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# IFN TURKEY REPORT

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Analysis

# Turkey: Against the odds

Page 4



Case Study

# Emlak Katilim's Sukuk: Meeting market demand

Page 8



Report

# Financial inclusion in the participation banking industry of Turkey

Page 10



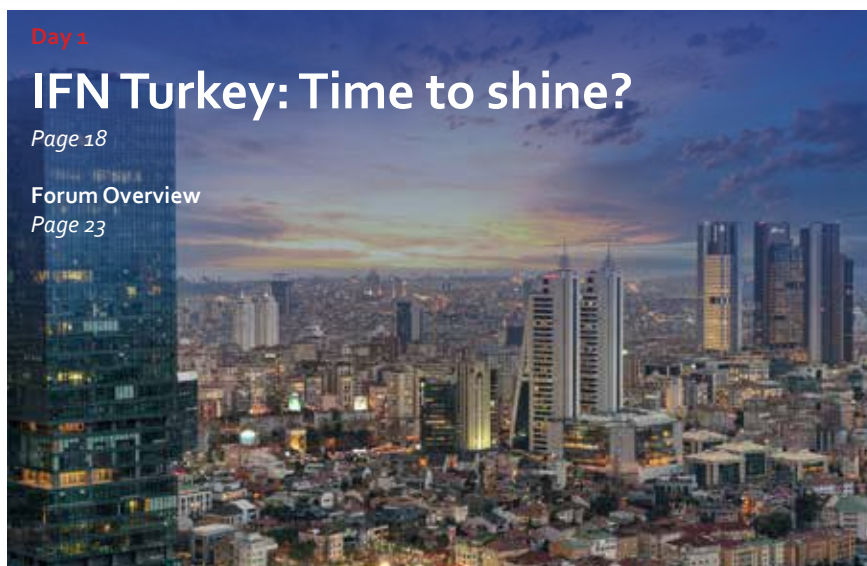
Day 1

# IFN Turkey: Time to shine?

Page 18

Forum Overview

Page 23



Feature

# Digibanc: Empowering financial institutions to achieve sustainable banking through technology and innovations

Page 12



Day 2

# Funding, fintech and responsible finance

Page 26

Forum Overview

Page 29



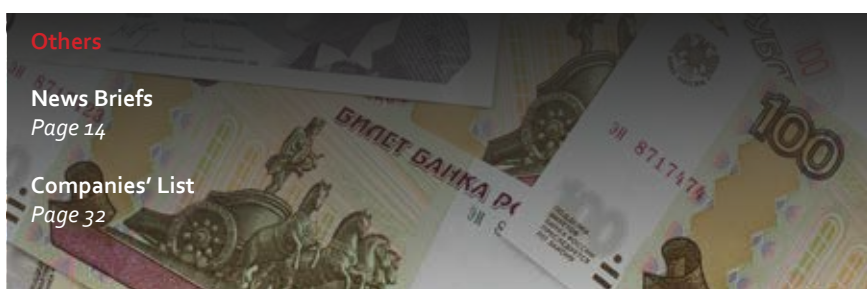
Others

News Briefs

Page 14

Companies' List

Page 32







## TURKEY: AGAINST THE ODDS

Turkey's GDP grew 0.9% in 2019, according to the World Bank, with an economic recovery in the past few years aided by regulatory measures that continued to 2020. **NESSREEN TAMANO** highlights how the country's Islamic finance and banking industry has fared in the last 12 months in turn, given that 99.8% of its population is Muslim and it has a thriving participation banking sector.

### Regulatory landscape

The country's Islamic banking sector — widely known as participation banking — falls under the purview of the Banking Regulation and Supervision Agency (BRSA), which employs the Banking Law. Although there is no dedicated legislation for Islamic banking, the law takes Shariah compliance into account when it comes to Islamic transactions. In 2018, the BRSA published revised regulations for the financing, selling, leasing and partnership methods of Islamic banks.

The Capital Markets Board (CMB) first introduced regulations on Sukuk in 2010, and in 2012, sovereign Sukuk issuances were facilitated and the Capital Markets Law No 6362, which focuses

on private lease certificates and asset-leasing companies, was implemented. In 2013, the government allowed for lease certificates to be structured under various Islamic concepts and in 2015, a dedicated Islamic finance coordination committee was set up to focus on the development of the industry.

The Ministry of Treasury and Finance discussed the establishment of a central Shariah advisory board in 2018, but there have been no updates on this since.

### Banking and finance

There are 53 banks in Turkey, out of which six are fully-fledged Islamic banks, listed with the BRSA.



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National bank Halkbank announced plans a few years back to open a participation window, and the country is in talks with the IsDB and Indonesia about establishing an Islamic bank, which was supposed to have been launched in 2018 but has yet to materialize. Also in 2018, AlBaraka Turk launched Insha, a digital Islamic bank, in Germany.

In mergers and acquisitions, the Turkish Treasury has expressed interest in taking over a controlling stake in Vakifbank, and in 2019, the UAE's Emirates NBD acquired 99.85% of Russia's Sberbank stake in DenizBank.

“Turkey is a key Islamic banking market, and enjoys regulatory support, lending its Shariah compliant products resilience and allowing the industry to stay competitive despite economic challenges”

## Sukuk

The first Sukuk facility issued was in 2010 by Kuveyt Turk Katilim Bankasi, which raised US\$100 million in lease certificates. The Turkish government made its sovereign Sukuk debut in 2012, raising US\$1.5 billion. It regularly auctions gold-based Sukuk and issues Islamic lease certificates as well.

In May 2020, in response to demand, the Turkish Treasury announced that local currency-denominated fixed rent rate lease certificates will be issued to Islamic banks through direct sales.

Turkey is one of the top jurisdictions leading global Sukuk issuances (the others being powerhouses Malaysia, the UAE and Saudi Arabia), which saw a 55% increase in 2018 amounting to a total of US\$24.4 billion, according to the IFSB's latest data. Regular issuers include Turkiye Finans, Vakif Katilim and AlBaraka Turk. In



2019, Turkish Airlines and ferro-chrome producer Eti Krom both announced plans to issue Sukuk.

## Asset management

There are three fully-fledged Islamic asset managers in Turkey, but conventional asset managers are permitted to offer Islamic products on a window basis with no need to apply for separate Shariah approvals, making it difficult to ascertain the total number of Islamic funds in the country.

Popular in the country are Sukuk participation funds and participation pension funds, which are established and managed by portfolio management companies licensed by the CMB, and which together constitute 5.5% of the total fund sector. According to data from the CMB, the total value of participation funds increased in 2017 to US\$222.4 million compared to US\$59.14 million in 2016, while participation pension funds also saw an increase, amounting to a total value of US\$1.34 billion in 2017 compared to US\$707.98 million in 2016.

## Outlook

Turkey is a key Islamic banking market, and enjoys regulatory support, lending its Shariah compliant products resilience and allowing the industry to stay competitive despite economic challenges, in addition to President Recep Tayyip Erdogan being vocal about the need to further develop Islamic finance in the country.

Moody's Investors Service said in a report published in January 2020 that Turkey's Islamic banking assets, which represented just over 5.8% of total banking assets as at the end of September 2019, are set to double within 10 years due in large part to this government support 🇹🇷

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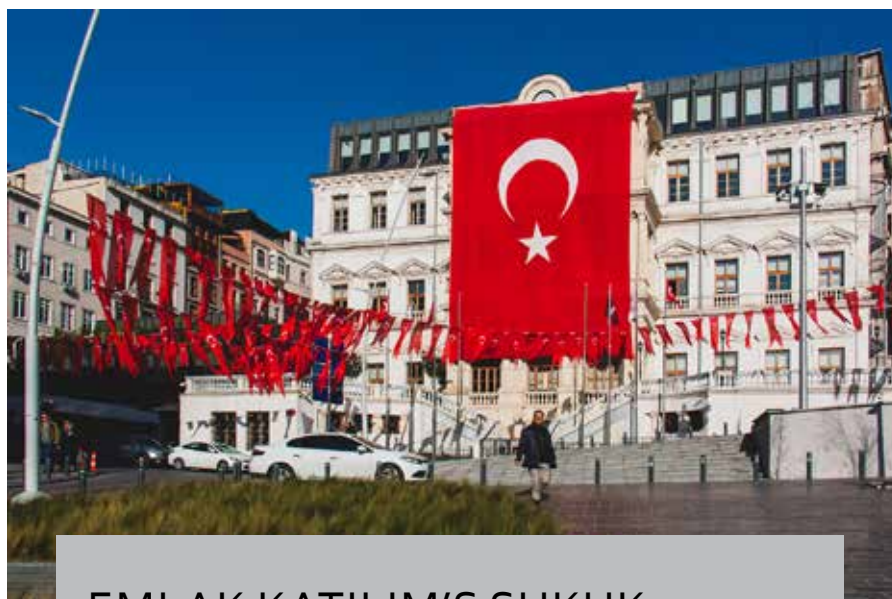
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## EMLAK KATILIM'S SUKUK: MEETING MARKET DEMAND

**Türkiye Emlak Katılım Bankası, the youngest participation bank in Turkey as it started operations in March 2019, issued Turkey's first-ever Mudarabah pools-linked Sukuk Wakalah at TRY100 million (US\$12.59 million) in June 2020. NESSREEN TAMANO has the details.**


With a long-term tenor — different from the usual short-term local Sukuk papers in Turkey that have tenors of around three or four months — the bank is providing long-term funding for long-term requirements through the issuance of Mudarabah pools-linked Sukuk.

Parked under Emlak Katılım's TRY5 billion (US\$629.25 million) Sukuk Wakalah program established in April 2020, the issuance was oversubscribed two times its issue size despite its competitive pricing, closing at TRY200 million (US\$25.17 million).

"The transaction was a test for Emlak Katılım to see the demand from the market," the bank said, adding that the response to the Sukuk is an indication of investors' confidence in Emlak Katılım. "Around 95% of the demand was received from Shariah compliant portfolio management companies."

The paper was issued by way of a trade sale to qualified investors, and shall be distributed to the holders together with the principal sum on the 29th January 2021. The periodical yield of the Sukuk will be calculated every three months and distributed to Sukukholders in line with revenues obtained from the underlying assets.

The bank had previously established a TRY2 billion (US\$251.7 million) Sukuk Wakalah program in March 2020. So far, under both programs, it has issued Sukuk worth a total of TRY2.8 billion (US\$352.38 million) with 18 tranches.

Emlak Katılım, the third state-owned Islamic bank in Turkey, was founded in 1946 as a conventional bank before it was forced to close in 2001 due to losses, and then revived in February 2019 as a participation bank. It last tapped the Islamic capital market in April 2020 with a TRY200 million Sukuk issuance. 

Emlak Katılım's Sukuk Wakalah

TRY100 million



25<sup>th</sup> June 2020

Issuer	Emlak Katılım Varlık Kiralama
Obligor	Türkiye Emlak Katılım Bankası
Mode of issue	Qualified investors
Purpose	To allocate the funds to long-term requirements
Tenor	369 days
Issuance price	100%
Profit rate	Floating rates
Payment terms	Quarterly
Legal counsel	Mutlu Avukatlık Ortaklığı
Listing	Borsa İstanbul Stock Exchange
Investor breakdown	95% from Islamic pension and investment funds, 5% from retail investors
Face value/minimum investment	TRY10,000 (US\$1,258.5)





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## FINANCIAL INCLUSION IN THE PARTICIPATION BANKING INDUSTRY OF TURKEY

**In Turkey, there are four types of banks according to the Banking Regulation and Supervision Agency (BRSA) — deposit banks (32); development and investment banks (14); participation banks (six); and banks under the management of the Savings Deposit Insurance Fund (two).**

The participation banking industry of Turkey is yet to mature and needs financial inclusion for the development of the banking sector. Considering this, a significant decision was taken by the BRSA with an amendment in the 10th paragraph of Article 19 as 'Regulation on the Amendment of the Regulation on Credit Transactions of Banks' published in the Official Gazette dated the 25th January 2019. Development and investment banks are allowed to provide financing with interest-free financial products, limited to the resources they provide with interest-free methods.

In view of the amendment, Turk Eximbank has launched participation finance investment credit services for exporters with participation finance principles.

The bank obtained official authorization from the BRSA to provide funds under participation finance methods as a development and investment bank. Providing services to exporters with over 30 products, Turk Eximbank is enlarging its product portfolio with investment products according to participation finance principles. Exporters who wish to operate within the participation finance system can get investment credit from Turk Eximbank.

According to the bank, upon its application, Turk Eximbank's participation finance investment credit product was approved with Decision No 24 dated the 6<sup>th</sup> July 2020 by the Central Advisory Board (Shariah Board) of the Participation Banks Association of Turkey. With this decision, the product information and documentation submitted by the bank for evaluation were found to comply with the principles and standards of participation finance.


According to the regulation, the related banks are allowed to finance their customers with the funding methods of participation banks, but this is limited to the funds provided with participation finance methods. The related banks will provide credit facilities for the investment needs of customers through cost-plus financing (Murabahah), one of the participation finance funding methods.

Turk Eximbank stated that within the scope of investment credits to be provided with the principles of participation finance and the Murabahah contract made with the IsDB under the guarantee of the Ministry of Treasury and Finance, US\$100 million-worth of resources will be provided by the bank directly for the investment funding needs of Turkish exporters within the terms between four and 10 years.

The long-term resources will be used to finance capital good expenses in industries such as chemistry, medicine, medical supplies, machinery, electrical devices, automotive, electronics, rail transportation, food and agriculture, construction and furniture. Priority will be given to companies that focus on medium-high and high technology product exportation and/or provide employment of at least 30% of their total labor force to women and young people.

By establishing the investment credit program with the principles of the participation finance system, and in addition to the resources from the IsDB, Turk Eximbank will increase its support to Turkish exporters in coordination with participation banks with short-, medium- and long-term syndication and bilateral resources with participation finance methods from international markets.

As a promising example of financial inclusion in the participation finance industry in Turkey, the ecosystem will flourish, enabled by the contribution of development and investment banks.

*Fatma Cinar is the head of international relations at the Participation Banks Association of Turkey. She can be contacted at [fatmacinar@tkbb.org.tr](mailto:fatmacinar@tkbb.org.tr). *



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## DIGIBANC: EMPOWERING FINANCIAL INSTITUTIONS TO ACHIEVE SUSTAINABLE BANKING THROUGH TECHNOLOGY AND INNOVATIONS

**One of the key challenges faced by Islamic finance institutions in the modern era is maintaining sustainability while keeping a steady profitability. Over the years, Islamic institutions have competed against conventional institutions in terms of brand awareness, revenue, customers and customer experience. Given that technology plays an extremely critical role, Islamic institutions have now started to catch up and are on the verge of breakthroughs that will level the overall playing field. RAHEEL IQBAL explores how technology proposes to support the notion that Islamic institutions can achieve sustainable banking.**

The answer is quite simple, technological breakthroughs and process innovations have started to blur the lines on what you can and cannot do when it comes to finance and banking. With new offerings that are agnostic to both Islamic and conventional, customers now have access to the same perks and benefits that upcoming disruptive start-ups are offering.

Solutions such as remote customer onboarding, like Digibanc's Customer Onboarding and Digibanc Identity, have enabled any financial organization to not only reduce costs by up to 40% but lowered branch footfall and application process time significantly. Customers can now apply and become a part of the system from the comfort of their couch within less than seven minutes. The process is not only efficient but is also in line with regulations and adaptable to any infrastructure across the globe. The institution can use those savings and channel them into further research and development efforts to improve the overall operations and growth of the organization.

Another solution is mobile QR payments by Digibanc QR: this solution brings to light the concept of a mobile wallet that is paired directly to your bank account which holds not only your e-money but also your actual digital cash. Make payments and transfers on the fly within any given situation. Avoid unnecessary turnaround times and avail premium rates. The technology allows the institution to focus its valuable manpower toward other matters while the process is completely automated and is a self-starter. This technology aims to allow customers to store multiple currencies and, at the autonomy of their own will, conduct transactions that can vary from currency, situation and overall experience. Imagine using US dollars in Kuwait to pay a merchant who only accepts Kuwaiti dinars. The methodology improves the revenue generation for the bank and lessens the operating expenditure as the combination of these components essentially puts a complete bank branch within the customers' pocket.

Technology innovations always foster and empower organizations to achieve the ultimate goal of sustainable growth. As technology evolves, it is inevitable that the process

*Raheel Iqbal  
managing partner,  
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will follow suit. Sustainable banking is a healthy mix of how the corporate strategy aligns with the available technology at their disposal. Islamic banks are now adopting technology from maverick fintechs and disruptive technology think tanks to explore opportunities on how they can maximize their expectations with the least amount of resistance. Just like how every great thing takes open-mindedness and patience, the pursuit of sustainable growth is no different. 🌱



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### Vakif Katilim auctions lease certificates

Vakif Katilim Bankasi has issued domestic lease certificates amounting to TRY12 billion (US\$1.47 billion) on the 27th October 2020. According to a bourse disclosure, the issuance conducted via its subsidiary Vakif Varlik Kiralama has a 120-day tenor with a maturity date set on the 24<sup>th</sup> February 2021.

### Kuveyt Turk prints lease certificates

Kuveyt Turk Katilim Bankasi, through its asset leasing company KT Kira Sertifikalari Varlik Kiralama, has announced in a bourse filing the issuance of TRY8 billion (US\$981.57 million)-worth of lease certificates with a maturity date set on the 29th January 2021.

### Albaraka Turk sells domestic lease certificates

Albaraka Turk Katilim Bankasi via its subsidiary Bereket Varlik Kiralama Sirketi has issued domestic lease certificates worth a total of TRY15 billion (US\$1.84 billion) on the 27<sup>th</sup> October 2020, according to a bourse filing. The certificates have a 45-day tenor and a

maturity date set on the 11<sup>th</sup> December 2020.

### Aktif Bank Sukuk Varlik Kiralama to issue Sukuk

Aktif Bank Sukuk Varlik Kiralama, a subsidiary of Aktif Bank, is planning to issue TRY50 million (US\$6.38 million)-worth of lease certificates to qualified investors within the issuance ceiling of TRY1 billion (US\$127.58 million), according to a bourse disclosure.

### Turkey collects gold for lease certificates

The Ministry of Treasury and Finance of Turkey has collected 14,282 kilograms of gold (995/1000 purity) from institutional investors for gold-backed lease certificates valued on the 9<sup>th</sup> October 2020 with a maturity date set on the 8<sup>th</sup> October 2021, according to a statement.

### Turkey completes legal infrastructure

Turkey has on the 5<sup>th</sup> October 2020 completed a legal infrastructure on participation banks, in collaboration with the Banking Regulation and

Supervision Agency and the Participation Banks Association of Turkey, to help participation banks provide services to their customers using interest-free financing principles, Hurriyet Daily News reported citing sources familiar with the matter.

Through the new infrastructure, the compliance processes with interest-free principles are now put into legal legislation in a governance framework.

New tasks include the establishment of the Central Advisory Board, determination of binding standards, the formation of an advisory committee at each bank and the establishment of control and audit mechanisms to ensure compliance with the decisions taken.

### Turkey issues CPI-indexed Sukuk

The Ministry of Treasury and Finance of Turkey has on the 23<sup>rd</sup> September 2020 issued TRY816 million (US\$106.55 million)-worth of CPI-indexed lease certificates. According to a statement, the Sukuk generated TRY1.63 billion (US\$212.84 million) in demand and has a maturity date set on the 17<sup>th</sup> September 2025.



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◆ With our renewed corporate identity, we aim to empower Turkey in this industry and increase its current potential.

◆ We carry our values forward and empower Turkey with participation banking.

## DISCUSSION INTRODUCTION

## BACK-TO-BASICS: OPPORTUNITIES FOR PARTICIPATION FINANCE TO FLOURISH IN TURKEY

The world has changed. How our industry - participation banking, finance and investment - chooses to respond to these changes may be a generation-defining moment. How can participation finance mobilize to address the imminent challenges of the real economy and provide not just liquidity support, but solvency support to the vital Turkish SME and corporate sector? Can participation finance in Turkey and the region use this opportunity to become truly responsible, inclusive and ethical, while at the same time contributing to the country's growth and development? How can we as an industry ensure this is substance over form on a permanent basis? What opportunities do the UN Principles for Responsible Banking offer participation financial institutions in Turkey? How can the core values of participation finance be further applied to sustainable and socially responsible finance and investment strategies? We ask a respected panel for a new roadmap to success for participation banking, finance and capital markets in Turkey.

## YOUR PANEL

**FATMA CINAR**

*Manager, International Relations,  
Participation Banks Association of  
Turkey*

**AHMET ILYAS COLLU**

*Vice-President, Head of International  
Banking, Treasury and Strategy Group,  
Vakıf Katılım Bankası*

**KAMOLA BAYRAM**

*Assistant Professor, KTO Karatay  
University*

**ASST PROF DR KINAN SALIM**

*Head of Islamic Digital Economy,  
International Centre for Education in  
Islamic Finance (INCEIF)*

**OMER CEKIN**

*Head of Participation Banking Unit,  
Banking Regulation and Supervision  
Agency*

**OSMAN KARAKUTUK**

*Executive Vice President, Ziraat Katılım*





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## IFN TURKEY: TIME TO SHINE?

Turkey is a crucial market for Islamic finance (which it calls participation finance) and has made both substantial efforts to develop its sector and significant strides in moving it forward. Up until now, it has struggled to raise awareness and build market share beyond 5% of the banking market, but recent events have shown that progress is most certainly being made. On the 26<sup>th</sup> and 27<sup>th</sup> October 2020, IFN was delighted to present its annual IFN Turkey Forum, in which leading regulators, practitioners and stakeholders came together to discuss the challenges, opportunities and insights of the Islamic finance industry in 2020. LAUREN MCAUGHTRY writes.

Despite the huge diversification of all alternative financial instruments, the banking sector still accounts for 90% of the financial industry. Turkey hopes to raise the share of participation finance in total banking assets to 15% as of 2025, but how can it achieve that — and in particular, how can it leverage and benefit from the growth of sustainable and responsible finance to support this growth?

The country is starting from a strong footing, with a 99.8% Muslim population. Although there is no dedicated legislation for Islamic banking, the law takes Shariah compliance into account when it comes to Islamic transactions. Out of 53 banks in Turkey, six are fully-fledged Islamic banks, including several high-profile state conversions.

The capital markets are also gradually developing. The Turkish government regularly auctions gold-based Sukuk and issues Islamic lease certificates, while in 2019 both Turkish Airlines and ferro-chrome producer Eti Krom announced plans to issue Sukuk. There are also three fully-fledged Islamic asset managers in Turkey.

Movement is now afoot. In January 2020, the European Bank for Reconstruction and Development said it would explore opportunities in Turkey, and expects issuances from Turkish entities to grow. Also in January 2020, AAOIFI and the Participation Banks Association of Turkey signed an MoU to collaborate in enhancing the awareness and promotion of Islamic finance in Turkey, and in February 2020 the Halal Accreditation

Agency of Turkey and Pakistan's National Accreditation Council signed an MoU with a view to developing uniform standards within the Halal sector.

But are these steps enough to propel the country onto the world stage and fulfill its potential both on a domestic and global level?

### Back to basics

How can participation finance mobilize to address the imminent challenges of the real economy and provide not just liquidity support, but solvency support to the vital Turkish SME and corporate sector? Can participation finance in Turkey and the region use this opportunity to become truly responsible, inclusive





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and ethical, while at the same time contributing to the country's growth and development? How can we as an industry ensure this is substance over form on a permanent basis? We asked a respected panel for a new roadmap to success for participation banking, finance and capital markets in Turkey.

Moderated by Fatma Cinar, the manager of international relations at the Participation Banks Association of Turkey, the discussion ranged across a wide landscape of complex issues, with plain-speaking and frank, honest admissions from all participants — especially when it came to the challenges of handling the current coronavirus crisis.

"The pandemic has been a disaster for human lives, and it has changed a lot of things in the world — behaviors, economies and government approach," admitted Osman Karakutuk, the executive vice-president at Ziraat Katilim. "The growth rate in the economy has

***"The pandemic has been a disaster for human lives, and it has changed a lot of things in the world — behaviors, economies and government approach"***

*- Osman Karakutuk*



decreased very rapidly, and financial institutions have decreased their facilities. Our country has been impacted, but I think participation banks — especially state banks — have come through this well. We have not seen much interruption in our business activities during the

pandemic. As a public bank, our focus has been on meeting the needs of the Turkish people, in order to help them withstand that negative economic consequences of the pandemic. Branches have continued their services and successfully used alternative channels like internet and mobile banking."

The central bank has introduced a substantial raft of measures to support the economy during the crisis, including reducing the policy rate from 10.75% to 9.75%, providing banks with as much liquidity as needed through intraday and overnight standing facilities, raising the liquidity limits of primary dealers of open market operations and lowering foreign exchange reserve requirement ratios by 500bps and offering banks with targeted additional liquidity facilities to secure uninterrupted credit flow to the corporate sector.

"The main issue is liquidity and financing of corporate customers," explained Osman.



"That's why we accelerated our financing to SME and corporate clients, to ensure that sufficient liquidity with reasonable profit rates could be provided to support the real economy. We've provided a business support package of TRY5 billion (US\$594.03 million), as well as restructuring the existing facilities of corporate clients and providing them with additional finance as needed to support their cash flow.

But, pointed out Fatima, the pandemic could also be an opportunity for SMEs, as the banks look to support them strongly and lots of additional measures are made available. Is it a risk issue converted into an opportunity?

***"This crisis shows the need to create more resilient economies and businesses. This is everyone's responsibility"***

- Asst Prof Dr  
Kinan Salim



Asst Prof Dr Kinan Salim, the head of Islamic digital economy at the International Centre for Education in Islamic Finance, believes so. "COVID-19 has shown the fragility of our economies," he said. "One big shock has had a huge impact on all businesses across the world. First, we see disruption in the supply chain, and the second is the drop in market demand. And we are seeing that SMEs are far more financially fragile when market demand is down. They still need to pay their bills and salaries, so they are accumulating losses. Some banks are trying to help by postponing payments, but that doesn't solve the real problem. This crisis shows the need to create more resilient economies and businesses. This is everyone's responsibility. But it gives an opportunity for participation banks to develop new solutions to fix these systematic problems. This can be achieved through sustainable and responsible banking that can make a positive impact on society: driven by profit, but always keeps an eye on social and environmental performance."

Sustainable finance is of course a key trend for this year, and Turkey

demonstrates some unique opportunities within the space. Ahmet Ilyas Collu, the vice-president and head of international banking for the Treasury and Strategy Group of Vakif Katilim Bankasi, urged the importance of building on the momentum within the responsible finance sector, particularly around sustainable energy. "We are importing a lot of energy and we want to produce our own renewable energy within Turkey," he explained. "We also support the municipalities in their investment in technology,

***"Green Sukuk is an attractive concept"***

- Ahmet  
Ilyas Collu



building smart cities, smart car parking, smart transportation, smart agriculture and waste recycling. Based on our investments in sustainable energy, we plan to issue a green Sukuk down the line, possibly a local or an international Sukuk. Green Sukuk is an attractive concept — we've only seen one green Sukuk issuance in Turkey this year, from an investment bank, and as a state-owned participation bank we want to be active in this sector so we are preparing for this."

***"The regulatory framework is very important, and we are a sophisticated country when it comes to infrastructure"***

- Omer Cekin



Omer Cekin, the head of the Participation Banking Unit at the Banking Regulation and Supervision Agency, gave a comprehensive summary of the agency's achievements in recent years in developing a constructive environment for

Islamic finance in Turkey. "The regulatory framework is very important, and we are a sophisticated country when it comes to infrastructure," he concluded.

***"Research shows that increasing the number of banks and branches alone is not enough. We need to increase public awareness, which comes with education"***

- Kamola  
Bayram



And finally Kamola Bayram, an assistant professor at KTO Karatay University, raised the point of Islamic finance education as a focal point of the wider ecosystem, particularly as a means of developing the human resource capacity for the participation banking sector in Turkey. "We have six participation banks in Turkey and 16,000 people employed in this sector," she noted. "But when we look at the share of Islamic finance in the banking sector it is still just 5%, and Islamic finance education is very important as a means of reaching the desired market share of 15–20%. Research shows that increasing the number of banks and branches alone is not enough. We need to increase public awareness, which comes with education. I receive a lot of questions from students abroad who want to continue their studies — of course Malaysia and the UK and Gulf countries are popular, but today in Turkey we also have the infrastructure, with 10 universities, to invite students to come here to continue their Islamic finance studies. In Turkey, we need to promote these opportunities more, perhaps through an initiative like the FAA [Finance Accreditation Agency] in Malaysia, to help it flourish."

"As of today, the market share of participation banks has reached 7% with assets of more than US\$53 billion," revealed Fatima at the end of the session, noting that growth is continuing despite the challenges. 📌

## KEY TAKEAWAYS

Two state-owned participation banks clearly expressed their strong support for the real sector and thus, SMEs have been prioritized with innovative solutions and initiatives taken from participation banks, as the competitive advantage of pandemic measures favor the industry. Participation banking has proven its solid and resilient business model during the pandemic via both the increasingly solid performance of participation banks and sustainable projects which are attracting the attention of society to the universal values driven by the Islamic finance system which assures that the principles of participation banks are exactly in line with responsible, inclusive and ethical financing values. For the development of the participation finance industry, education is one of the key pillars which affect all institutions and personnel of the sector as it is the main constituent for healthy and deliberate growth of the industry.

Turkey has a 2.6% market share from global banking assets with its outstanding and continuous Sukuk performance and has achieved an 8.7% market share from global Sukuk issuances, ranking among the top five jurisdictions globally. The Turkish Sukuk market will definitely maintain its continuous growth in Sukuk issuances and enhance its penetration with regards to both domestic and international investors.

*Fatma Cinar is the manager of international relations at the Participation Banks Association of Turkey.*



Vakif Katilim as a state-owned bank has been very active in supporting SMEs and start-ups particularly, with growing technology and innovations. Many projects have been carried out together with government agencies and local municipalities to support technology and sustainability projects.

Turkey's share in the global Sukuk volume has a significant potential to grow with local and international issuances by the government, financial institutions and corporate issuers. We expect to see more green Sukuk issuances which are likely to help a comeback to the international markets.

*Ahmet Ilyas Collu is the vice-president and head of the International Banking, Treasury and Strategy Group at Vakif Katilim Bankasi.*



In Turkey, Islamic finance traces its roots back to the 1980s when Islamic financial institutions known as special finance houses were introduced. However, it took another three decades for Islamic finance education to commence.

Today, there are six participation banks operating in Turkey, and 16,000 people are employed in this sector. With the introduction of new participation banks and branch expansion in particular, the need for human resources in the Islamic finance sector has grown further.

The first postgraduate program in Turkey was introduced by Istanbul University in 2014, followed by the postgraduate program introduced by Sakarya University in 2016.

In 2016, KTO Karatay University and Istanbul Sabahattin Zaim University launched Bachelor's degree programs and this year we produced our first graduates.

Today, there are 10 universities offering Islamic economics and finance (IEF) undergraduate and postgraduate programs in Turkey.

Due to COVID-19, universities across the world have been experiencing massive flight from traditional in-class face-to-face education to online education. IEF education providers must adjust to the 'new normal' as well.

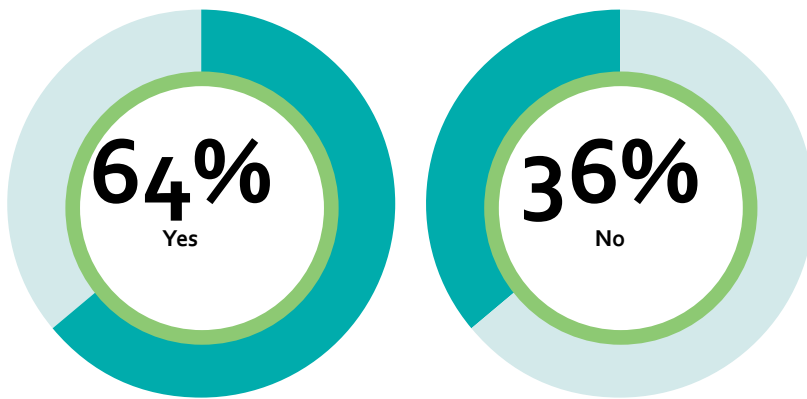
*Dr Kamola Bayram is an assistant professor at KTO Karatay University.*



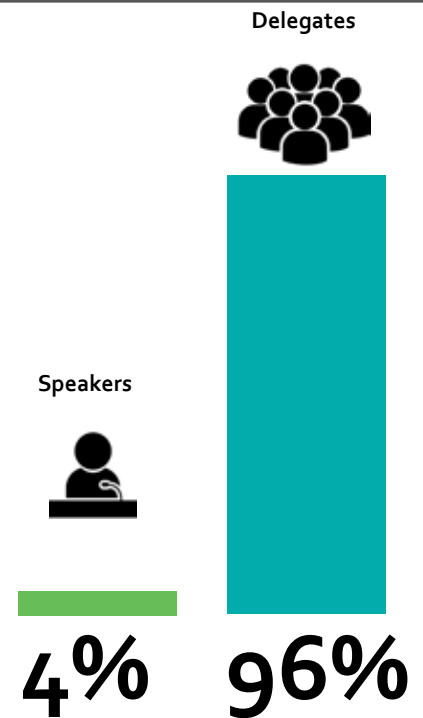




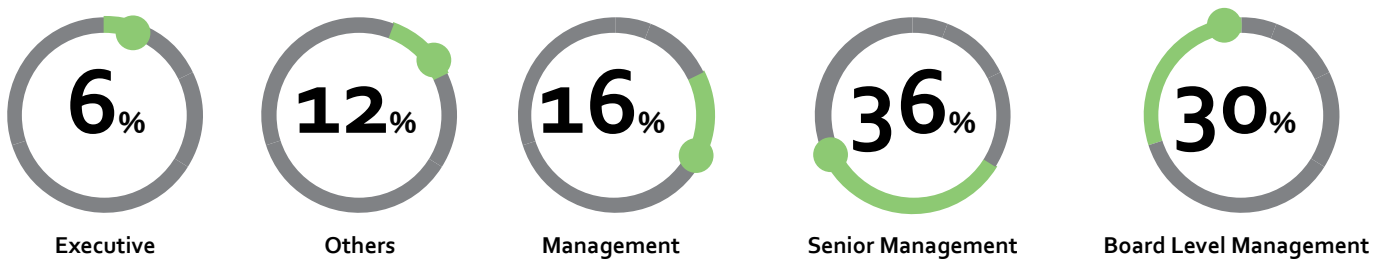
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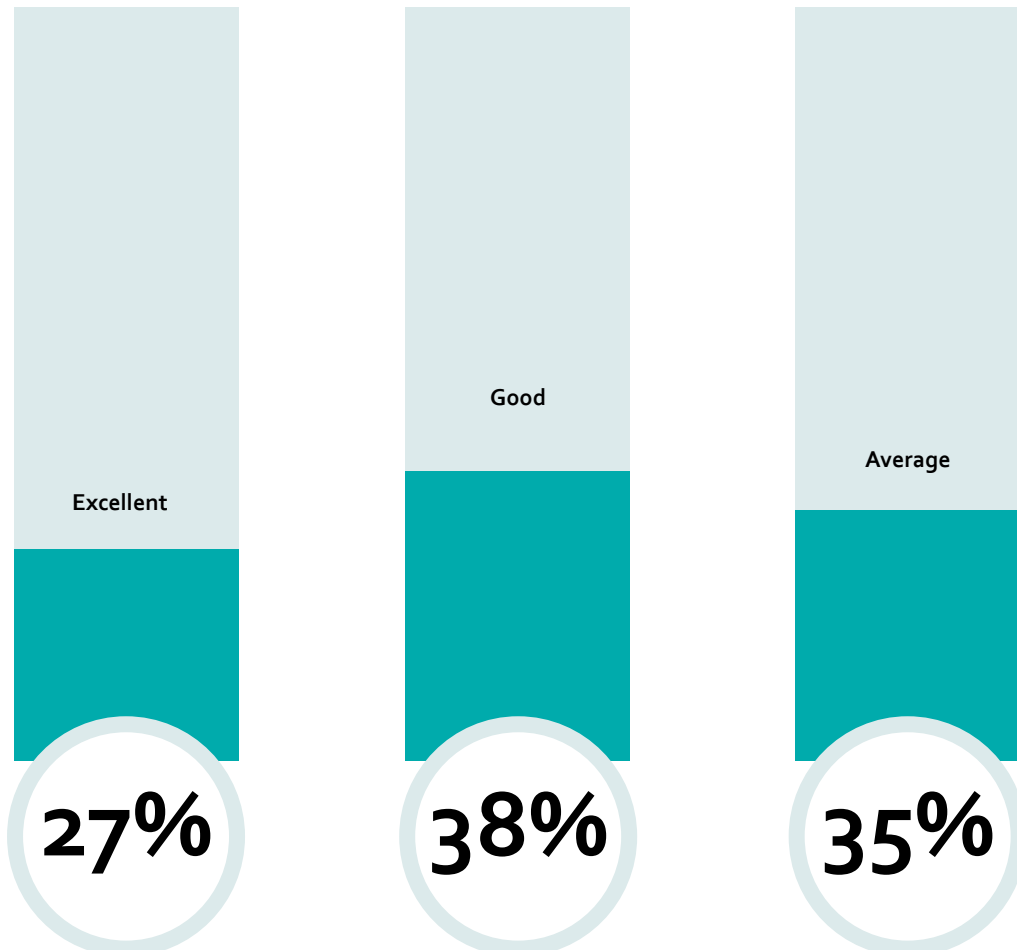
**55%**  
Local



**45%**  
International

## SESSION EVALUATION

## BACK-TO-BASICS: OPPORTUNITIES FOR PARTICIPATION FINANCE TO FLOURISH IN TURKEY





## FUNDING, INFRASTRUCTURE, ASSET MANAGEMENT, CAPITAL MARKETS AND RESPONSIBLE FINANCE INITIATIVES IN TURKEY

With the Republic returning to the market via Euro and dollar issuances in May 2020, we assess what Sukuk can offer Sovereign issuers in challenging market environments. Are Sukuk still a viable option for Turkish banks seeking to enhance liquidity and capital management, while diversifying funding sources? What can technology, particularly tools such as Blockchain, offer capital market and asset management innovation in Turkey? With the Republic issuing its first green Sukuk, how can sustainable and responsible investment make further progress in Turkey and can the UN Sustainable Development Goals be applied to the Republic's participation finance and investment activities? Are social bonds an opportunity for the country? What's a realistic latest assessment of the pension fund industry in Turkey and how can the participation finance industry play a role? Lastly, we examine the country's infrastructure requirements in the coming years and ask what can be funded through Shariah compliant facilities, how can risk be effectively managed and do public/private partnerships offer a viable opportunity?

### YOUR PANEL



**TARIK AKIN**

*Division Director (Islamic Finance),  
Finance Office of the Presidency of the  
Republic of Turkey*



**ALAA ALAABED**

*Chief Research Officer, Wethaq Capital  
Markets*



**LEILYA SHAMEL**

*Associate Director, DDCAP*



**DR SUTAN EMIR HIDAYAT**

*Director of Islamic Economy Supporting  
Ecosystem, National Committee of  
Islamic Finance*



**TARIK BOREKCI**

*Vice-President, Head of Treasury,  
Treasury & Strategy Group, Vakif Katilim  
Bankasi*



**WAIL AAMINOU**

*Group Chief Executive Officer, Al Maali  
Group Strategy Group, Vakif Katilim  
Bankasi*



## FUNDING, FINTECH AND RESPONSIBLE FINANCE

With the Republic returning to the market via euro and dollar issuances in May 2020, the second panel of the IFN Turkey Forum, moderated by Tarik Akin, the division director (Islamic finance) at the Finance Office of the Presidency of the Republic of Turkey, looked at the capital markets, funding, fintech and responsible finance aspects of the market. The discussion explored what role Sukuk could play in supporting recovery, how technology can help promote innovation, and how sustainable and responsible investment can make further progress within Turkey.

Dr Sutan Emir Hidayat, the director of the Islamic Economy Supporting Ecosystem at the National Committee for Islamic Economy and Finance, gave his experience from an Indonesian perspective on the current outlook for the global industry — particularly the downside risk in 2021 and the respective repercussions for the Islamic financial industry in Turkey. “When it comes to 2021, I expect the global growth of the Islamic financial industry will continue to slow,” he predicted. “We foresee an expected mild recovery, and low to middle single-digit growth. Notably, COVID-19 vaccination should be a priority, and Sukuk are likely to be a

solution to finance the procurement of these vaccines.”

A key element of the discussion was Turkey’s target of a participation banking market share of 15% by 2025 — is this goal realistic?

“There are only three OIC countries that are G20 members, and Turkey is one of them. It plays a vital role in regional economic development, including Islamic finance,” stressed Dr Sutan. “But there are several challenges that need to be tackled. These include literacy and awareness — there is a clear positive relationship between literacy and financial inclusion. There is still

*“When it comes to 2021, I expect the global growth of the Islamic financial industry will continue to slow”*

– Dr Sutan Emir Hidayat





a lack of a clear Islamic financial legislative framework and infrastructure. There is a need for more product innovation — this is limiting participation banks because of a lack of products. A more active secondary market for Sukuk is also needed. The previous issue of double taxation of Sukuk has been resolved, but more companies need to be encouraged to issue. Currency risk is another issue. Dollar-denominated Sukuk is a risk because the lira is so volatile. If you can tackle all these things, with a clear master plan for Islamic finance in Turkey, then Inshallah you can achieve the 15%."

But not everyone was as optimistic. Tarik Borekci, the vice-president and head of treasury in the Treasury & Strategy Group of Vakif Katilim Bankasi, gave a detailed financial analysis of the specific figures involved. "There is clearly room for further growth in Turkey for participation banks. I think to achieve this, capitalization, a larger labor force and digitization are key drivers," he concluded. "But from a financial point of view, capitalization is the main issue if the sector is to reach 15%. There is a TRY60 billion [US\$7.13 billion] gap between the projected and the required total liquidity figure that is needed to drive the balance sheet to reach a 15% market share. I don't think the banks necessarily have a capital plan to inject this much, so it might not be a realistic figure. But if new players join into the market, then these figures and projections could change."

***"There is clearly room for further growth in Turkey for participation banks. I think to achieve this, capitalization, a larger labor force and digitization are key drivers"***  
- Tarik Borekci



Tarik Borekci was also optimistic about the potential to develop a local Sukuk market. "Sukuk gives us a change to access the longer capital markets and diversify

our funding sources. Participation banks already actively issue Sukuk in the local market, and with the improvement of the pension fund system, where participants choose Islamic funds, the local Sukuk market certainly has the potential to grow further," he noted.

Islamic fintech is another promising growth area for Turkey. Leilya Shamel, the associate director of DDCAP, explored the opportunities within the sector. "Turkey has great potential here. First, because of its geographical position lying between Europe and Asia, which opens up a bigger market of both users and providers. And second, the population of Turkey, which is very entrepreneurial and majority Muslim. The first pillar the government should focus on is increasing awareness. This is crucial in the development of Islamic fintech. Second is building trust so that market participants feel secure, followed by government support, building a regulatory framework and supporting it through sandboxes, accelerators and so on. Then the third pillar is the availability of funding. The developers of fintech usually come from small start-up companies and they struggle with access to funding forces. A bigger role could be played by venture capital, private equity and investment funds to develop this sector."

***"The first pillar the government should focus on is increasing awareness. This is crucial in the development of Islamic fintech"***  
- Leilya Shamel



Alaa Alaabed, the chief research officer at Wethaq Capital Markets, highlighted more developments within the capital markets, particularly the growing focus on a more inclusive and sustainable path to recovery out of the global pandemic. "We are seeing the growth of ESG [environmental, social and governance] funds outperforming, and there is an increasing interest from both issuers and investors for green and sustainable issuers," she explained. "In

***"The IDB issued its first-ever sustainability Sukuk in June 2020. A catalyst like this could really, it is hoped, encourage and spur on green and social sustainable issuance going forward"***

- Alaa Alaabed



the Islamic space, we have seen a number of initiatives that are very relevant here, including in Turkey. The IDB issued its first-ever sustainability Sukuk in June 2020. A catalyst like this could really, it is hoped, encourage and spur on green and social sustainable issuance going forward. Another point is the increasing focus on Waqf as a funding instrument for societies."

***"The most important element is bringing together Islamic finance and impact finance under the same umbrella"***

- Wail Aaminou



Finally Wail Aaminou, group CEO at Al Maali Group, discussed how Turkey could apply the UN Sustainable Development Goals to its participation finance activities. "The most important element is bringing together Islamic finance and impact finance under the same umbrella," he urged. "It's an interesting value proposition, but marketing is vital. We need to bring capital, we need to bring talent and we need to bring lots of different players on board to make it happen."

*To hear the full discussion and derive full value from these cutting-edge debates, you can view the complimentary event recording here.* 📺

## KEY TAKEAWAYS

- Islamic finance should focus on impact investing. It should also be one of the focus areas of the Istanbul Finance Center project.
- Impact investing also has the potential to provide a concrete value proposition for Islamic financial institutions.
- Instead of focusing solely on profit- and loss-sharing contracts, blended finance should be used. Here, contracts and products combining Waqf, fintech and other traditional products can play important roles especially for achieving social finance goals during and post-COVID-19.
- Turkey should also consider risk guarantee mechanisms to attract more risk-averse people in risk-sharing contracts.
- Turkey's 15% penetration target by 2025 is achievable on the condition that capitalization and liquidity needs of participation banks are met and appropriate policy tools are developed.
- Another issue for the liquidity management of participation banks is short-term participation accounts. It gives rise to asset-liability mismatch and high liquidity needs.
- Islamic finance strategies in Turkey should focus on achieving financial literacy and awareness. These are the key factors on the demand side.
- There is generally high demand for green and sustainability Sukuk reflected in oversubscription. This potential should be considered and Turkey should issue green and sustainable Sukuk.
- Fintech-based Sukuk provide a high potential and opportunity to cut down on costs for the Turkish Treasury.



*Tarik Akin is the division director (Islamic finance) at the Finance Office of the Presidency of the Republic of Turkey.*

The Turkish government is endeavoring to increase the share of Islamic finance from 6% to 15% by 2025. However, to achieve this goal, a combined effort is needed from both participation banks and capital market participants. Liquidity is tight as the funding mostly comes from short-term deposits (80%) and only a little from Sukuk issuance (20%). There is also a mismatch between banks' deposits and loan terms.

Currency risk is another challenge for Sukuk issuance, given the fluctuations of the Turkish lira.

Islamic fintech can be a good solution and driver of the development of capital markets and provide a boost. Fintech provides issuers with cost- and time-efficient solutions and at the same time allows investors to securely invest via online platforms.

Turkey can be a regional hub for knowledge and expertise in Islamic fintech and it has great potential to so. There are already policy documents being developed to promote Islamic fintech in the country.



*Leilya Shamel is an associate director at DDCAP.*

I would like to emphasize that Turkey is one of the key Islamic banking markets globally and has long-term growth potential. Turkey is a regional power and a member of G20 with its strategic location connecting Europe and Asia.

However, there are challenges that need to be tackled to ensure Turkish participation or Islamic banks flourish, and some of these challenges are:

- (1) lack of public literacy and awareness of Islamic banking and financial products
- (2) lack of a fully-fledged Islamic financial regulatory framework and a Shariah governance structure
- (3) lack of variety in Islamic banking products, and
- (4) there is no active secondary market for Sukuk (liquidity management issue).

It all depends on how the Turkish government and other stakeholders tackle the challenges, and plan and execute their strategies in order to achieve their target of a 15% market share in 2025.



*Dr Sutan Emir Hidayat is the director of the Islamic Economy Supporting Ecosystem at the National Committee for Islamic Economy and Finance.*

On the Istanbul Finance Center project positioning on impact finance, it would be interesting to bring Islamic finance and conventional finance under the same value proposition. Attracting international talents and building awareness are key.

On aligning finance with sustainable development goals, the starting point is leveraging international standards such as Principles for Responsible Banking, Principles for Sustainable Insurance and Principles for Responsible Insurance from the United Nations Environment Programme Finance Initiative and adapting them to the local context. Standards can be made mandatory progressively.

On developing risk-sharing instruments for impact finance, strategies to consider are: 1) leveraging non-profit funds through blended finance instruments, 2) developing risk guarantee mechanisms, 3) putting in place a rating infrastructure, and 4) supporting fintech.

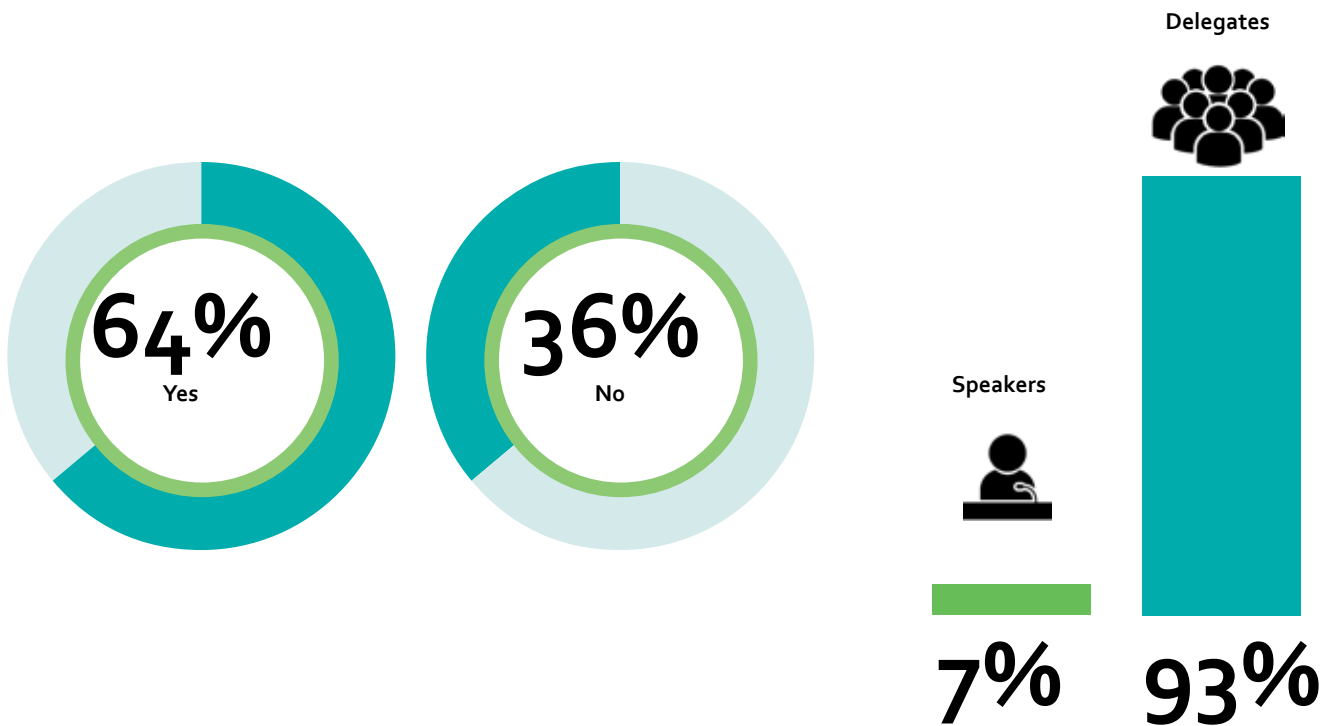


*Wail Aminou is group CEO of Al Maali Group.*

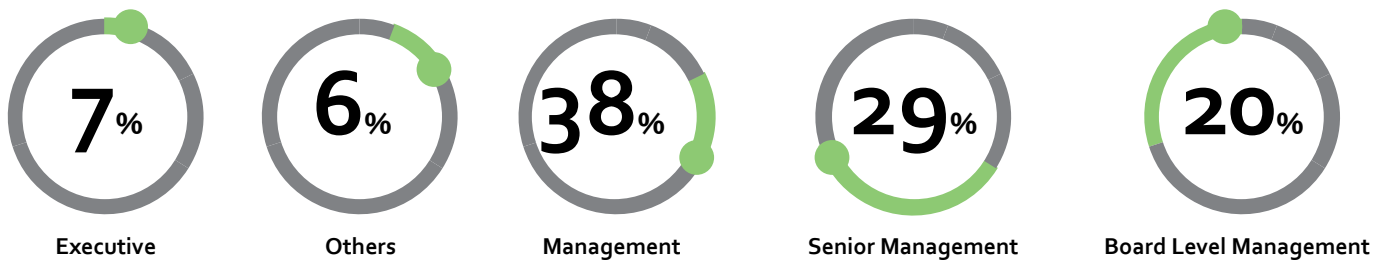




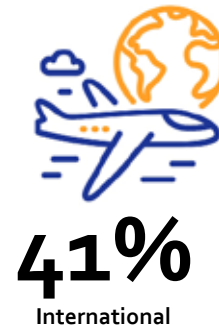
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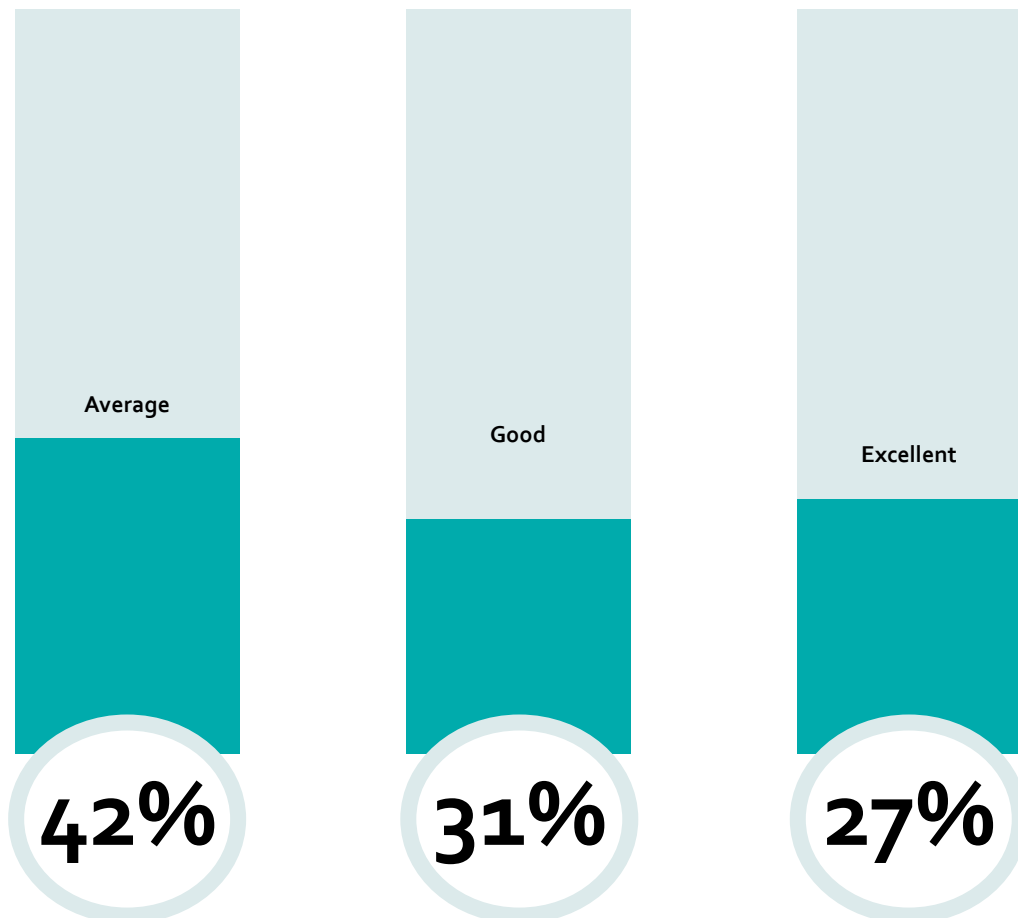


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## SESSION EVALUATION

FUNDING, INFRASTRUCTURE, ASSET MANAGEMENT,  
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INITIATIVES IN TURKEY







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Bank Negara Malaysia	Kuwait Oil Company	TCIB
Banking Regulation and Supervision Agency	Kuwait Turkish Participation Bank	Turkish Participation Banks Association
Blida University	Lootah Global Capital	Türkiye Emlak Katilim Bankasi
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