (2.2 million) (2014)
<b>GDP</b>	~USD 800 billion (2014-Current Prices)
<b>GDP Per Capita</b>	USD 10,404 (2014)
<b>Trade Agreements</b>	Customs Union Agreement with the EU Free Trade Agreements with several countries
<b>Diplomacy</b>	<ul style="list-style-type: none"><li>• Member of G20 (2015 Chair)</li><li>• EU candidate country</li><li>• Member of NATO</li><li>• Member of Organization of the Islamic Cooperation (OIC)</li></ul>



Discover  
the potential

# Financial Sector in Turkey

## Financial Sector Assets (%)



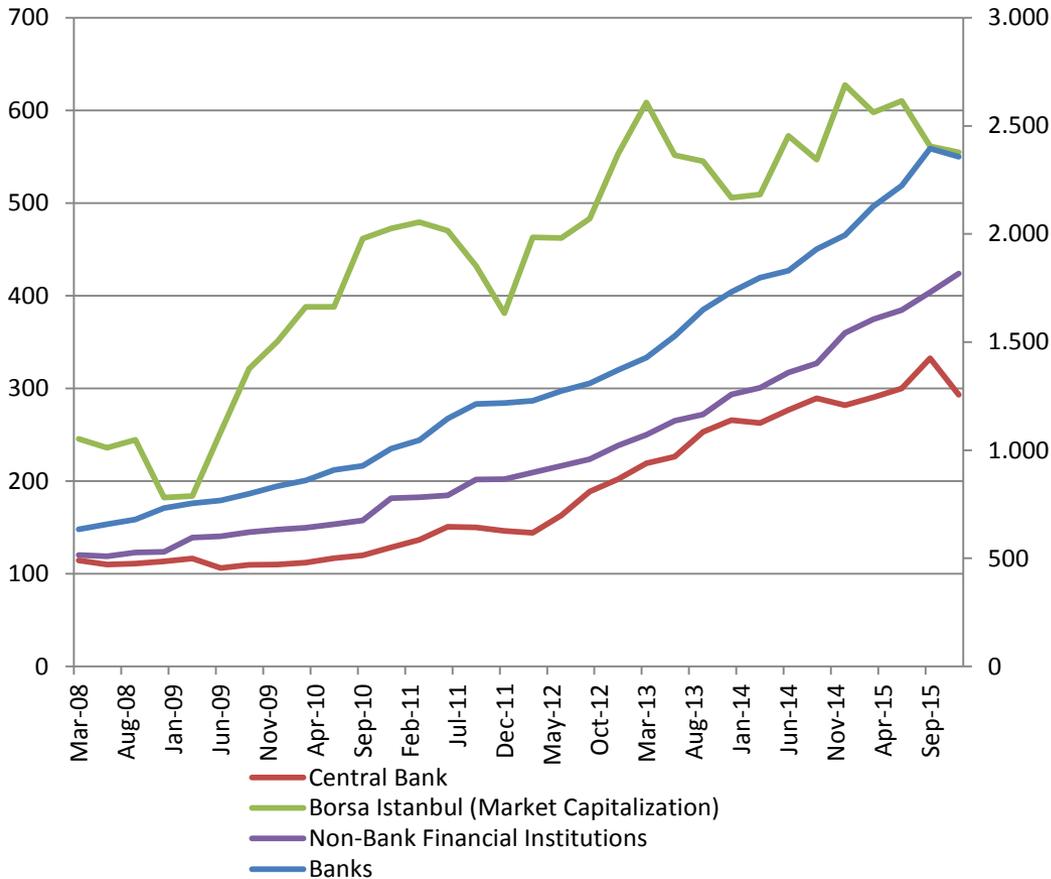
**Banking dominates Turkish financial sector**

**Based on different definitions,**

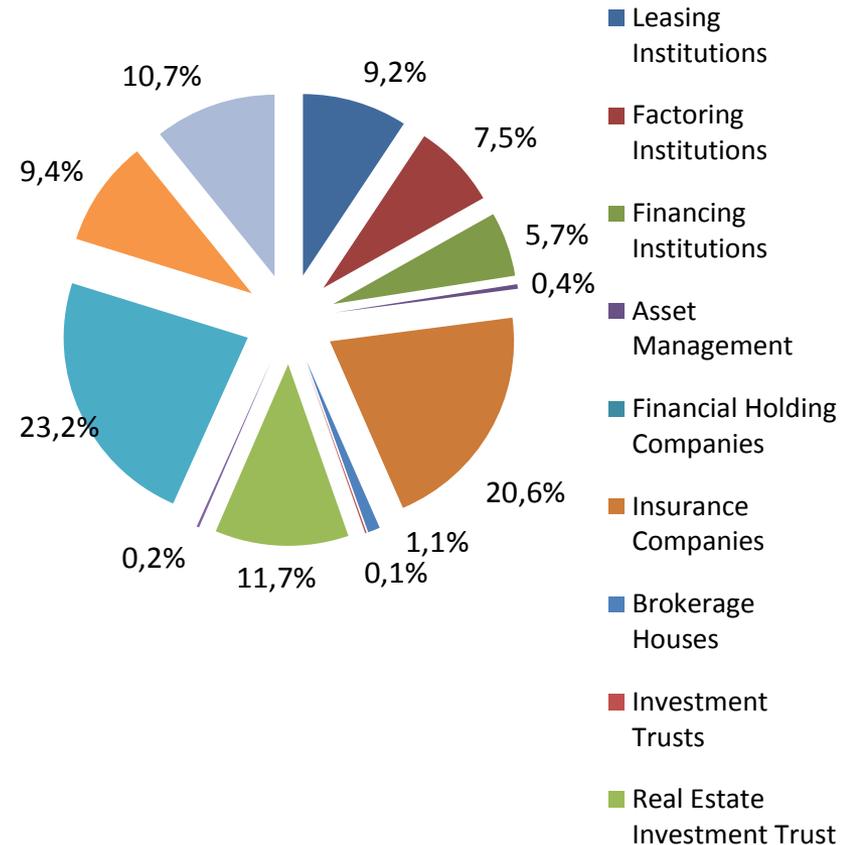
**Banking represents about 65 to 85 percent of total financial sector assets**

# Financial Sector in Turkey

Financial Sector Assets (Million TL)



Assets of Non-Bank Financial Institutions



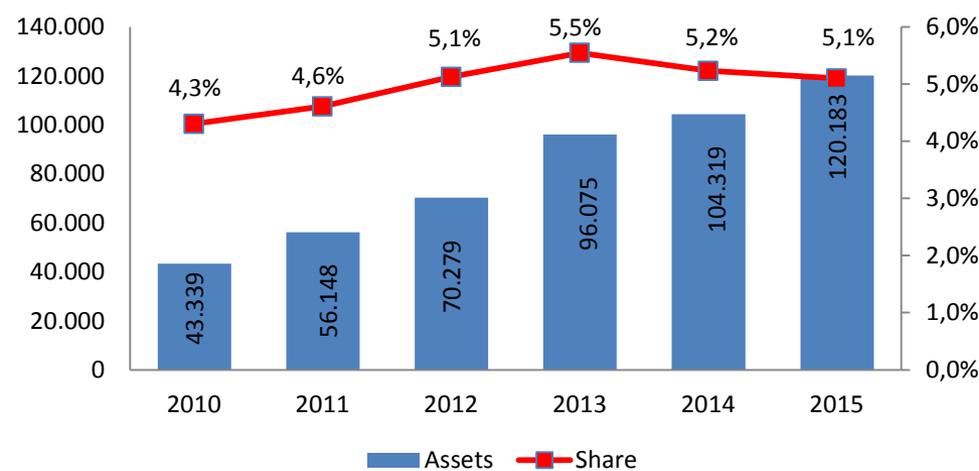
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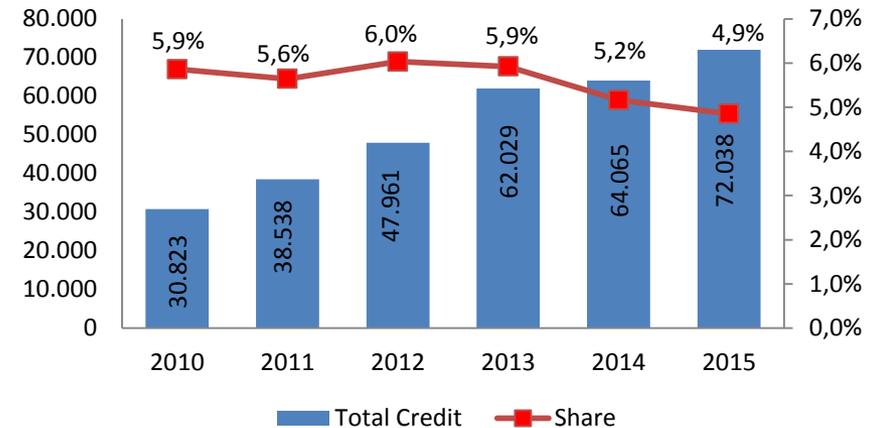
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# Participation Banks

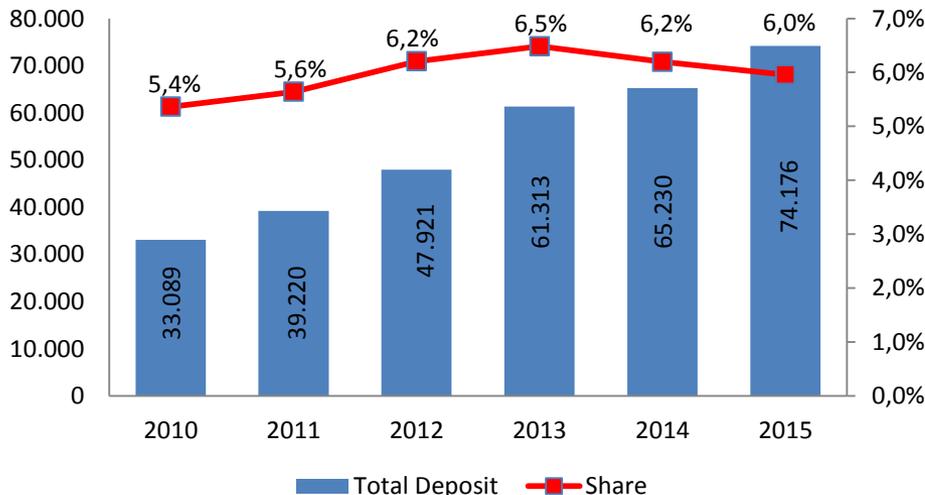
Assets (Mil, TL); Share in the Banking Sector (%)



Total Credit (Mil, TL); Share in the Banking Sector (%)



Deposits (Mil, TL); Share in the Banking Sector (%)



- With the entrance of 2 new players, the number of participation banks reached at 6
- The market share is hovering around 5%, which is far from desired levels.

# Participatory Insurance (Takaful)

- Takaful is a newly emerging niche for Turkey's insurance sector and thus offers a huge potential for the country
- There are currently only 2 companies operating fully in line with participatory finance principles
- Also, several insurance companies offer insurance products and services in line with participatory finance principles
- Turkey's current insurance legislation and regulations cover takaful operations and offer a leveling playing field for new players from both domestic and international markets

# Lease Certificates (Sukuk)

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- The first regulation was introduced in 2010 by Capital Markets Board of Turkey
- Following the regulation, Turkey's first corporate sukuk was issued by Kuveyt Türk participation bank in 2010
- From 2011 to 2013, several regulations were introduced to level the playing field and allow new sukuk types
- Consequently, as of February 2016, around 65 corporate Sukuks with an amount exceeding USD 5 billion issued

# Lease Certificates (Sukuk)

- On the sovereign side, first legal step to establish the legal framework for sovereign Sukuk was in June 2012.
- Subsequently, the Republic issued its first sovereign sukuk in international markets in 2012 with the USD 1.5 billion value
- As of February 2016, total amount of funds raised by sovereign sukuk issuances exceeded TL 20 billion
- Sovereign Sukuk issuances helped to
  - Diversify our tool-kit of financial instruments
  - Tap into new markets
  - Expand the investor base
  - Reduce overall funding costs
- Turkish Treasury plans to continue Sukuk issuances on a regular basis

# Capital Markets and Private Equity/Venture Capital

## Participation 50 Index

- Borsa Istanbul offers index calculation services to Participation 50 Index and other indices in Participation Index Family (Participation 30 Index and Participation Model Portfolio Index)

## Business Angels

- `Angel Investments`, which is very similar to mudarabah structure, was introduced in 2012.
- It offers a new mechanism to ease access to finance for entrepreneurs, increase professionalism and improve business culture as well as ethics among angel investors.
- In practice, Turkish Treasury licenses business angels, who want to benefit from tax incentives for their investments.

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# Strategies- Istanbul International Financial Center

## Government's 10th Development Plan

### ■ Istanbul International Financial Center Program Action Plan (2015-2018)

- **Component 1:** Establishing an Administrative Structure for IFC-Istanbul
- **Component 2:** Increasing the Diversity of Financial Products and Services
- **Component 3:** Enhancing the Legal Infrastructure
- **Component 4:** Improving the Physical Infrastructure in the Clustering Areas
- **Component 5:** Strengthening the Technological Infrastructure
- **Component 6:** Increasing Qualified Human Resources
- **Component 7: Strengthening Interest-free Finance and Participation Banking**

# Strategies- Istanbul International Financial Center

- Component 7: Strengthening Interest-free Finance and Participation Banking
  - 1) Policy 1: Improving the current perception towards interest-free finance system
  - 2) Policy 2: Improving human resources in the interest-free finance sector and enriching the literature
  - 3) Policy 3: Developing the corporate structure and the legal infrastructure of the interest-free finance system
  - 4) Policy 4: Increasing the diversity of interest-free financial products and services

# Strategies- Istanbul International Financial Center

- Policy 1: Improving the current perception towards interest-free finance system
  - 1) A publicity campaign which handles the philosophy and implementations of the interest-free finance system will be carried out. National and international events will be organized for development and promotion of the system.
  - 2) Factors leading to negative perceptions towards the interest-free finance system will be identified. Transparency and informing the public correctly on the identified issues will be ensured.
  - 3) It will be ensured that social projects implemented by participation banks will cover financial issues.
  - 4) Alternatives will be developed for current implementations and terms leading to negative perceptions which prevent correct understanding of the features of transactions in the interest-free finance system.

# Strategies- Istanbul International Financial Center

- Policy 2: Improving human resources in the interest-free finance sector and enriching the literature
  - 1) The number of academic publications in Turkish on interest-free finance will be increased and a database will be formed. Factors leading to negative perceptions towards the interest-free finance system will be identified. Transparency and informing the public correctly on the identified issues will be ensured.
  - 2) Optional/compulsory courses on Islamic economics and interest-free finance will be added to curricula of faculties of economics and business administration. Courses on economics and finance will be added to curricula of faculties of theology.
  - 3) The need for licensed personnel in the interest-free finance system will be determined and required regulations will be made if deemed necessary.

# Strategies- Istanbul International Financial Center

- Policy 2: Improving human resources in the interest-free finance sector and enriching the literature
  - 4) A certification program for interest-free finance will be implemented.
  - 5) An institution/research center to work on interest-free finance area will be established in a university.
  - 6) Scholarship and reward opportunities for interest-free finance will be increased.

# Strategies- Istanbul International Financial Center

- Policy 3: Developing the corporate structure and the legal infrastructure of the interest-free finance system
  - 1) Current legislation on the interest-free finance system will be reviewed and necessary amendments will be proposed in line with the needs of the sector. An institution/research center to work on interest-free finance area will be established in a university.
  - 2) Preparations for establishing state participation banks will be completed.
  - 3) In order to increase its role and efficiency, the Participation Banks Association of Turkey will be reorganized.
  - 4) A mechanism enabling the coordination in the interest-free finance area will be formed.

# Strategies- Istanbul International Financial Center

- Policy 3: Developing the corporate structure and the legal infrastructure of the interest-free finance system
  - 5) A communication channel will be established between interest-free finance institutions and the High Commission for Religious Affairs.
  - 6) A mechanism will be developed for minimizing the differences among the transactions made by interest-free finance institutions.
  - 7) Advisory boards within interest-free finance institutions will be institutionalized.
  - 8) International standards for the interest-free finance sector will be analyzed and adopted and new standards will be determined if deemed necessary.

# Strategies- Istanbul International Financial Center

- Policy 3: Developing the corporate structure and the legal infrastructure of the interest-free finance system
  - 9) An ethical principles document appropriate for the interest-free finance system will be prepared.
  - 10) Corporate governance principles suitable for the interest-free finance system will be determined.

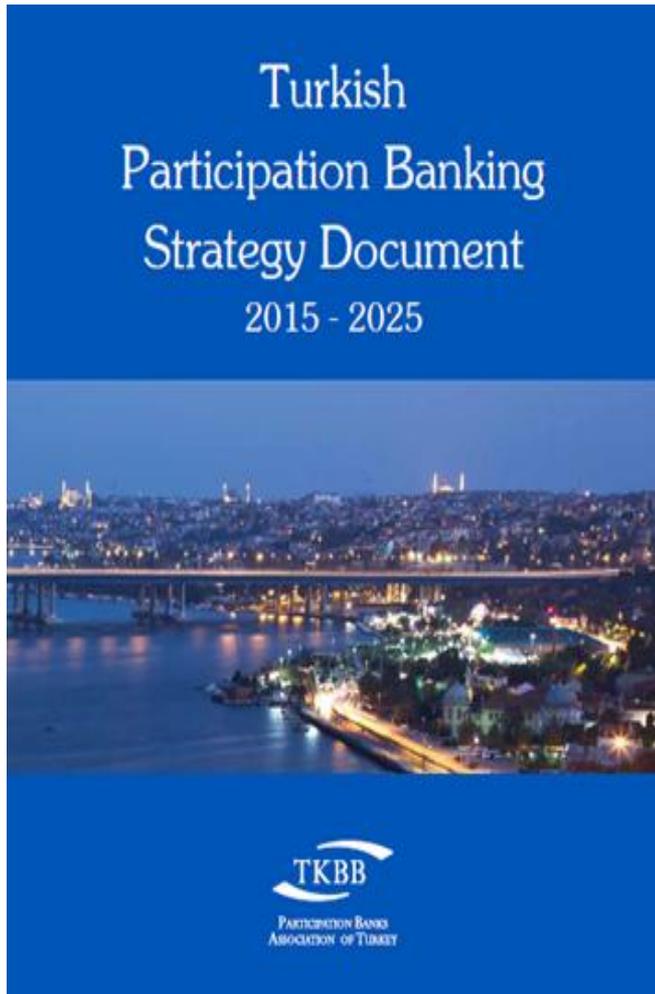
# Strategies- Istanbul International Financial Center

- Policy 4: Increasing the diversity of interest-free financial products and services
  - 1) The “diminishing mushakarah” product will be enhanced.
  - 2) It will be ensured that projects developed by the Undersecretariat of Treasury such as angel investors will be funded by participation banks by using mudarabah/mushakarah method.
  - 3) Tax implementations concerning existing interest-free financial products will be reviewed and necessary amendments will be made to disseminate these products.
  - 4) Studies will be conducted to disseminate interest-free financial products which are currently not used or used very limitedly in Turkey.
  - 5) In the field of interest-free finance, venture capital investment funds, real estate investment funds, infrastructure real estate investment trusts and participation umbrella funds will be disseminated.

# Strategies- Istanbul International Financial Center

- Policy 4: Increasing the diversity of interest-free financial products and services
  - 6) Studies will be conducted to increase sovereign lease certificate issuances.
  - 7) Studies will be conducted to increase private sector lease certificate issuances.
  - 8) Lease certificates traded in Borsa Istanbul will be diversified.
  - 9) Secondary markets will be developed to enhance liquidity management.
  - 10) The participation insurance (takaful) market will be enhanced.

# Strategies- Turkish Participation Banking Strategy Document



- Participation Bank Association of Turkey has published “Turkish Participation Banking Strategy Document” in 2015.
- According to this Strategy, it is anticipated that participation banking system’s total assets will reach **15%** of total banking sector by **2025** with the new players in the system.

## An initiative to be highlighted

### `Interest-Free Finance Coordination Board`

- Interest-Free Finance Coordination Board was established by The Prime Ministry Circular.
- The goal of the Board is;
  - to advance sound participation banking and participation insurance as well as interest-free finance system in general and
  - to contribute to Turkey's vision of becoming an international finance center.
- Undersecretariat of Treasury shall execute secretariat duties of the Board

## An initiative to be highlighted

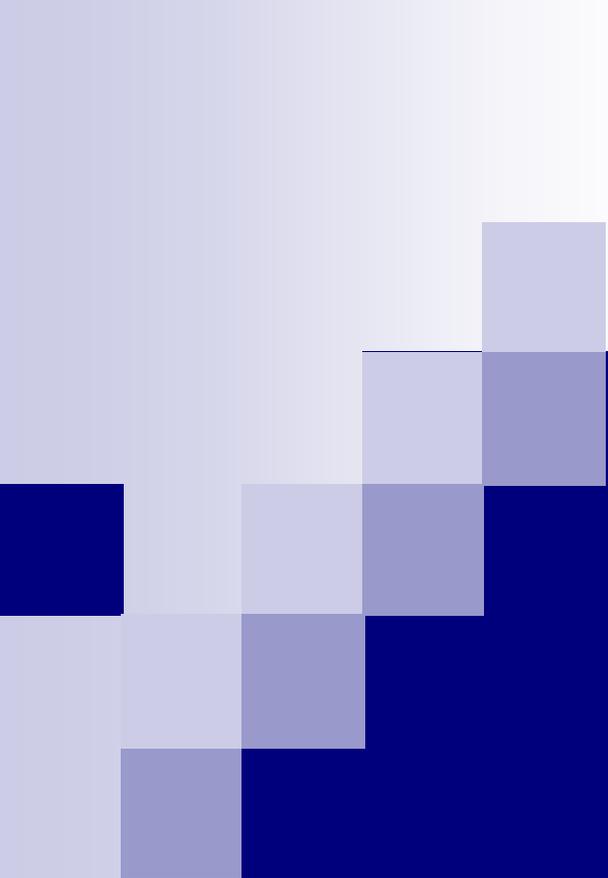
### `Interest-Free Finance Coordination Board`

- The Board is chaired by Minister responsible for Undersecretariat of Treasury and composed of :
  - Undersecretary of Ministry of Development,
  - Undersecretary of Ministry of Finance,
  - Undersecretary of Treasury,
  - Governor of Central Bank of The Republic of Turkey,
  - Chairman of Banking Regulatory and Supervision Agency,
  - Chairman of Capital Markets Board of Turkey,
  - CEO of Borsa İstanbul,
  - Chairman of Participation Banks Association of Turkey,
  - Chairman of Participation Insurance Association

## An initiative to be highlighted

### `Interest-Free Finance Coordination Board`

- Inaugural meeting of the Board was held on March 10th, 2016
- In the meeting, the Board decided to convene four times a year regularly and determined
  - diversification of interest-free products and services,
  - compliance of these products,
  - improvement of maturity and liquidity structures as well as
  - taxation of interest-free financial instruments in line with other financial instrumentsto be worked by Board members until its next meeting.



# THANK YOU

**For further information**

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