



**THE ROLE OF ISLAMIC FINANCE IN SUPPORTING MICROENTERPRISES
AND SMES AGAINST COVID-19**

**16th MEETING
COMCEC FINANCIAL COOPERATION WORKING GROUP
TKBB'S EXPERIENCE IN FINANCING MSMEs
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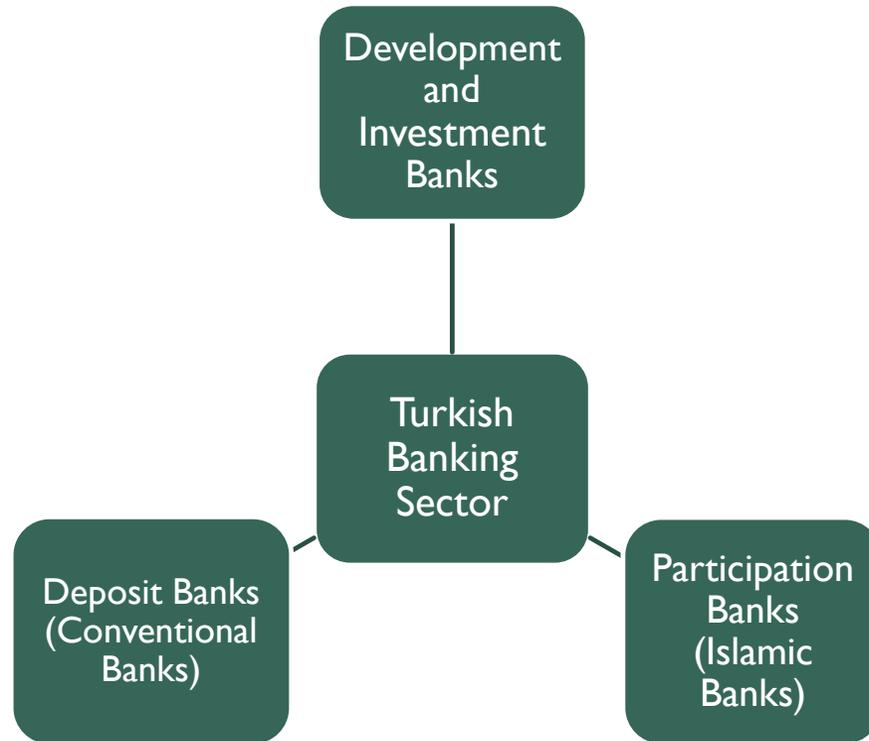
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PARTICIPATION BANKS ASSOCIATION OF TURKEY (TKBB)

- Established in 2001
- Main representative of the participation banking sector in Turkey
- Vision: « to raise the market share of participation banking sector to 15% by 2025 and to deliver world-class financial products and services»
- Mission:
 - To develop and improve product range and service quality;
 - To improve corporate communication, perception and reputation management;
 - To improve training related activities, human resources and certificate programs,
 - To develop legislation, standards and regulations related to the principles of participation banking,
 - To support all efforts aiming to make Istanbul a leading financial centre.

OVERVIEW OF TURKISH PARTICIPATION BANKING SECTOR



MAIN FINANCIAL INDICATORS OF PARTICIPATION BANKING AS OF JUNE, 2021

(Million TL)

	Participation Banks	Banking Sector	Market Share (%)
TOTAL ASSETS	504.309	6.730.311	7,49%
FUNDS COLLECTED	373.433	3.869.976	9,65%
UTILIZED FUNDS	280.003	4.103.420	6,82%
EQUITY	32.00	631.365	5,07%
NET PROFIT	1.990	33.761	5,89%
BRANCH NETWORK	1.280	11.166	11,46%
PERSONNEL	17.181	202.054	8,50%

*Source: BRSA

PARTICIPATION BANKS IN TURKEY

Participation Bank	Establishment Year	Shareholder Structure
 alBaraka	1984	Albaraka Group 54% IDB 8% Alharty Family 3.5% Local Partners % 9 Listed 25%
 KUVEYT TÜRK	1989	KFH 62% General Directorate of Foundation Turkey 19% IDB 9% Public Institution for Social Security Kuwait 9%
 Türkiye Finans	2005	NCB 67% Gözde Venture Capital 10.5% Others 22%
 Ziraat Katılım	2015	Ziraat Bank 100%
 VAKIF KATILIM	2016	General Directorate of Foundation Turkey 99% Others 1%
 Emlak Katılım	2019	99.99 % Republic of Turkey Ministry of Treasury and Finance

ROLE OF SMES IN TURKISH ECONOMY

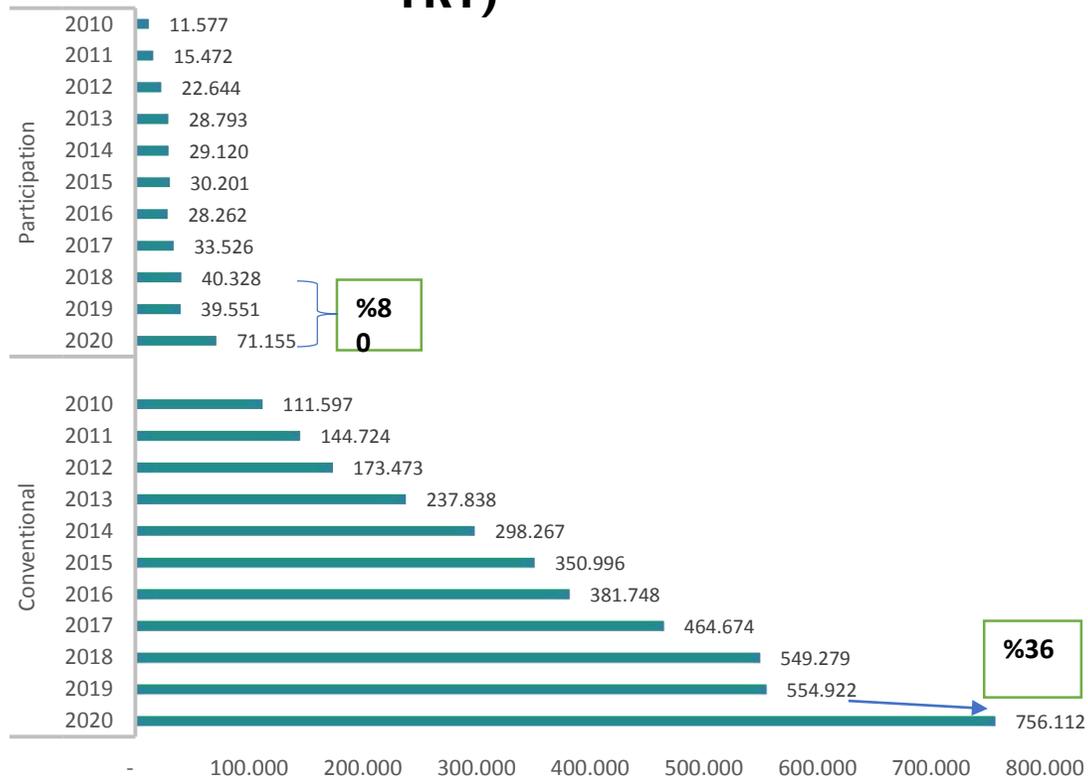
- Estimated 3.2 million active SMEs, representing 99.8% of all registered entities in the country,
- 50.4% of the total turnover of the enterprises,
- 56.3% of the country's exports,
- 72.4% of its workforce.
- According to the “Regulation on the Definition, Qualification and Classification of Small and Medium-Sized Enterprises”, SMEs are classified as follow:

Criteria	Micro-Sized Enterprise	Small-Sized Enterprise	Medium-Sized Enterprise
Number of Employees	<10	<50	<250
Annual Net Sales Income	< TRY 3 Million	< TRY 25 Million	< TRY 125 Million
Annual Financial Balance Sheet	< TRY 3 Million	< TRY 25 Million	< TRY 125 Million

Source:<https://tobb.org.tr/KobiArastirma/Sayfalar/Eng/SMEsinTurkey.php> <https://data.tuik.gov.tr/Bulten/Index?p=Small-and-Medium-Sized-Enterprises-Statistics-2019-37548>

SME LOAN PERFORMANCE OF PARTICIPATION BANKS

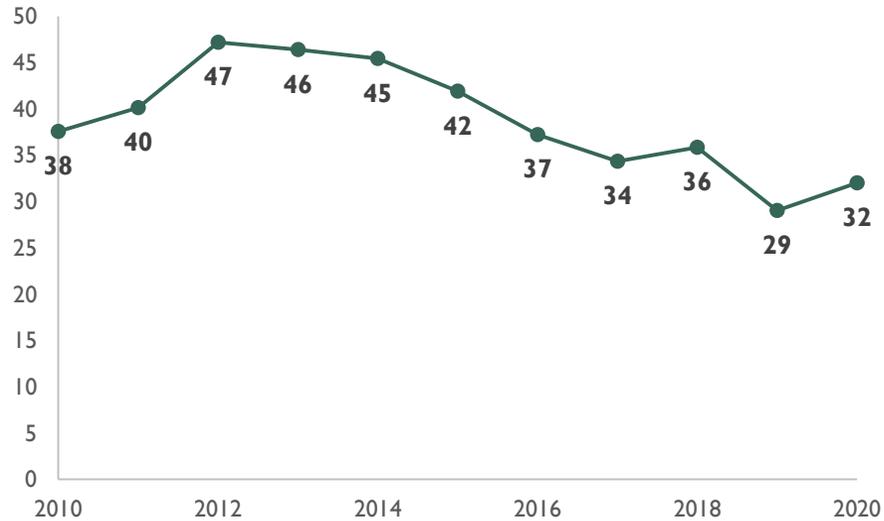
SME Loans (Million TRY)



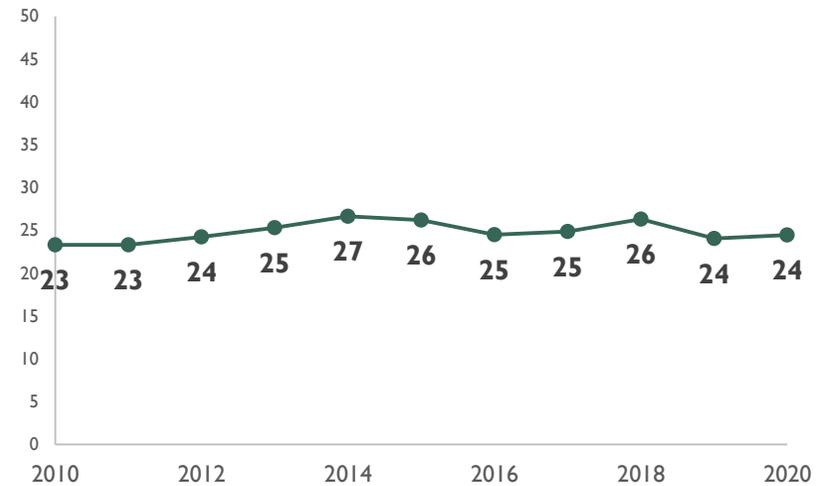
- ✓ Increase momentum in SME loans at both conventional (deposit) and participation banks during the period of 2015-2020 in Turkey,
- ✓ Substantial increase level of 80% during the year 2020 by Participation banks,
- ✓ Access to finance is not the main concern for Turkish SMEs (SAFE, 2020),
- ✓ Use of bank loan in the past six months (April to September 2020) for SMEs in Turkey is 45% which is higher than the EU27 average of 18%.
- ✓ In 2020, 64% of all SMEs in the EU27 felt confident in talking with banks about financing and obtaining the desired results, however, SMEs in Turkey are more confident with the survey result of 86%.

SME LOANS /TOTAL LOANS RATIO OF CONVENTIONAL BANKS AND PARTICIPATION BANKS IN TURKEY

SME Loans / Total Loans (%)
Participation



SME Loans / Total Loans (%)
Conventional



IMMEDIATE RESPONSE FROM TURKISH GOVERNMENT DURING PANDEMIC FOR SMES

- Response to the COVID-19 pandemic, in March 2020 Turkey immediately set up the ***Economic Stability Shield*** package worth TRY 100 billion (\$15.4 billion; 2.2% of GDP).
- The Credit Guarantee Fund's ***limits were increased***, and ***repayments of SME loans were postponed*** by three months to provide SMEs and companies with liquidity needs. (Increased from TRY 25 Billion to **TRY 50 Billion**) (the volume of guarantees have been increased from TRY 250 Billion to **TRY 500 Billion**.)
- A ***new economic incentive package worth EUR 4.5 billion***, entitled IVME, was announced in May 2019, providing advantageous loans through three public banks.
- ***Five new investment funds of a total of EUR 105 million for techno-entrepreneurs and start-ups were established*** in cooperation with 12 research universities in Turkey (EC Turkey Report, 2020).

ROLE MODEL INSTITUTIONS OF TURKEY FOR OIC COUNTRIES FROM THE PANDEMIC EXPERIENCE

- KREDİ GARANTİ FONU A.Ş. (KGF)
- SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ORGANIZATION OF TURKEY (KOSGEB)
- THE UNION OF CHAMBERS AND COMMODITY EXCHANGES OF TURKEY (TOBB)

KREDİ GARANTİ FONU A.Ş. «KGF» (CREDIT GUARANTEE FUND)

- Established in 1991 to help SMEs access finance by providing guarantee and collateral support for SMEs which have credibility but cannot use loans due to lack of collateral.
- Targeting to improve the productivity of SMEs, support their integration into international markets, ensure that they get technical information and consultancy assistance in the fields of investment, production and marketing, and support their access to long-term and low-cost credit.
- By the protocols signed with KOSGEB - Small and Medium Enterprises Development Organization of Turkey, TÜBİTAK - Scientific and Technological Research Council of Turkey, TTGV - Technology Development Foundation of Turkey and the Ministry of Industry and Technology, the scope of the guarantee scheme was expanded
- Direct supports continued in 2020 as well, and SMEs have been allowed to benefit from public subsidies without using their credit limits with banks in their collateral transactions.

BANK LOANS PROVIDED TO FIRMS WITH TREASURY BACKED GUARANTEES BY KGF

GUARANTEES REQUESTED, APPROVED AND ISSUED BY YEARS (Million TRY) (Treasury 2010-2020)

PERIOD	Guarantees Requested			Guarantees Approved			Guarantees Issued		
	SME Number	Loan Amount	Guar. Amount	SME Number	Loan Amount	Guar. Amount	SME Number	Loan Amount	Guar. Amount
2010-2015	12.935	11.603	8.202	9.812	7.587	5.268	7.711	5.440	3.899
2016	24.066	9.824	7.458	18.919	7.188	5.318	16.336	5.483	4.095
2017	311.320	317.655	286.217	307.351	262.601	236.698	291.981	207.107	186.613
2018	123.584	113.750	99.567	122.811	107.901	94.511	118.492	85.651	75.088
2019	113.900	79.398	64.007	113.362	77.563	62.514	109.499	70.142	56.514
2020*	310.523	223.022	178.783	310.180	221.407	177.485	279.951	200.987	161.085
2010-2020*	855.090	994.166	850.776	842.100	746.164	640.025	785.680	616.958	526.694
Individual 2020	7,463,078	44,487	35,779	7,463,078	44,487	35,779	6,961,203	41,639	33,495
TOTAL	8,318,168	1,038,653	886,555	8,305,178	790,650	675,805	7,746,883	658,597	560,189

* Only commercial loans have been taken into account and 2020 year-end exchange rate has been used.

- ✓ The Treasury-backed guarantee system that was launched in 2010 continued in 2020.
- ✓ Guarantees Issued for Commercial Loans amounted to TRY 161,085 million.
- ✓ Cumulative requests by the end of 2020 from 855,090 SMEs were evaluated.
- ✓ TRY 526,694 million worth guarantees were issued for TRY 616,958 million bank loans used by 785,680 SMEs.

SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ORGANIZATION OF TURKEY «KOSGEB»

☐ Mission:

- To increase the share and efficiency of small and medium-sized enterprises in meeting the economic and social needs of the country, to increase their competitiveness and level, and to realize industrial integration in accordance with economic developments.

☐ Support Mechanisms:

- SME Financing Support Program
- SME Development Support Program Call

THE UNION OF CHAMBERS AND COMMODITY EXCHANGES OF TURKEY (TOBB) BREATH CREDIT

- ❑ As TOBB and 365 Chambers and Exchanges, they will provide their resources to the members with Breath Credits.
- ❑ Applications can be made to Ziraat Participation and Vakıf Participation Bank and several conventional banks in Turkey with the activity certificate from TOBB's chambers and exchanges. The Credit Guarantee Fund (KGF) will also vouch for loans with Treasury support.
- ❑ With the loan, businesses will be given a 6-month complete grace period. Loan installments will be paid in 12 equal parts after the grace period. Businesses with a turnover of TL 10 million or less and a 25% loss in 2020 turnover will be able to benefit from the loan.
- ❑ SMEs with a turnover of 1 million TL in 2020 will be able to use a maximum of TL 50,000 and SMEs with a turnover of between TL 1-10 million will be able to use a maximum of TL 200,000.

STRONG SUPPORT OF PARTICIPATION BANKS DURING PANDEMIC FOR SMEs

- ✓ Participation banks put forward their digital products and services to the customers, postponed installments of specific payments and applied flexible limit allocation for increasing financing volume to both retail, SME, and corporate customers.
- ✓ SMEs are facing difficulties or cannot access credit due to:
 - a. the strict ruling of financial documentation and collateral requirements for obtaining a loan;
 - b. high costs and interest rates; and multi-week decision timeframes.
- ✓ Digitizing SME finance and making use of transactional and alternative data offer an opportunity for addressing both sides of this problem ([IFC, 2017](#)).
- ✓ Considering the mission of participation banks as serving for real sector, they put in place significant solutions and applications for supporting SMEs in Turkey during pandemic.

THE ROLE OF PARTICIPATION BANKS IN SUPPORTING MICROENTERPRISES AND SMES AGAINST COVID-19

- ALBARAKA TÜRK PARTICIPATION BANK
- TÜRKİYE EMLAK PARTICIPATION BANK
- KUVEYT TÜRK PARTICIPATION BANK
- TÜRKİYE FİNANS PARTICIPATION BANK
- VAKIF PARTICIPATION BANK
- ZİRAAT PARTICIPATION BANK

ALBARAKA TÜRK PARTICIPATION BANK

- With Invoice Secured Loan, SMEs to benefit from the opportunity to allocate limits more efficiently, increase existing limits, and use funds without providing any additional collateral.
- With the Supplier Financing System, SMEs had the privilege of establishing a long-term and strong relationship with the parent company.
- With the Dealer Card product specific to SMEs, flexible deferred payment opportunities provided to companies that sell goods on credit and need to guarantee these sales while supporting companies to increase their purchasing power and forming a beneficial shopping experience through campaigns.
- With the collection-payment solutions, under the umbrella of cash management, operational costs reduced in financial management and supported companies to make their healthy cash flow plans.

TÜRKİYE EMLAK PARTICIPATION BANK

- 3-month postponement for the customers who have difficulty in paying instalments during the pandemic.
- Cost-effective financing, supported by the Credit Guarantee Fund, was made available.
- ATM and Internet Banking limits were increased.
- Non-payment-term and long-term business/investment financings were used.

KUVEYT TÜRK PARTICIPATION BANK

- Kuveyt Türk **changed its organizational structure** during the pandemic to **satisfy needs of SMEs' efficiently**. With the organizational structure change, the marketing and sales departments were divided into two different units.
- Launch **of branchless financing service**, where customers can access more comprehensive financing products via the internet or mobile branch without going to the branch offices.
- Acted as **the first bank in the banking sector** that has introduced multi-user CebimPOS service enabling the SMEs to make their collections comfortably **and free of charge by converting their smartphones into POS terminals**. Business owners can convert the smartphones of any number of employees or representatives to POS terminals.
- Provides products that offer cash financing to non-cash financing, Leasing to SME Card, Foreign Trade to Innovative POS solutions in line with the needs of SMEs.

TÜRKİYE FİNANS PARTICIPATION BANK

- ❑ Presented its own “Economy Support Package”.
- Fast business processes for the urgent needs of our customers, such as tax/SGI and salary payments,
- For the transactions of all our customers such as restructuring, instalment postponement and refinancing
- ❑ With the “Continue Where You Left Off” unique financing campaign for tradesmen and SMEs, which presented in June 2020, the repayment of the financing provided with competitive profit rates was offered with a maturity of 24 months.
- ❑ SMEs also benefited from Türkiye Finans’ Support Check product,
 - An exceptional support package presented for healthcare professionals
 - Comprehensive support packages for our public employees who go to their jobs and our seniors aged 65 and over.

VAKIF PARTICIPATION BANK

- In 2020, 4.5 billion TL was provided as an economic support fund, of which 3.3 billion TL was transferred to small and medium-sized enterprises within the scope of the Economic Stability Shield package.
- In 2020, for real and legal person businesses, Treasury-backed Credit Guarantee Fund (KGF) guarantee and 'Work Continuation Financing Support' and 'Check Payment Support Financing' products have been put into use by providing 5 billion TL financing support.
- In 2021, 27.5 million TL of TOBB Nefes (The Union of Chambers and Commodity Exchanges of Turkey, Breath Fund) financing has been used, financing support agreements have been signed with Development Agencies, and it is aimed to make agreements with all agencies in the near future. Agreements have been made with nearly 40 chambers of industry and commerce and organized industrial zones.

ZIRAAT PARTICIPATION BANK

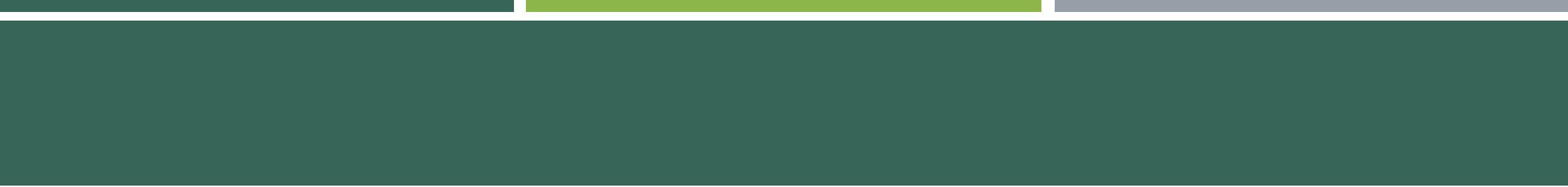
- In line with the “Economic Stability Shield” move, supports such as postponement of installments and suitable term restructuring have been put into practice against the deterioration in cash flows of the customers and companies.
- Within the scope of both KGF (Credit Guarantee Fund) support packages and Bank’s financing products, many needs of the customers, from personnel salary payments to check payments, from raw material purchases to service purchases, were met with favorable profit share rates and financing opportunities with grace periods.
- While providing these supports, the bank pays maximum attention to the employment-increasing activities of the companies. Thus, they contribute directly to the labor market through the SMEs.

CONCLUSION

- **Country case studies are important for identifying relevant policies and financing tools** that can alleviate the financing constraints of SMEs (Beck and Demirguc-Kunt, 2006).
- Efforts in enhancing SME financing in **Turkish participation banking sector could be role model for OIC countries at which SME sector** needs more development.
- Specific bank data on SMEs lending is not always available, and such constraints are likely to affect the number of contributions in the literature. **Centralized data disclosure for both academic research requirements and representing performance of SME sector will significantly affect the studies at each country.**
- SME population is very heterogeneous, and financing conditions and challenges differ substantially along parameters such as the age of the firm, its size, location, sector, growth potential as well as the characteristics of the principal business owner, such as their gender or business experience (OECD Scorecard, 2020). It would be beneficial to have a **common platform for SME data including also banking figures to report all SME related activities in a holistic approach.**
- **Liquidity constraints represent a crucial concern for many firms, especially smaller ones.** A recent survey in China, for example, highlights that one third of surveyed SMEs only had enough cash reserves to cover fixed expenses of one month and another third for two months (<http://www.oecd.org/coronavirus/en/>). Policy makers around the globe are taking action to prevent viable firms from going bankrupt because of temporary liquidity shortages.

CONCLUSION

- **Completeness of financial system architecture:** *Pandemic conditions explicitly outlined the importance of comprehensiveness of financial system architecture for the unexpected disruptions and crises. In Turkey, it is experienced the integration of stakeholders in the Financial ecosystem to keep the business continuity and support the SMEs as the backbone of real sector. KGF, KOSGEB and TOBB are all role model institutions to OIC countries to be set up for the healthy functioning of economy.*
- **Need more academic studies for the relation of SME financing with macroeconomic variables.** *Understanding the relation of SME financing with macroeconomic variables will enable both government authorities and banks' management to take necessary measurements for the crisis period and having future projections supporting the needs of the SME sector which is the growth drive of the economy.*



THANK YOU

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