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The Role of Audit Committees in the Libyan Banking Sector as it Transforms into an Islamic System

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Abstract

This paper aims to explore the role of audit committees (ACs) in the Libyan banking sector (LBS) and to investigate the impact on AC practice of the sector's recent shift to an Islamic banking system. Little is known about the role of these committees, which were only made compulsory in Libya in 2010. The findings support agency theory in that they perceived these committees as being responsible for reviewing financial statements, the internal auditing function and the external audit process. However, the perception was that ACs are not currently carrying out these responsibilities effectively; participants perceived ACs as spending too little time reviewing financial statements, rarely challenging weaknesses in the work of internal auditors and seldom following up or supervising the work of external auditors. One explanation for this state of affairs is that ACs in the LBS are primarily designed to create legitimacy outside the organisation rather than to effect radical change within it. The study also found that it is not the application of Islamic law per se that is perceived as having an adverse impact on AC practice in the LBS, but the speed at which this transition is taking place in an already weak banking environment. This research helps expand our knowledge of current AC practice as a key mechanism of corporate governance (CG) by being the first to investigate how this role is performed in Libyan banks, which are in the early stages of implementing Islamic law. The research is also important because it addresses an information gap in the accounting literature by investigating AC effectiveness in a developing country, a context which is still poorly understood.

Keywords: Audit committees, Corporate governance, Libyan banking sector, Islamic law, Libyan corporate governance code.

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Introduction

Audit committees (ACs) are central to good corporate governance (CG). According to the Blue Ribbon Committee (1999) and the Smith Report (2003), the role of the AC is to oversee not only the financial report process but also internal control and risk management systems. It is therefore, as Mangena and Pike (2005) suggest, an important element in the CG process. Turley and Zaman (2014) note that recent years have seen a much greater emphasis being placed on AC effectiveness; Fichtner (2010) argues that the Enron collapse in particular led regulators and governments throughout the developed world to pay renewed attention to the AC as one of the key governance mechanisms. Similarly, Rustam et al. (2013) observe that recent corporate scandals in developed countries have resulted in the creation of CG guidelines which give a prominent role to ACs. Rezaee (2009) and Liao and Hsu (2013) identify the roles of the AC as being to ensure responsible CG, review the firm's financial reporting and provide a channel of communication between the board, external auditors and internal auditors in order to protect the interests of shareholders and other stakeholders.

However, while these are the expectations that surround ACs in developed countries, the lack of an institutional framework for CG in developing countries (Boubakri et al., 2005) means that ACs in these countries are operating in a very different environment. This is likely to have an impact both on practice in these committees and on their effectiveness as mechanisms of CG. The vast majority of studies have focused on developed countries (e.g. Mangena and Pike, 2005; Beasley et al., 2009: Turley and Zaman, 2014), but it is possible that the research findings from these countries may not be applicable to developing countries, where environmental factors (e.g. management quality) may be very different (Barghathi et al., 2016). Among the few studies so far conducted in developing countries (e.g. Al-Moataz, E., 2010; Khlif and Samaha, 2016), those focusing on AC effectiveness have found these committees to be largely ineffective.

The current study aims to explore the role and effectiveness of ACs in the Libyan banking sector (LBS), one of the most important sectors in the Libyan economy (Alrshah, 2015). The sector faces numerous obstacles, including a lack of support from the Central Bank of Libya (CBL) and a lack of trained staff (Zaed et al., 2016), but one of its greatest challenges is its rapid (some would say too rapid) shift to Islamic banking (Stela and Abdulsalam, 2016). The rapid enforcement of Islamic law in an already weak banking environment is likely to adversely affect practice in banks, including CG practice, if it pushes them into changing their systems without proper preparation. For example, Libya does not currently have the qualified staff or Islamic capital market it needs to transition successfully to Islamic banking (Abdalla et al., 2015). It is vital that banks overcome these problems as without efficient systems, including strong CG, they will remain weak and attract few investors (Eldlimi et al., 2013). Supporters of Islamic banking argue that an effective Islamic banking system will attract both the domestic and foreign investment that is crucial to Libya’s economy (Eldlimi et al., 2013).

This paper makes a contribution to the ongoing discussion about AC's role in CG. First, by investigating AC effectiveness in Libya as a developing country, it addresses an information gap – this context is still poorly understood practice in developing countries (Al-Moataz, 2010). By providing new evidence (and a different perspective) from a context that is culturally, socially, legally and politically different from others in the world. Second, the research adds to our understanding of how CG mechanisms operate in Libyan firms by being the first to cover the role of ACs in Libyan banks. Moreover, it is unique in covering the role of ACs in banks that are in the early stages of implementing Islamic law, and in investigating the impact of this transition on AC effectiveness. Given the speed at which this transition is taking place in Libya, and the current weakness of the country's banking environment (Abdalla et al., 2015; Zaed et al., 2016), this exploration is urgently needed. The move towards privatisation and the broadening of ownership, and the need to attract foreign investment (Masoud, 2014a), are further reasons why it is necessary to review and improve the ways in which CG mechanisms operate in the LBS (Larbsh, 2010). This exploration of the role of ACs in the LBS is a useful first step; its findings may help board members, AC members, regulators and shareholders in their decision-making and encourage them to pay greater attention not just to ACs but also to other CG mechanisms. The study, therefore, attempts to enhance our understanding of the concept of CG and the role of ACs, where little is known about how these committees operate in developing countries, such as Libya, which has begun to apply Islamic services in its banks.

1. Literature Review

The LBS is one of the most important sectors of the Libyan economy (Alrshah, 2015) and one of the major financiers of national development projects and institutions. Realising its central importance to national economic growth (CBL, 2010), the CBL implemented a series of measures between 2002 and 2010 that were aimed at bringing the sector into line with the international banking system and fostering its development. These included the issuance of a (voluntary) CG code in 2005, the restructuring of commercial banks and the transfer of ownership of some public sector banks to the private sector. New private banks were established and foreign investors and foreign banks were allowed to participate in the sector (CBL, 2010).

In 2010, the Libyan CG Code (LCGC) was finally made mandatory. This code is made up of six sections. The first discusses the central principle of corporate governance and its importance in ensuring that banking operations are conducted safely and protect the interests of shareholders, as well as an explanation of many of the terms used in this code. The second section identifies out the Shareholders' equity including how to make decisions at the General Assembly of Shareholders. The third section sets out the criteria for appointing board members and senior management and explains what they should do in order to perform their duties towards shareholders, depositors and other debtholders efficiently and effectively. This section addresses the board's role in choosing and supervising management, and the relationship between the board of directors and the executive management. Section four sets out the sub-committees of the board of directors for helping the board of directors to perform its duties and responsibilities. These sub-committees include AC, corporate governance committee, risk management committee and appointment and remuneration committee, while sections five and six addresses the disclosure of corporate governance practices implemented by banks and some other requirements, such as a number of obligations of public sector shareholders (CBL, 2010a). However, although the LCGC is now mandatory, most Libyan businesses are still in the early stages of implementing CG (Iswaissi and Falahati 2017) and there remain widespread deficiencies. Regulation is still inadequate, there is little training for directors on governance systems, weakness of the legal system that governs the activities (Larbsh, 2010; Magrus, 2012; Zagoub, 2016).

In 2013, Libya's parliament, the General National Congress (GNC), issued a new law authorising the application of Islamic law across the LBS (Stela and Abdulsalam, 2016) through the transformation of all banks from conventional into Islamic institutions. With the strong support of most segments of society (Abdulsaleh, 2017), the CBL began the process of transforming the conventional banking system into an Islamic banking system. However, at the time of writing, the move to an entirely Islamic banking system has not yet been accomplished, and many banks remain in the early stages of transition (Abdulsaleh, 2017; Elkrghli and Yahya, 2018). There are several reasons for this, including a lack of relevant experience and inadequate staff training, changing systems, and Libya's lack of an Islamic financial market (Abdalla et al., 2015; Zaed et al., 2016; Abdulsaleh, 2017; Elkrghli and Yahya, 2018), all of which may affect a bank's governance, including its AC.

The review of literature indicates that the role of the AC is to ensure responsible CG in order to protect the interests of shareholders and other stakeholders (e.g. Rezaee, 2009; Campbell et al., 2013). This includes reviewing and monitoring the internal and external audit functions and the firm's financial reporting (Beasely et al., 2009; Abernathy et al., 2013; Bédard and Compernolle, 2014). In this regard, A number of regulators, such as the Combined Code (UK), suggest that the AC should play a central role in the financial reporting process, actively supervising and monitoring it (Campbell et al., 2013). Abernathy et al. (2013) point out that an effective AC enhances the reliability and credibility of financial statements for users. In addition, the AC should play a primary role in the internal audit function. Cohen et al. (2004) assert that close interaction between the AC and the internal audit function improves the governance capabilities of both parties. Governance improves when the internal audit sees the AC as giving greater weight to their activities within the organisation (Turley and Zaman, 2007) and enhancing their effectiveness and promoting their independence (Ahmad et al., 2009). Furthermore, a significant number of researchers and some regulatory bodies have stressed that the AC should monitor the independence, effectiveness and objectivity of external auditors, make recommendations to the board regarding their appointment and removal and review the results of the audit (e.g. Smith, 2003; Beasley et al., 2009; Rezaee, 2009). The Smith Report (2003), for example, advises that AC should be responsible for reviewing the letter appointing the external auditor, the scope of the audit and the adequacy of the planning process. Bédard and Compernolle (2014) argue that such measures will help ensure the quality of the external audit, but no one has yet attempted to explore the role of the AC in Libya. Our study, therefore, addresses an information gap by investigating AC effectiveness in a developing country. This context is still poorly understood in developing countries (Al-Moataz, 2010), and there are few studies addressing either CG or ACs in these countries (Okeahalam, 2004). By providing a different perspective from a context that is culturally, socially, legally and politically different from that of the west, it may enhance our understanding of the concept of CG and ACs.

As the main concerns of the study are to identify whether Libyan ACs play a vital role in monitoring financial statements and enhancing the internal audit function and external audit process in the banking sector and to investigate the impact of the shift to Islamic banking on their role where both CG and Islamic law are in the early stages of implementation. The study employed a combination of elements of agency theory and institutional theory to gain the richest understanding of this role in Libya's banking sector. Accordingly, two research questions were framed:

Q1. What is the present role of ACs in Libya's banking sector?

Q2. To what extent is Islamic law perceived as influencing ACs in this sector?

2. Theoretical Background

Kalbers and Fogarty, (1998) and Beasley et al. (2009) argue that institutional theory and agency theory offer complementary perspectives for investigating the role and activities of ACs by combining elements of both.

2.1 Agency Theory

In the accounting literature, agency theory has been used extensively to explain and interpret accounting practices as a whole (Aldredge et al., 2017). Agency theory posits that there is a fundamental conflict of interest between owners and managers (Gitundu et al., 2016); it assumes that the latter are usually more interested in exploiting the company for their own benefit than in serving the owners' interests (Schroeder et al., 2014). Hussainey and Hassanein (2017) argue that agency problems are most likely to arise where information is asymmetrically shared between principals and agents. It is therefore crucial that the board and AC monitor managers to prevent opportunistic behaviour (Beasley et al., 2009). However, a lack of relevant research means that there is some uncertainty over whether agency problems in Libya are the result of conflicts in the owner-manager relationship (Alrshah and Fadzil, 2013) or in the relationship between majority and minority shareholders (Abdou, 2015). In either case, the implementation of CG mechanisms such as ACs may help minimise these conflicts and mitigate their impact (Alrshah and Fadzil, 2013; Elgharbawy et al., 2016).

2.2 Institutional Theory

Usually referred to as "new" institutionalism (Greenwood et al., 2008), institutional theory has been widely utilised to assess the practical influence of CG codes (Solomon, 2013). Beasley et al. (2009) illustrate the truth of Fiss's (2007) claim that institutional theory is uniquely positioned to contribute to researchers' knowledge of CG by showing that some governance activities and structures are merely symbolic and are primarily intended to create legitimacy outside the organisation. This is the case in Libya, where the formation of an AC is public evidence of the bank's compliance with the LCGC. While agency theory sees the AC as playing a practical monitoring role, institutional theory sees the AC's role as largely symbolic (Kalbers and Fogarty, 1998; Beasley et al., 2009). Accordingly, this is the approach adopted in this research.

3. Research Methodology

The study used a combination of questionnaire survey and semi-structured interviews. This is to boost data quality and minimise the risk of bias (Hussey and Hussey, 1997). Data was first gathered from the questionnaire responses. This was supported by the data gathered from the semi-structured interviews, which were used to gain a better understanding of the research questions, and to confirm and further explore the questionnaire survey findings.

3.1 Questionnaire Survey

Following Saunders et al., (2009), the questionnaire began with a brief summary outlining the project and the purpose of the questionnaire. It was divided into two sections, the first of which gathered respondents' demographic information (role, educational level, degree subject and work experience). The second section aimed to elicit respondents' perceptions regarding the role of the AC. Participants were asked to indicate whether their AC plays a role in monitoring financial statements and in internal and external auditing, and how it performs this role. Little is known about the status of ACs in Libya, so it was important to gain greater insight into their systems and structure and any perceived deficiencies in performance. The survey questions were developed following the literature review in this area (e.g. Turley and Zaman, 2007; Beasley et al., 2009; Braswell et al., 2012). All of the questions in the second section employed five-point Likert scales.

Since the target population for this study is relatively small, the survey was distributed to all members of the five target groups, rather than to a selected sample. A list of 400 potential respondents was prepared following a search of the banks' websites and telephone conversations with CBL officials. These groups comprised board members, AC members, executive managers, internal auditors and external auditors. These five groups are the most familiar with AC practice, have the means and right to monitor firms, and are widely regarded as the foundation stones upon which a bank's monitoring mechanisms are built (see Rezaee, 2009; Ittonen et al., 2010; Waweru et al., 2011). 246 of the 400 distributed questionnaires were returned, 28 of which were rejected because they were incomplete. This left 218 for analysis, representing a response rate of 54.5%.

3.2 The Interview Method

Interviews can be especially useful in assisting the researcher to access results that cannot be reached through statistical or other quantitative approaches (Corbin and Strauss, 2008), particularly semi-structured interviews (Ritchie et al., 2013). They give the researcher the space and flexibility to pursue new issues as they emerge (Pietkiewicz and Smith, 2014), and the questions and themes explored may differ from one interview to another (Ramlan et al., 2015). They are often used in accounting research, including for the investigation of ACs, because they allow the gathering of more detailed information than is typically collected in quantitative research (Turley and Zaman, 2007; Beasley et al., 2009).

Twenty interviews were conducted with the five groups (four per group) listed above. These groups have the most experience of working with ACs. The interviewees, who were all senior employees, were selected using the snowball method, with interviewees being asked to propose the names of other suitable candidates. Care was taken to choose individuals from a range of banks in order to enhance the credibility of the findings. The interviews, which were conducted face-to-face, allowed the collection of more in-depth opinions. Interviewees were assured that the interview transcripts would remain anonymous and that their identity would be disguised by means of code names (e.g. A0001). They were also assured that data would be stored safely and would remain confidential.

4. Results And Discussion

This section discusses the perception of the interviewees and questionnaire respondents about the role of ACs in the LBS. This role includes monitoring the organisation's financial reporting and internal audit function and the external audit process. These are therefore the focus of the following sections.

4.1 The Ac's Role In Monitoring Financial Statements

The questionnaire respondents were given a list of statements and asked to indicate the extent to which they agreed that the statements described tasks undertaken by the AC as part of its role as the monitor of financial reporting. Table 1 presents the mean scores for the participants' responses to this question. Statement 4 ("The AC reviews corrections made by management to financial statements") generated the highest aggregated mean score, followed in descending order by statement 3 ("The AC reviews and monitors EA reports concerning financial statements"), statement 2 ("The AC monitors the compliance of the financial statement process with accounting standards") and finally statement 1 ("The AC reviews significant accounting policies").

The highest of these overall group means (3.85) came from the board members (BD) group, indicating that it agreed most strongly that ACs play an active role in monitoring financial statements. The second strongest agreement came from the external auditors (EA) group (3.75), followed by the internal auditors (IA) group (3.70) and finally both the audit committee members (AC) group and the executive managers (EM) group (3.60). The lower mean scores from the AC and EM groups suggest that many of the AC members and executive managers in the sample might not have been completely satisfied with how their AC performs this aspect of its role. The Cronbach's Alpha[1] test generated a value of 0.78 for this question, which is higher than 0.70, indicating that all the data is reliable.

Table 1: Descriptive Statistics on the Role of the AC in Monitoring Financial Statements

No	Statements	Group Means					Total Mean Score	Median	Standard Deviation	Rank	Cronbach's Alpha
		BD	AC	EM	IA	EA					
1.	The AC reviews significant accounting policies.	3.71	3.35	3.35	3.49	3.74	3.50	4.00	1.08	4	
2.	The AC monitors the compliance of the financial statement process with accounting standards.	3.76	3.65	3.64	3.85	3.74	3.73	4.00	1.01	3	
3.	The AC reviews and monitors EA reports concerning financial statements.	3.86	3.82	3.80	3.69	3.63	3.74	4.00	1.14	2	0.78
4.	The AC reviews corrections made by management to financial statements	4.05	3.59	3.61	3.79	3.89	3.75	4.00	1.00	1	
Overall Group Means		3.85	3.60	3.60	3.70	3.75	3.68	-	-	-	

BD: Board members AC: Audit committee members EM: Executive managers IA: Internal auditors EA: External auditors

Figure 1 shows how the responses to this question were distributed across the sample as a whole. In order to facilitate the process of analysis, the *strongly disagree* and *disagree* responses were combined, as were the *strongly agree* and *agree* responses. The answers from the mid-point of the Likert scale were placed in the *uncertain* category. Across the sample as a whole, there was thus a high level of agreement with all four statements. While statement 4 elicited the highest percentage of agree answers (71.6%), statement 1 generated the lowest (61.9%). It should be noted, however, that between 15.6% and 20.6% of the sample as a whole were uncertain whether these tasks are undertaken by ACs (or were reluctant to give an opinion). The results in Table 1 and Figure 1 are consistent with those identified in a number of other studies (e.g. Beasley et al., 2009; Campbell et al., 2013).

Figure 1: Overall Results for Respondents' Perceptions of the Role of the AC in Monitoring Financial Statements

[1] Cronbach's alpha is the most popular way to measure the reliability of quantitative survey data. The internal consistency of survey items is checked by measuring the extent to which participants' responses correlate with each other.

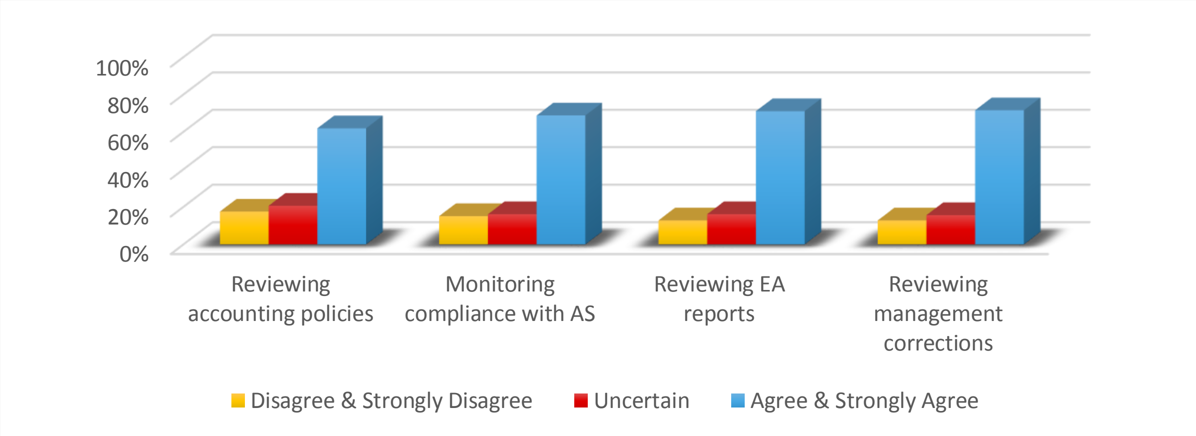


Table 2 shows that the Kruskal-Wallis[2] test found no significant differences between the groups for any of the four statements, producing values of 0.21, 0.94, 0.81 and 0.40 respectively. The Mann-Whitney[3] test confirmed that there were no statistically significant differences between pairs of groups on this question apart from between the BD group and the EM group on statement 4. The result here (0.04) may be another indicator that the EM group might not have been totally satisfied with how their AC performs this aspect of its role, as executive managers may be more aware of this issue as a result of their work.

Table 2: Results of Between-Group Comparisons on the AC's Role in Monitoring Financial Statements

NO	Statements	Kruskal -Wallis	Mann-Whitney Test - P-values									
			BD-AC	BD-EM	BD-IA	BD-EA	AC-EM	AC-IA	AC-EA	EM-IA	EM-EA	IA-EA
1.	The AC reviews significant accounting policies.	0.40	0.19	0.21	0.32	0.99	0.74	0.56	0.14	0.73	0.13	0.22
2.	The AC monitors the compliance of the financial statement process with accounting standards.	0.81	0.80	0.90	0.50	0.86	0.89	0.46	0.74	0.24	0.67	0.62
3.	The AC reviews and monitors EA reports concerning financial statements.	0.94	0.90	0.87	0.69	0.75	0.99	0.63	0.68	0.45	0.53	0.99
4.	The AC reviews corrections made by management to financial statements.	0.21	0.12	0.04*	0.18	0.54	0.77	0.42	0.24	0.40	0.11	0.43

*P -values < 0.05

Taken together, the findings from the survey and the interviews suggest that while there appears to be a clear theoretical understanding of and support for this aspect of the AC's monitoring role, this is not always being translated into good practice. While most of the interviewees saw monitoring financial statements as one of the main roles of the AC, some argued that in practice, the committee does not have adequate time to review these financial statements. Instead, it limits itself to submitting reports and recommendations to the board for

[2] The Kruskal-Wallis test was used to identify any statistically significant differences across the sample as a whole.
[3] The Mann-Whitney test was used to compare the mean values of pairs within the sample.

discussion in board meetings. Nevertheless, ACs are in many cases playing an important role in the financial reporting process (Beasley et al., 2009; Campbell et al., 2013) and improving the reliability of financial reporting (Abernathy et al. 2013). These findings are consistent with agency theory's assumption that the AC as a mechanism of CG plays an important role in monitoring and enhancing financial statements, and that it reduces agency costs by enhancing the quality of information flows between principal and agent (Beasley et al., 2009).

4.2 The Ac's Role In The Internal Audit Function

The survey respondents were asked to indicate the extent to which they agreed that the given statements described tasks undertaken by the AC as part of its internal audit role. Table 3 shows that overall, the five groups expressed the strongest agreement with statement 2 (The AC reviews the internal audit reports". The second most strongly supported statement was number 6 ("The AC promotes the independence of the internal auditors"), followed by statement 1 ("The AC reviews the objectives, plan and functions of the internal audit"), statement 4 ("The AC receives reports on the results of internal auditors' work"), statement 8 ("The AC reviews the effectiveness of internal controls"), statement 7 ("The AC recommends the appointment or replacement of internal auditing directors"), statement 3 ("The AC ensures that the internal audit has the necessary resources") and finally, statement 5 ("The AC meets with the head of internal auditing without the presence of management"). The rank order notwithstanding, these mean values show that the sample as a whole agreed that ACs in Libya perform all of these tasks as part of their internal audit role. Breaking the responses down by group, the AC group was the most convinced of the AC's role in the internal audit function (group mean 3.89), while the EM group was the least convinced (3.61). Once again, the lower mean score from the EM group may mean that the executive managers in the sample were less than satisfied with how ACs in the LBS perform this role. However, this may be partly attributable to sensitivity on the part of executive managers – they may not like the fact that internal auditors are supervised by the AC rather than by the management, and that the internal audit department reports on the work of other departments directly to the committee (limiting managers' opportunities for manipulation). The Cronbach's Alpha result for this question was 0.85.

Table 3: Descriptive Statistics on the Role of the AC in the Internal Audit Function

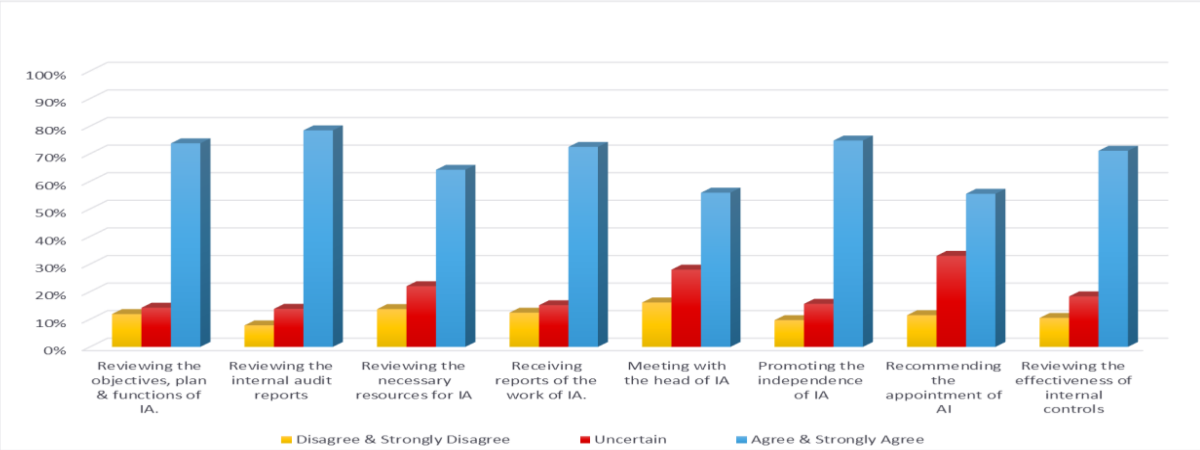
No	Statements	Group Means					Total Mean Score	Median	Standard Deviation	Rank	Cronbach's Alpha
		BD	AC	EM	IA	EA					
1.	The AC reviews the objectives, plan and functions of the internal audit	4.10	3.82	3.55	3.93	3.91	3.81	4.00	0.98	3	0.85
2.	The AC reviews the internal audit reports	4.05	3.94	3.88	3.93	4.09	3.95	4.00	0.93	1	
3.	The AC ensures that the internal audit has the necessary resources	3.52	3.94	3.55	3.73	3.66	3.66	4.00	1.05	7	
4.	The AC receives reports on the results of internal auditors' work	3.91	3.53	3.68	3.90	3.71	3.77	4.00	1.05	4	
5.	The AC meets with the head of internal auditing without the presence of management	3.71	3.65	3.45	3.59	3.46	3.54	4.00	1.10	8	
6.	The AC promotes the independence of the internal auditors	3.86	4.41	3.68	4.00	3.69	3.86	4.00	0.98	2	

7.	The AC recommends the appointment or replacement of internal auditing directors	4.00	3.82	3.55	3.70	3.51	3.66	4.00	1.04	6
8.	The AC reviews the effectiveness of internal controls	3.67	4.00	3.54	3.88	3.71	3.73	4.00	0.88	5
	Overall Group Means	3.85	3.89	3.61	3.84	3.72	3.75	-	-	-

BD: Board members AC: Audit committee members EM: Executive managers IA: Internal auditors EA: External auditors

Figure 2 indicates that 78.5% of respondents agreed with statement 2 – the highest level of agreement for any statement – while statements 5 and 7 recorded the lowest levels of agreement, with 55.9% and 55.5% respectively. The results in Table 3 and Figure 2 are consistent with those of numerous other studies identifying the AC's role in the internal audit function and internal control systems (e.g. Cohen et al., 2004; Rich and Zhang, 2014; Bardhan et al., 2015; Alzebana and Sawan, 2015).

Figure 2: Overall Results for Respondents' Perceptions of the Role of the AC in the Internal Audit Function



The Kruskal-Wallis test (see Table 4) highlighted that there were significant differences among the groups in regard to the AC's responsibility for reviewing the objectives, plan, functions and terms of reference of the internal audit (statement 1) and its promotion of internal auditors' independence (statement 6). The p-values for these two statements were 0.04 and 0.02 respectively. When the results for these two statements were explored further using the Mann-Whitney test, the results indicated that in most cases, it was the EM group that differed from the other groups. This was reflected in the overall group means for each group. As mentioned above, this difference may be partly attributable to sensitivity on the part of executive managers – they may not like the fact that internal auditors are supervised by the AC rather than by the management, and that the internal audit department reports on the work of other departments directly to the committee.

Table 4: Results of Between-Group Comparisons on the Ac's Role in the Internal Audit Function

NO	Statements	Kruskal-Wallis	Mann-Whitney Test - P-values									
			BD-AC	BD-EM	BD-IA	BD-EA	AC-EM	AC-IA	AC-EA	EM-IA	EM-EA	IA-EA

1.	The AC reviews the objectives, plan and functions of the internal audit	0.04*	0.22	0.02*	0.68	0.67	0.39	0.36	0.46	0.01*	0.05	0.95
2.	The AC reviews the internal audit reports	0.68	0.60	0.77	0.97	0.41	0.82	0.63	0.28	0.76	0.19	0.24
3.	The AC ensures that the internal audit has the necessary resources	0.71	0.22	0.75	0.36	0.59	0.28	0.68	0.45	0.35	0.74	0.68
4.	The AC receives reports on the results of internal auditors' work	0.39	0.40	0.39	0.66	0.50	0.74	0.22	0.73	0.08	0.96	0.21
5.	The AC meets with the head of internal auditing without the presence of management	0.75	0.77	0.31	0.51	0.35	0.52	0.84	0.49	0.44	0.93	0.41
6.	The AC promotes the independence of the internal auditors	0.02*	0.04*	0.53	0.39	0.66	0.00*	0.06	0.02*	0.03*	0.92	0.14
7.	The AC recommends the appointment or replacement of internal auditing directors	0.38	0.58	0.06	0.24	0.10	0.32	0.68	0.37	0.41	0.98	0.48
8.	The AC reviews the effectiveness of internal controls	0.14	0.19	0.53	0.33	0.71	0.05	0.53	0.35	0.03*	0.28	0.54

*P -values < 0.05

In summary, the survey respondents thought ACs currently perform all the activities as part of their internal auditing role. This finding, which was confirmed in the interviews, is consistent with those identified by previous authors including Cohen et al. (2004) and Alzebana and Sawan (2015). These authors all highlight the relationship and interaction between the AC and the internal audit department as a key factor in achieving effective CG. The majority of respondents pointed to the significant role the AC plays in overseeing the internal audit function, in resolving any problems and difficulties faced by the internal audit department and in recommending new appointments to the director's job. This is roughly consistent with the findings of Turley and Zaman (2007) and Ahmad et al. (2009). Finally, the majority of respondents highlighted the committee's role in overseeing internal control systems, which echoes Rich and Zhang (2014) and Bardhan et al. (2015). The findings thus seem to support agency theory's view that an effective AC can play a major monitoring role. However, they also illustrate that this effectiveness depends to some extent on the committee's relationship with the internal audit department, and as a number of interviewees pointed out, this relationship may not always be strong. Institutional theory may offer one explanation for this; ACs that have been established primarily for the purpose of creating legitimacy outside the organisation may be less inclined (or less able) to forge strong links with this department.

4.3 The Ac's Role in The Work of The External Audit

As may be observed in Table 5, respondents generally expressed weaker agreement with these statements than they did with the statements in the internal audit question suggesting that ACs play a less significant role in this process than they do in the internal audit function. This is reflected in the total mean scores; statement 2 ("The AC reviews the findings of the annual audit") scored highest with just 3.62. This was followed by statement 3 ("The AC reviews and investigates the audit fees"), statement 5 ("The AC recommends the appointment and replacement of the EA"), statement 1 ("The AC monitors the activities, resources, expertise and independence of the EA") and finally, statement 4 ("The AC meets the EA without the presence of management"). The bottom means are significantly lower than they were in the question relating to the AC's role within the internal audit function. When the means were aggregated across the five statements, this yielded overall group means of 3.69 (BD group), 3.55 (AC group), 3.36 (EA group), 3.32 (IA group) and 3.20 (EM group). As in the previous questions, the lowest mean score was produced by the executive managers, suggesting that they did not see ACs as playing a major role within the external audit function. Table 5 shows that the Cronbach's Alpha test yielded a result of 0.77 for this question.

Table 5: Descriptive Statistics on the Role of the AC in the External Audit Function

No	Statements	Group Means					Total Mean Score	Median	Standard Deviation	Rank	Cronbach's Alpha
		BD	AC	EM	IA	EA					
1.	The AC monitors the activities, resources, expertise and independence of the EA	3.62	3.18	3.03	3.13	3.37	3.18	3.00	1.09	4	0.77
2.	The AC reviews the findings of the annual audit	4.05	3.65	3.57	3.58	3.54	3.62	4.00	0.98	1	
3.	The AC reviews and investigates the audit fees	3.52	3.59	3.28	3.65	3.37	3.46	4.00	0.99	2	
4.	The AC meets the EA without the presence of management	3.43	3.77	2.92	3.00	3.17	3.10	3.00	1.08	5	
5.	The AC recommends the appointment and replacement of the EA	3.81	3.59	3.20	3.25	3.34	3.33	3.00	1.10	3	
	Overall Group Means	3.69	3.55	3.20	3.32	3.36	3.32	-	-	-	

BD: Board members AC: Audit committee members EM: Executive managers IA: Internal auditors EA: External auditors

Figure 3 reveals that 58.3% of the survey respondents agreed with statement 2, while just 37.6% agreed with statement 4, but a huge 30.3% of participants were uncertain whether this responsibility is performed by ACs. These findings suggest that ACs in the LBS are not yet performing the full range of tasks necessary to carry out their role within the external audit function. This is in line with several previous studies that have found that external auditors generally see ACs as doing little to promote their work (Cohen et al., 2002; Turley and Zaman, 2004).

Figure 3: Overall Results for Respondents' Perceptions of the Role of the AC in the External Audit Function

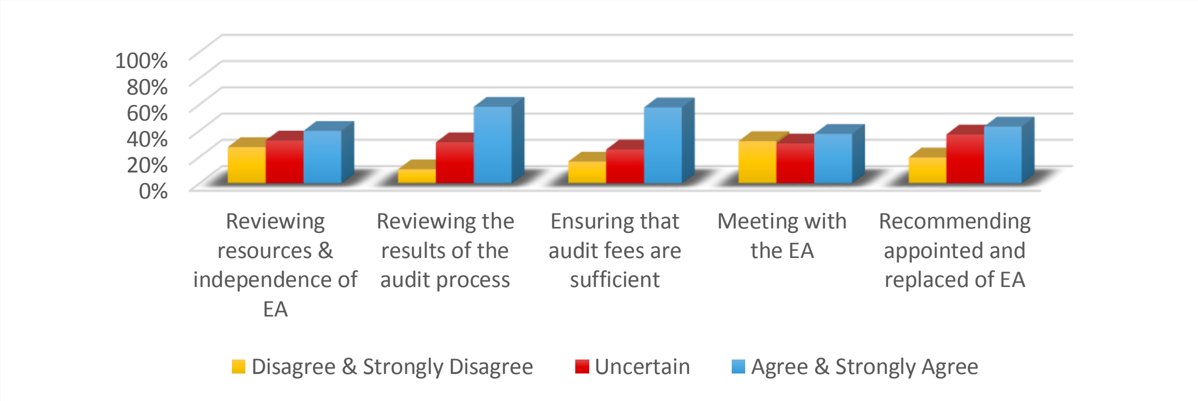


Table 6 shows no significant differences among the groups apart from on statement 4, which generated a p-value of 0.02 when the Kruskal-Wallis test was conducted. This statement concerned ACs meeting with external auditors without the presence of the management. However, when the Mann-Whitney test was conducted, significant differences emerged between pairs of groups on all but one of the statements. The higher level of support expressed for these statements by the BD and AC groups may be due to the fact that these groups are the most familiar with this aspect of the AC's role.

Table 6: Results of Between-Group Comparisons on the AC's Role in the External Audit Function

NO	Statements	Kruskal-Wallis	Mann-Whitney Test - P-values									
			BD-AC	BD-EM	BD-IA	BD-EA	AC-EM	AC-IA	AC-EA	EM-IA	EM-EA	IA-EA
1.	The AC monitors the activities, resources, expertise and independence of the EA	0.12	0.26	0.01*	0.04*	0.57	0.53	0.75	0.57	0.48	0.11	0.24
2.	The AC reviews the findings of the annual audit	0.32	0.11	0.04*	0.03*	0.24	0.86	0.82	0.90	0.96	0.74	0.73
3.	The AC reviews and investigates the audit fees	0.37	0.74	0.34	0.77	0.70	0.23	0.86	0.55	0.05	0.64	0.35
4.	The AC meets the EA without the presence of management	0.02*	0.24	0.03*	0.08	0.46	0.00*	0.01*	0.11	0.67	0.34	0.53
5.	The AC recommends the appointment and replacement of the EA	0.09	0.56	0.01*	0.01*	0.19	0.15	0.22	0.54	0.84	0.45	0.60

*P < 0.05

The modest levels of support expressed by the survey respondents regarding the AC's role in the external audit process are consistent with Cohen et al. (2002) and Bédard and Compernolle's (2014) findings that ACs tend to play a less significant role in this process than they do in the internal audit function. On the other hand, the interviews showed that many ACs do play a positive role in the external audit process, and that this contribution is valued. For example, several interviewees pointed to the committee's work liaising and resolving disagreements between external auditors, the board of directors and managers. Researchers are divided on the AC's effectiveness in this regard, with some arguing that such mediation is well within the power of a high-quality AC (Turley and Zaman, 2004; Keune and Johnstone, 2012) and others describing external auditor scepticism at the ability of these committees to address disagreements with management (Cohen et al., 2002). This scepticism on the part of external auditors may also explain the difficulties some ACs have when it comes to extracting information about deficiencies in the bank's control systems. Cohen et al. (2008) argue that external auditors should talk to the AC about any concerns and weaknesses within the organisation, but it seems that at present, this communication is often inadequate (Goff, 2013) – a problem compounded, according to Alrshah and Fadzil (2013), by the generally poor standard of external auditors in Libya. This significantly undermines the committee's ability to enhance the independence, effectiveness and objectivity of the external audit process.

4.4 The Impact of The Shift to Islamic Law

The transition from conventional into Islamic institutions is being made more difficult for many banks because of the speed at which this transition is taking place and pre-existing weaknesses in the banking environment. Given that the rapid shift to Islamic banking has the potential to significantly impact governance mechanisms, including AC, investigation of this topic was restricted to the interviews, where it was possible to elicit more detailed and nuanced responses from the participants.

When the interviewees were asked about the impact the transition to Islamic law is having on CG and AC practice in the LBS, the most optimistic response came from the board chairman of one of the state banks, who asserted that careful planning of the transition in his bank has meant that the application of Islamic law has had no adverse impact on CG or the AC. He stated that:

"Although the bank only began to implement Islamic law at the beginning of 2013, we have been steadily creating an Islamic banking business and have made a profit this year. I support the shift to Islamic banking, but we prefer the application to go step by step. There is an integrated plan for the bank to shift from the traditional system to the Islamic regime, so the application is not impacting on the work of the bank or its governance or AC".

However, the incorporation of Sharia into their commercial practices has different actions from those in conventional banks (Aribi and Gao, 2010), including their approach to CG (El-Halaby and Hussainey, 2016), particularly, because of the speed at which this incorporation is taking place in LBS. Thus, other interviewees were more concerned at the pace of the change, with the majority saying that the initiative is being pushed through too quickly in a banking environment that is already weak. The AC chairman from one mixed ownership bank was highly critical of the impact the rapid transition is having on the LBS and CG:

"In my view, the sudden application of Islamic law has significantly affected the work of banks and also CG and ACs. This sudden transition has caused a financial crisis for the LBS, without any solutions. Millions of Libyan Dinars have been lost because the traditional banking system has been stopped before the Islamic system is working as it should".

The deputy head of Islamic banking from another mixed ownership bank expressed similar concern that the scale and pace of the shift may impact on CG and the AC:

"This is a new idea in Libya, and the bank is still in the early stages of shifting towards the Islamic system. We still need to change the systems used in the bank by retraining staff, changing the electronic system and the bank's financial statements, as well as forming a Sharia committee of three people. It might be preferable to make the shift gradually because a rapid transformation will affect the bank and hence governance and the AC".

The finding that the rapid enforcement of Islamic law in the LBS is likely to adversely affect practice in some banks is consistent with the UK Trade and Investment Report's (2014) conclusion that the transformation is being made more difficult by weaknesses in the Libyan banking environment. The interview findings also support Zaed et al. (2016), who note the lack of support from the CBL and the lack of trained staff, and Abdalla et al. (2015), who argue that Libya does not currently have the qualified staff or Islamic capital market it needs to transition successfully to Islamic banking. Finally, the study echoes Abdulsaleh (2017) and Elkrghli and Yahya (2018) in finding that many banks are still in the early stages of transformation. Although generally supportive of this transition, most interviewees wanted to see it happen gradually so that banks can learn from the experience of other countries and properly address the challenges associated with changing electronic systems and financial statements, retraining employees, establishing Sharia committees and implementing AAOIFI standards. Even so, some were optimistic that Islamic law can be applied without any adverse impact on CG or ACs. These interviewees echoed Stela and Bardai (2013) and Masoud (2014b) in believing that Islamic finance will play a prominent role in Libya's long-term economic growth and provide a better alternative to the conventional banking system.

Conclusion

This study seeks to contribute to the literature by exploring the role of ACs in the LBS, as perceived by the survey respondents and interviewees, and the extent to which the application of Islamic law is seen as having an impact on the role of ACs.

The AC was generally perceived to play an important role in monitoring financial statements and the internal audit function. These perceptions are generally consistent with agency theory's assumption that the AC, as a key CG mechanism, plays a vital role in monitoring and enhancing the quality of financial statements and in reducing agency costs by improving the quality of information flow between principal and agent. However, a number of concerns were expressed by the interviewees regarding the practical effectiveness of ACs in this monitoring role. It was observed, for example, that ACs in the LBS often spend too little time reviewing financial statements, instead limiting themselves to submitting reports and recommendations for discussion by the board, and that they rarely challenge weaknesses in the work of internal auditors. Furthermore, their effectiveness in monitoring the internal audit function can be undermined by a weak relationship with the internal audit department. The respondents were less convinced of the AC's importance in monitoring the external audit process – it appears that committees seldom follow-up or supervise the work of external auditors and that they have limited ability to promote their independence – though several interviewees acknowledged that many ACs play a positive role by mediating between external auditors and managers. Institutional theory may offer one explanation for this state of affairs; it may be that ACs in the LBS are primarily designed to create legitimacy outside the organisation rather than to effect radical change within it. By creating an AC, a bank signals its willingness to comply with the LCGC. This may indeed help the organisation become more effective, but an equally important driver may be that it is also likely to improve the bank's public reputation.

As far as the second research question is concerned, the study found that the LBS is still in the early stages of implementing Islamic law, and that the shift to an entirely Islamic banking system has not yet been accomplished. The findings indicate that it is not the application of Islamic law per se that is perceived as having an adverse impact on AC practice in the LBS, but the speed at which this transition is taking place. Most of the interviewees expressed concern that the transition is being made more difficult by weaknesses within the banking environment, including a lack of support from the CBL, a lack of trained staff and an inadequate Islamic capital market.

The findings suggest that greater attention needs to be paid to CG and ACs within the legal and regulatory environment in Libya; most importantly, the LCGC should be revised to place greater emphasis on the role of the AC. Banks themselves, meanwhile, need to conduct employee training and adopt AAOIFI standards in order to ensure that all their products and practices comply with Sharia rules and principles. The study contributes to the literature by offering a different perspective and new evidence from a country with its own unique business environment, culture, religion and regulatory framework. In broad terms, the findings add to our understanding of the AC's role and how these committees operate outside developed countries, but more narrowly, they have specific implications for the board and AC members and regulators (particularly the CBL) in the LBS who are attempting to enhance the effectiveness of these committees.

Although the study has achieved the research aims and objectives and answered the research questions, it is nevertheless necessary to acknowledge its limitations. The first of these is the relatively small number of participants and interviewees. Given that these individuals were offering only their own perceptions and personal experiences, the gathered data may not reflect the views of the population as a whole. Furthermore, some may have even misrepresented their views or not told the truth because they did not want to present a negative impression of their firm. Future studies might include a longitudinal investigation to examine whether AC practice in Libya becomes more closely aligned with the LCGC recommendations over time. Moreover, given the severe shortage of research in developing countries, particularly Libya, further research is required that covers companies in other sectors within the Libyan economy or within other developing economies.

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The Shortcomings of Pension System in Turkey: Solutions with a New Model Proposed

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Abstract

Investing for retirement years due to future income concerns is one of the main reasons for people to make savings. Pension funds have always been important tools that match the idea of future investments. Despite the rapid development and increase in the size of the Turkish pension system in the last few years, major improvements and amendments in the current system are required for increasing the total size to OECD level, as well as attracting more participants by increasing the returns and providing alternative investment options. This study investigates the Turkish pension system and suggests a new model to solve the current problems of the system by structuring a sustainable model which may also be applied worldwide. A comprehensive pension system and comparative return analysis of different investment tools are conducted, and the new model is proposed based on creating a new pool of new investment tools consists of asset-based capital market instruments that are issued for long-term specific investment projects financing. While the new model brings a new perspective to the pension system, it also helps to solve the problems of both the current pension system and the financing of investment projects. In the study, policy recommendations and suggestions for major amendments to current pension system regulations are also made.

Keywords: Pension system, Interest-free investments, Asset-based financing

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Introduction

Investing for retirement years due to future concerns is one of the main reasons for people to make savings. Pension funds have always been important tools to match the idea of future investments. Pension is mainly an investment option to prepare people with an income when they are no longer getting a regular income. Mitchell and Fields (1996) define pensions as a benefit paid to employees who retire from their jobs after reaching a prearranged age. They named this benefit as "annuity" when it is paid periodically and regularly from the time the employees retire until death. Alternatively, if a single payment is made upon retirement, it is called a "lump-sum benefit." If a payment is made to an employee who leaves the company before reaching retirement age, this is not considered as a pension; but called as a "severance payment." Ruzgar (2008), defines the private pension plans as the combination of ratios of different investment tools. Among different fund mixes including bonds, stocks, bills that allow the participants to choose to invest in through pension funds, the interest-free investment options such as sukuk, gold, stocks of participating banks and real estate are also other investment options for the participants.

According to the OECD Pension Market in Focus Report 2018, as of the end of 2017, the total size of private pension assets reached to USD 43,4 trillion worldwide. The simple and weighted average of the representation of the pension funds as a percentage of GDP is 50.7% and 133.6% respectively in OECD countries. In Turkey, the history of the establishment of pension funds backs to 2003. Although the regulations about pension funds were issued in 2003, the pension funds in Turkey started growing only in 2013, soon after the amendment made to the law that provides additional 25% state contribution to the savings of the participants. As of January 2019, the total amount of the private pension funds and the total number of participants reached to around 90.3 billion TL and 6.85 million respectively. The government also started a new Auto Enrolment System in 2017, and within 2 years, the total size of the savings accumulated in this new system reached to 4,8 billion TL with 5 million participants. Although there is an increase in the total savings within last 6 years, the size of the pension funds in Turkey represents only 2.6 % of GDP of Turkey, which is far below the OECD average (Pension Monitoring Center, 2019, OECD Pension Report, 2018). Despite the 25% incentives provided, the average contributions of the participants are very low. Another problem that is needed to be resolved is the opt-out rate from the new Auto Enrollment System which exceeded 50% (Pension Monitoring Center, 2019). It is obvious that the Pension System in Turkey needs restructuring.

In that context, in this research, the pension system in Turkey is examined, and a new sustainable model is introduced. First, the current pension system of Turkey is explained, and the major problems are defined. Then, a comparative return analysis of different investment instruments is conducted. Finally, the new model which is based on creating a new pool of investment tools consists of asset-based capital market instruments that are issued for specific long-term investment project financing is explained. The model is structured by not only aiming to find solutions to problems of the current pension system and large investment project financing but also creating a sustainable approach that may also be applied worldwide. In the study, policy recommendations and suggestions for major amendments to current pension system regulations are also made.

1. Literature Review

There are very wide researches in the world that focus on different aspects of pension systems. According to the research Mitchell and Fields (1996) made about designing pension systems in developing countries, in order to reduce the individual, employer, investment and national risks, the pension systems should be compulsory, should maintain a strong tie between benefits and contributions at both the individual and generational levels, should be able to invest the contributions in a reasonably globally-diversified portfolio, should be fully financed, only the elderly people should be benefited, should make monthly payments rather than making payments at once.

Attah-Bochwey (2014) analyzed different pension models in order to figure out the best practices and find out the weaknesses of the existing systems. He examined the systems in Chile, Switzerland, and Singapore and concluded that all the three systems are mandatory systems and cover all the employees except for self-employed, the financial resources collected in pension funds are very closely related with the national income in all three countries and the financial performances of the pension funds are remarkable including Chili which is experiencing high inflation problems. He also recommended that decreasing the cost of operation and improving its investment income are important to extend the life of the reserves of the social security pension funds and in order to increase the long-term savings, increasing the fund choices is important.

Ionescu (2013) suggested that the pension systems should consist of five pillars: social pension which provides a minimum protection, contributory system tied to wages; mandatory system corresponds to savings accounts, voluntary system based on individual payments, defined benefits or defined contributions paid by the employer and finally an access to healthcare and housing for supporting the senior people. According to Park and Estrada (2012), the last pillar is important in countries where parents used to be supported by their children in their old age. In their studies they made about the challenges and reform efforts for public pension systems in Asian countries, they defined the biggest failure of Asian pension systems as the high costs of transactions, the nonexistence of robust governance, poor-designed adequacy, affordability, robustness, and sustainability of the system and inadequate coverage of the population.

World Bank Human Development Network prepared a study in 2008 about the impacts of the financial crisis on the pension systems in emerging countries. According to the report, the pension funds as long-term investment instruments should be protected from sudden strategy changes and in order to be able to manage risks, the pension systems should be diversified and strengthened.

Howell (1958) listed the major points one should take into consideration when investing in pension funds as; safety of principal, the certainty of return, adequacy of return, tax aspects, marketability, liquidity, capital appreciation, collateral value, freedom from care and maturity. Ambachtsheer et al. (1998) studied the main parameters that affect the fund performance as fund size, passively managed asset rates, and the quality of the fund's organization structure. They suggested that if the elements of the fund organization are developed, the pension fund performance can get improved. Shehu (2011) listed the financial risks of pension funds as labor income risk, inflation risk, interest rate risks, investment and annuity risk, pension fund manager’s risk not being company owners, longevity risks, lack of intergenerational risk transfer, asset mix policy risks and exchange rate risks and recommended an establishment of enterprise risk management unit in the pension funds.

Murphy and Musalem (2004) analyzed the effect of the accumulated savings of pension funds financial assets on national saving by conducting a panel data of 43 countries including several developed and developing countries. They concluded that while the voluntary based pension systems do not positively affect the national savings, the mandatory based system might have a positive impact on national savings.

There are some important studies that needed to be highlighted for interest-free pension funds made in the US and the UK. Moran (2012), in his study, seek the answer for whether Muslims can make investments in their employers’ private pension plans by taking into consideration their religious principles in the US. He pointed out that most of the investment tools included in the American pension plans are not appropriate retirement instruments for Muslims. This situation makes the Muslims either to violate their religious beliefs or losing investment opportunity as they wait for the capital markets to provide alternative instruments compliant to their religious expectations. Manjoo (2012), investigated whether the pension system is suitable for Muslim philosophy and its compliance with Sharia rules in the UK. The results of the study exhibited that the idea behind the pension system is appropriate to the rules of Sharia which includes protection of life, family and wealth in the condition to be careful to annuities and nominees which are not allowed in Islamic law. The author also suggested a model including Sharia-compliant fund offered to British Muslims via National Employment Savings Trust (NEST).

The pension system in Turkey is studied in different aspects. Sonmez (2012), by using the Analytic Hierarchy Process (AHP), studied the criteria that determine the choices when entering a private pension system, and he concluded that minimum payment amount, fee for enrollment, level of risk, management costs reductions, fund operating annual costs and company reputation are the most important criteria for the people when they decide to enter the system.

Ural and Adakale (2009) analyzed the risks for the individual pension funds and concluded that while the stock funds are the factors which increase the total risk maximally; the public borrowing instruments increase the risks minimally. Korkmaz et al. (2010), studied the factors that affect the number of contributions paid by the participants to pension funds from January 2004 to July 2009 in Turkey. According to the results of their analysis, they concluded that the financial and macroeconomic factors have an influence on the contributions on the payments made by the participants for the individual pension system. Increase in the value of Euro, Istanbul Stock Exchange Index (BIST) and industrial production parameters were listed as having a statistically positive effect on the contribution.

Kaya (2013) compared the participating banking with conventional banking in terms of pension fund returns and recommended more interest-free investment option with stable returns. Icke and Akbaba (2015) analyzed the performance of Islamic pension funds by comparing their returns with some benchmarks including BIST 100 Index, the risk-free rate in Turkey (which is yield of 3 years bonds), and gold index. Their results exhibited that except 1 among 31 funds investigated, Islamic funds perform better than the benchmarks used in the study.

Gokcen and Yalcin (2015) investigated the active pension funds in Turkey and pointed out the risks that the participants carry due to the poor management of the fund managers and underlined the inadequateness of current pension fund choices.

Akgiray et al (2016), in the study they compared the pension systems of Chili and Turkey suggested that by attracting infrastructure and real estate funds to invest in Turkish real estate markets through the auto-enrolment pension funds will help sustainable and high growth and will contribute to weaken the dependency of financial markets to the banking system. Before structuring the model, it is important to know about the dynamics, current regulations and the problems of the pension system in Turkey.

2. Pension System in Turkey

The history of the individual voluntary pension system in Turkey backs to 2003. Although in the early years, it could not attract the interests of the citizens, pension funds started growing in the last few years after the state contribution incentive which started in 2013. In the new regulation issued in 2013, the state started depositing 25% of the investment amounts of the participants' savings. Since then, the size of the pension funds and the total number of participants doubled. As of the beginning of 2019, the total fund size reached its peak at 90.3 billion TL and the number of participants increased from 4 to 6.85 million. Although the growth rate considerably decreased in 2018, the average yearly growth rate of the total fund size was reported as 19.80% (Pension Monitoring Center, 2019). Considering the sharp increase in both, the number of participants and the fund size, the total assets of the pension funds report 2.6% of the total GDP of Turkey, which is far below the OECD average. The increasing number of exits from the system is another critical signal for future projections.

In 2016, the government issued a new regulation to increase the size of the pension funds by auto-enrolling all the employees under the age of 45 to the system, effective by January 2017. Even though for those who are working it is mandatory to be enrolled in the system, it is free to leave after two months. In this new regulation, In addition to the 25% incentives, the government deposits 1.000 TL to each participant's pension account under some certain conditions. If an employee prefers to stay in the system after getting the right for retirement and ask for annuity instead of a lump-sum payment, the government deposit additional 5% incentive to the participant’s account. Within 2 years, the total size of the savings accumulated in this new system reached to 4,8 billion TL with 5 million participants (Pension Monitoring Center, 2019). It is aimed to include 14 million participants in the system by the end of 2019 (Insurance Association of Turkey (TSB), 2017).

Pension system targets long term savings but in Turkey, the average contract's term is 3.4 years. That seems another important problem. The monthly contribution of the participants is 233 TL, and the exit rate from the newly introduced auto-enrollment system is 54% during the two-month opt-out period. High expenses or indebtedness (71%), lack of affordability (56%), and lack of confidence in long-term investment (35%) are listed as the three most common reasons for opt-out. (Insurance Association of Turkey, 2017). That is also another big problem that is needed to be resolved.

In Turkey, the portfolio distribution of the pension funds consists of mainly treasury bills, corporate bonds, foreign securities, stocks and time deposits. Figure 1. shows the breakdown of the pension funds investment tools. The inadequateness of the interest-free investment options seems another problem for the people with religious concerns to enter the system.

The major problems of the current pension system are summarized below:

1. Despite the 25% incentives, the monthly contribution of the participants is too low, and there is a decline in the participants of the voluntary pension system in 2018. (Insurance Association of Turkey, 2017)

2. It has only been 2 years that the auto-enrolment is in force, but the opt-out rate from this new system is too high. (Insurance Association of Turkey, 2017)

3. The auto-enrolment system does not cover the people elder than 45 years old, the age group with higher income. (Pension Monitoring Center, 2019)

4. Although in the long-run pension funds provide a hedge against inflation, in the short-run, high-interest rates on time deposits, investing in precious metals such as gold separately and the traditional saving behaviors based on housing investments seem more attractive for Turkish citizens.

5. The current investment options are not adequate to attract more participants.

6. The current interest-free investment tools included in the pension fund alternatives are not enough to invite or keep people in the system with religious concerns.

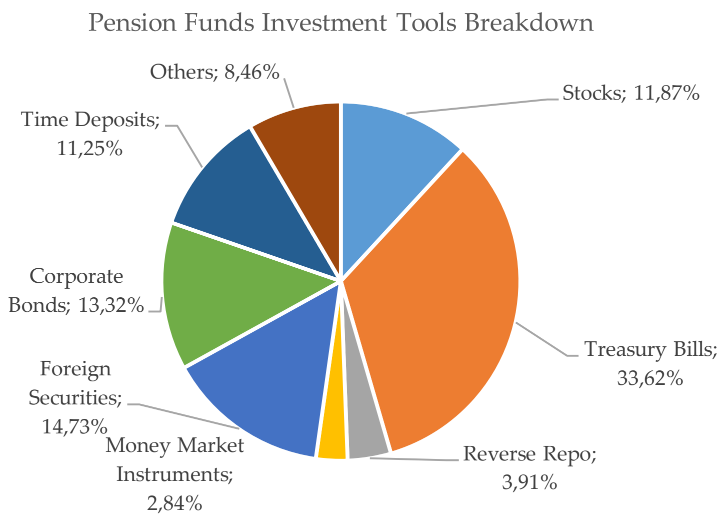
7. The sustainability of 25% of government incentive is questionable.

8. The structure of the pension system is changing very often. A more stable system with core principles is needed.

9. The fee structure which is based on a fee accumulated from the total contributed amount is not fair and needs to be restructured in accordance with the Islamic perspective.

10. The return rates of pension funds are not attractive enough to invite more participants.

Figure 1: Pension Funds Investment Tools Breakdown (SPK, 2018)



In that context, for a sustainable and a strong pension system, the current system is needed to be restructured.

3. Data, Research Methodology and Analysis

This study covers the period between October 2003, the date pension system came into effect and December 2017, the latest return information obtained from Pension Monitoring Center. The index and monthly return data of the average return of pension funds, treasury bills both in TL and foreign currencies, stocks (BIST 100), currency basket and CPI-consumer price index were obtained from the Pension Monitoring Center (PMC, 2019).

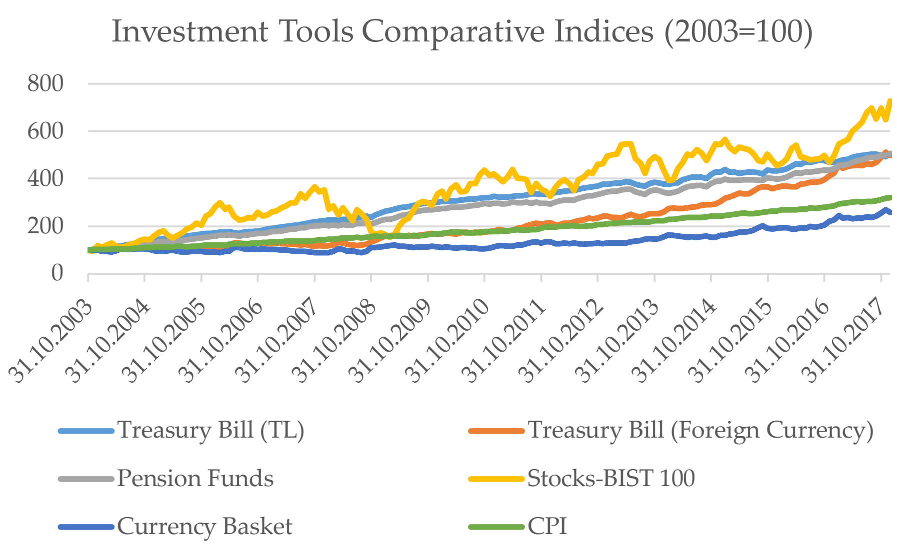
Table 1: The Collected Data

Variables	**Data Source**	**Period**
Average Returns of Pension Funds	Pension Monitoring Center	October 2003-December 2017
Average Returns of Treasury Bills (TL)	Pension Monitoring Center	October 2003-December 2017
Average Returns of Treasury Bills (Foreign Currencies)	Pension Monitoring Center	October 2003-December 2017
Average Returns of Stocks-BIST 100	Pension Monitoring Center	October 2003-December 2017
Average Returns of Currency Basket	Pension Monitoring Center	October 2003-December 2017
CPI – Consumer Price Index	Pension Monitoring Center	October 2003-December 2017

The average comparative return analysis, together with the Coefficient of Variation analysis are conducted by using the monthly return data of the variables. Coefficient of Variation (CV) is a measure used to calculate the total risk per unit of return of an investment. The ratio between the standard deviation of an investment by its average return gives the CV. Coefficient of variation provides a standardized measure of comparing the risk and return of different investments. The lowest coefficient of variation provides a better investment option for rational investors as the risk-averse investors aim to reduce their risk per unit of return. (Abdi, 2010)

Coefficient of Variation =Standard Deviation of the Investment/ Average Return of the Investment

Figure 2: The Investment Tools Comparative Indices (PMC, 2017)



The PMC accepts the date of the pension system came into effect as the 100 indices (2003=100), and within 14 years, the returns of the stocks in BIST 100 overperform the rest of the investment instruments. While providing a hedge against inflation, the average returns of pension funds are the same as the returns of treasury bills. That is because the major investment tools that the pension funds invest in are the treasury bills.

Table 2: The Average Returns, Standard Deviations, and Coefficient of Variation (EGM, 2017)

Period (2003-2017)	Treasury Bill (TL)	Treasury Bill (Foreign Currency)	Pension Funds	Stocks-BIST 100	Currency Basket	CPI
Average Returns	0,0097	0,0098	0,0097	0,0148	0,0062	0,0069
Standard Deviation	0,0130	0,0248	0,0137	0,0786	0,0361	0,0075
Coefficient of Variation	1,348	2,530	1,410	5,306	5,824	1,094

According to Ural and Adakale (2009), the stock funds are the factors which increase the total risk maximally and the public borrowing instruments increase the risks minimally. The results of the analysis are parallel with the findings of Ural and Adakale (2009) and the study of Sonmez (2012) who listed the level of risk as one of the decision criteria for the participants when considering entering the system Although the stocks have higher returns than the rest of the investment tools, it has the second highest coefficient of variation (CV), which means investing in BIST 100 stocks are risky. The riskiest investment tool is the currency basket. In the long run, it has also the lowest return. That is needed to be questioned while considering the currency basket as an investment option.

4. The New Model Suggested and Discussions

The New Model

According to the HSBC Future of Retirement Turkey Report (2015), pension funds are the second choices of both for working and retired people in Turkey for future investments. The same report underlines that the savings of the Turkish people will be enough only 8 years after retirement, and the rest of 18 years, far above the world average which is 7 years, a new source of income is needed. 79% of the people who are working and 81% of retired people perceive the real estate investments as an important source of collecting income from monthly rents they get when they are retired. 33% of the people do not make enough savings because they make school payments for their kids and 32% of them pay their mortgage loan instead of enrolling to a pension plan (HSBC, 2015).

The results of the HSBC report open a path to combine pension system with real estate investments, as well as providing side incentives to participants, such as getting discounts for tuition fees, medical examinations, etc.

According to the report prepared by the Insurance Association of Turkey (TSB) in 2017, the reasons that people are leaving the auto-enrolment system are listed as;

- Lack of trust due to the bad experiences about past regulations,
- The age limit set as 56, and the participants perceive that this age limit is not for their benefits but protecting the system,
- Being suspicious about the system where people think that the government set this system to create additional sources for treasury,
- Being able to withdraw the accumulated savings due to insufficient salaries,
- The investment tools that carry interest on is against their belief,
- The bad return performance of the funds,
- 41% of them are already in the voluntary pension system.

The report of TSB underlines the trust, sustainability, return performance and the negative effect of voluntary and auto-enrolment systems to each other.

According to the Katilim Emeklilik January 2019 Report, the total size of the interest-free funds reached to 12.1 billion TL. Despite the inadequateness of the interest-free fund options, there is a sharp increase in the total size, as the total savings directed to interest-free pension funds were 1,4 billion TL in January 2015.

Table 3: Interest-Free Funds Size vs. Total Funds Size (Katilim Emeklilik, 2019)

Date	Interest-Free Funds Size (billion TL)	Total Funds Size (billion TL)	Interest-Free Funds/Total Funds
January 2015	1,4	38,13	3,67%
January 2016	2,2	47,98	4,59%
January 2017	3,24	60,814	5,33%
January 2018	6,1	79,5	7,67%
January 2019	12,1	92,7	13,05%

Figure 3: The Growing Rate of the Interest-Free Funds (Katilim Emeklilik, 2019)

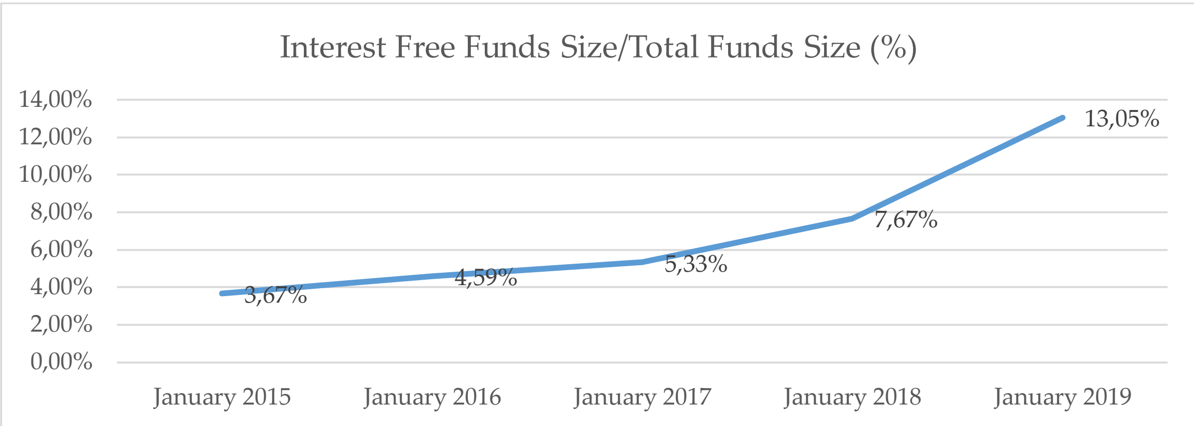


Table 4: Expert Profile of the Focus Group

Number	Title	Experience Area	Experience	Education Level
1	Academician	Working as a professor of finance at one of the most prestigious universities in Turkey and ex-chairman of the capital market boards	More than 30 years	PhD
2	Academician	Working as an associate professor of construction management at one of the most prestigious universities in Turkey	More than 15 years	PhD
3	Academician	Working as an assistant professor of finance at one of the most prestigious universities in Turkey and ex-manager at central securities depository	More than 20 years	PhD

4	Academician	Working as an assistant professor of econometrics at one of the most prestigious universities in Turkey	More than 10 years	PhD
5	Chairman	Working as the chairman of one of the largest banks in Turkey	More than 30 years	BA
6	Chairman	Working as the chairman of a real estate sales company	More than 30 years	BA
7	Chairman	Working as the chairman of a fund management company	More than 25 years	PhD
8	Management Consultant	Working as a management consultant, experienced in finance and insurance industry	More than 25 years	BA
9	Coordinator	Working as a technical coordinator for one of the largest EPC contractors, experienced in infrastructure projects financing	More than 15 years	MBA
10	Director	Working as an asset director for a real estate development company, experienced in fund management and real estate	More than 15 years	MSc.
11	Director	Working as investment director for an investment company, experienced in finance, real estate, and banking industries	More than 15 years	MA

In that context, the new model suggested in this study is structured based on; traditional investment behaviors of the people by combining the future expectations, taking into consideration religious and social concerns and expenditure plans and building a trust on the system.

The model is integrating the long-term investment project financing with pension funds long-term savings. After the model was structured, a set of discussion was made with the experts in the real estate industry, finance, insurance, fund management, and capital markets and took its final shape after their contributions. The profile and experience of the experts whom the model discussed are shown in Table 4.

All the experts whom the model discussed with, gave positive feedback about the structure of the model and its contribution to the Turkish pension system, capital markets as well as the future development of long-term investment project financing and their impacts to the growth of the economy.

The common idea of the experts was the need for new and amended regulations to be issued and strong governance requirement. Such an important model can only be successful by the support of the government and important policy implications on this issue. One important point that was underlined was the sustainability of the model. The model which is capable of financing large scale projects may accomplish this with sustainable fund flows from pension savings. This can be achieved with the successful operations of the projects financed and the returns the investors get by investing in the instruments proposed in the model. Figure 4 describes the main concept of the model proposed, and an example of the framework of the model for city hospital projects is provided in Figure 5.

The city hospitals in Turkey, which are very popular investment tools regulating under PPP model may be financed by Islamic hospital REITs, and both local and international investors, especially the financial institutions which are currently funding these hospitals would be interested in purchasing the shares of these newly established Islamic hospital REITs. There are very remarkable examples of Islamic REITs that fit the model as Islamic investment tools. Among these, Al-'Aqar Healthcare REIT, established in Malaysia in June 2006 and was listed in the Main Board of Bursa Malaysia in August 2006 is a good example for hospital project financing in Turkey. Al-'Aqar Healthcare REIT was originally established to own and invest in Shariah-compliant properties which comprise 6 hospitals. Since its establishment, the number of properties increased from 6 to 22 properties in Malaysia. They also developed one healthcare project in Australia. (Al Aqar, 2017). Ripain and Ahmad (2016) analyzed the performance of Al-'Aqar Healthcare REIT in between 2006 and 2015. They used trend analysis focusing on dividend distribution per unit and net asset value (NAV) of the company. Their results exhibited that Al-'Aqar Healthcare REITs has the capability to attract investors. The dividend distribution per unit and net asset value have an upward trend because it is backed by various quality assets.

Energy and infrastructure projects are also other investment areas that Islamic REIT, as well as infrastructure REITs may invest in, due to their nature of complying to Shariah principles. Combining the PPP models with infrastructure REITs may also be another option for project financing. According to the report published by Deloitte in 2010, both brownfield and greenfield infrastructure projects are recommended to be financed by REITs. This may bring liquidity, incremental stability, capital market access and taxation advantages.

The second Islamic REIT, Al-Hadaharah Boustead REIT, with an initial investment in palm oil plantation was established in February 2007. The third Islamic REIT and world's first Islamic industrial/office REIT, Axis REIT, was initially launched as conventional REIT in August 2005 but subsequently restructured to be Shariah-compliant in December 2008. Both of these REITs were also Malaysian based.

Figure 4: The Model Proposed

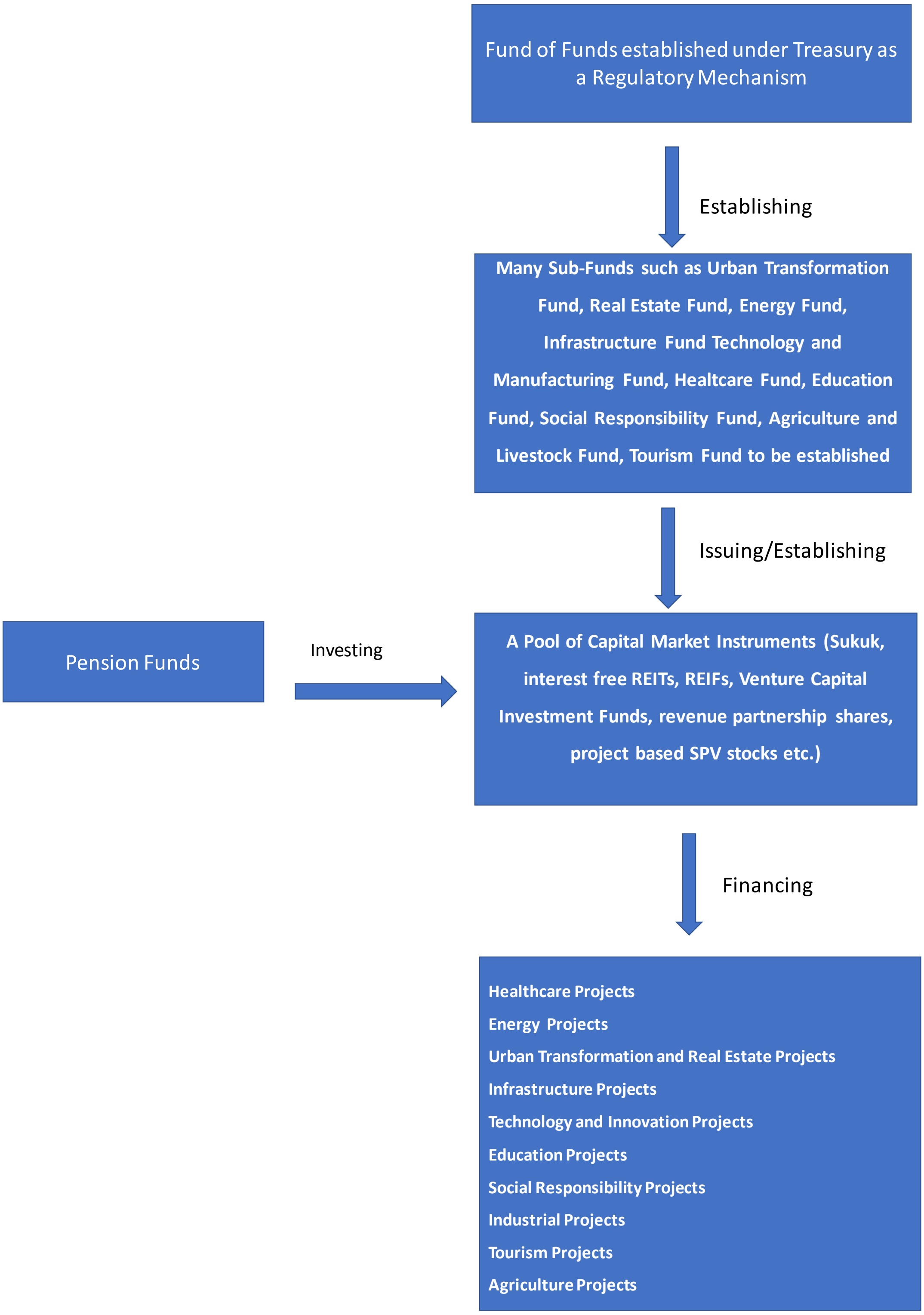
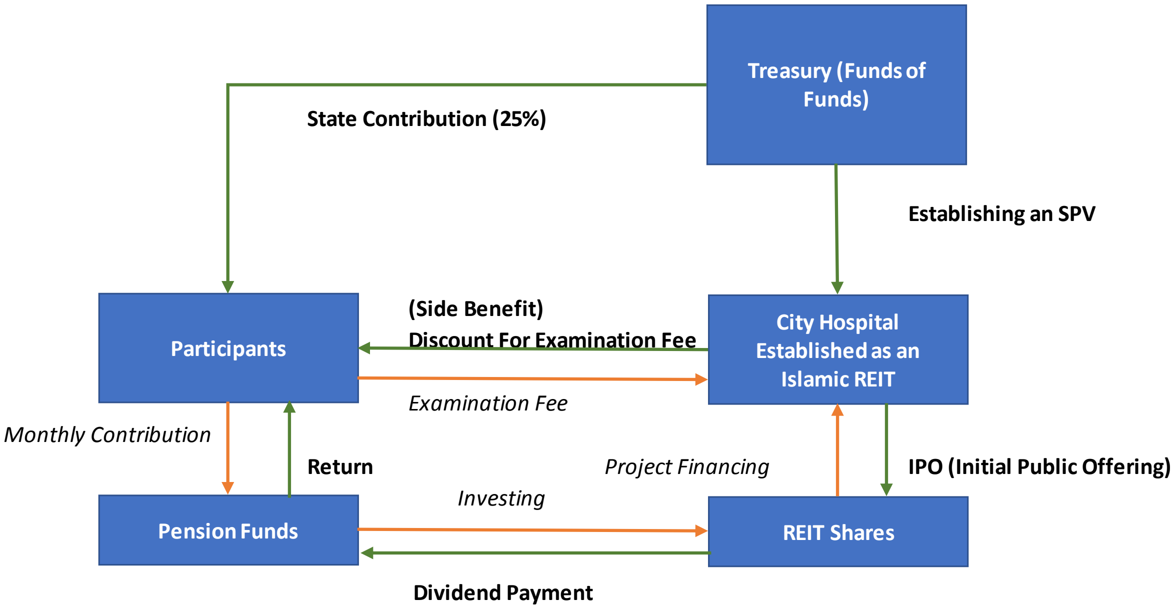


Figure 5: The Framework of the Model (An Example for City Hospitals)



Razali et al (2015) investigated the risk-adjusted performance analysis between Islamic REITs (Is-REITs) in a mixed-asset portfolio in between November 2008 and December 2014. They compared Is-REITs in a mixed-asset portfolio consists of shares and bonds and their results exhibited that Is-REITs outperform both shares market and bonds market.

Table 5: Islamic REIT Performance (Razali et al, 2015)

	Shares	**IREITs**	**Bonds**	**Cash**
Average Annual Return	16,18%	26,02%	3,46%	0,45%
Average Risk	10,48%	14,30%	3,23%	1,46%
Risk/Return Ratio	0,65	0,55	0,94	3,24
Sharpe Ratio	1,5	1,79	0,93	
Rank	2	1	3	

Mohamad (2016) analyzed the performance of Shariah real estate investment trusts with conventional ones and her results provided evidence indicating that the two performances of two structures are significantly different, and performance of Islamic REITs were found better compared to conventional REITs.

From the global cases, it can be concluded that Islamic REITs can invest in many different investment areas including healthcare, retail, manufacturing, technological, and industrial and warehouse and logistics project in the condition to comply the Islamic law principles. These investment areas support the idea of providing financing through Islamic REITs for large government projects including city hospitals, technological investments, and energy and infrastructure projects.

In the world, there are also many types of REITs established for different purposes, including apartment REITs, correctional facility REITs, data center REITs, diversified REITs, farmland REITs, government and defense REITs, healthcare and senior housing REITs, hotel REITs, industrial REITs, infrastructure REITs, life science REITs, mall REITs, manufactured housing REITs, mortgage REITs, residential single-family and property REITs, retail REITs, self-storage REITs, student housing REITs, timberland REITs (Investsnips, 2017, REITs, 2019). Some of these types of REITs may also be established in Turkey by issuing additional regulations and amendments.

Sukuk is another investment instrument that is capable of providing financing for large projects. Sukuk may finance many projects in Turkey including universities, technology start-ups, large renewable energy and infrastructure projects.

The sukuk market, although slowed down in 2015. is still one of the pioneer markets of Islamic finance. The total global sukuk issuance reached to 767.1 billion USD as of 2015 (IIFM, 2015). Khazanah Nasional Berhad, the Malaysian sovereign wealth fund, is one of the major active players in the Islamic capital market in terms of sukuk issuances and equity investments. In Dubai, UAE, the Emirate's sovereign wealth fund and the Investment Corporation of Dubai, are also issuing sukuk for Sharī'ah-compliant investments. There are many diversified areas that sukuk is used for financing. Among these areas, three interesting cases which may be suggested as complementary financing tools to the model were selected. In order to support life-saving health and immunization programs in the poorest countries of the world, the International Finance Facility for Immunization ("IFFIm") issued a truly landmark transaction in Islamic finance – a $500 million "Vaccine Sukuk" in December 2014. The issue was one of the largest debuts Sukuk issued by an international entity, as well as the first fully "socially responsible" Sukuk issuance in the international capital markets. Another socially responsible Sukuk, called Sustainable and Responsible Investment (SRI) Sukuk is an interesting case to be mentioned. Before discussing SRI, it is important to describe the Social impact bonds (SIBs), which are a relatively new concept to the world. SIBs are contractual commitments in the public sector to help improve social outcomes, which will eventually result in public sector savings. In a typical SIB, investors pay for the project at the beginning and then are paid based on the outcomes accomplished by the project. In this context, instead of focusing on inputs or outputs, the social outcomes are important. The outcomes are predefined and measurable. The first ever SIB was issued in September 2010 by the UK government in order to finance a prisoner rehabilitation program. The US, specifically New York City, launched a similar prisoner rehabilitation program in 2012. Canada, Belgium, the Netherlands, Germany and Australia also issued SIBs. The Securities Commission Malaysia (SC) launched its Sustainable and Responsible Investment (SRI) Sukuk Framework in August 2014 in order to enable the financing of socially responsible investments. The rising trend of green bonds and social impact bonds globally to finance a wide range of sustainable activities such as those addressing the needs of the country like infrastructure and small businesses are the main reasons behind the SC to set up this SRI Sukuk framework within an Islamic fixed income investment concept. Renewable energy or reduced greenhouse emissions, projects improving the quality of life for society, educational projects falling under the community and economic development category are the main projects that SRI Sukuk is interested in. The MYR 1 billion Khazanah Ihsan Sukuk Program is the first program approved by the SC Malaysia under its SRI Framework. Khazanah has issued a MYR 100 million tranche in May 2015 for a tenor of 7 years. The inaugural issuance proceeds termed as the 'First Sukuk Ihsan" is used to finance schools under a private school program identified for 2015. The Ihsan Sukuk is considered another milestone in product innovation in the Islamic capital market from Malaysia. (IIFM, 2015)

By issuing sukuk, companies or governments can provide financing for their real estate investment projects. From the global sukuk cases, in addition to common financial applications, it can be concluded that different types of sukuk can provide financing for social responsibility projects, educational facilities, infrastructure projects, renewable energy projects, as well as technology start-ups.

Other investment tools that are promising for start-ups is private equity/venture capital investment funds (VCIFs) and venture capital private equity investment trusts (VCPET). The model also suggests establishing VCIFs and VCPETs for technology project financing and directing the savings to these funds.

The model developed is aiming to bring solutions about the current pension system, as well as creating a new sustainable source of long-term financing for large investment projects. In the lights of the reasons and global examples mentioned above and after the suggestions and recommendations of the experts discussed with, the model is structured as follows:

1. Establishing a Fund of Funds as the main investment and financing regulatory mechanism under Treasury.

2. Establishing many specific sub-funds under the regulatory Fund of Funds. These sub-funds are suggested to invest in infrastructure, healthcare, technology, innovation, industrial, social responsibility, education facilities, renewable energy, agriculture, real estate, tourism and urban transformation projects.

3. For each specific investment project (city hospitals, energy investments, infrastructure projects, technology and innovation investments etc), it is planned to issue various capital market instruments including sukuk, green bonds, revenue partnership shares, project-based SPV stocks, establishing interest free real estate investment trusts, real estate investment funds and venture capital investment funds.

4. Directing the current and future savings of the participants in the pension funds to these new pools of investment instruments issued under the sub-funds.

Table 6 shows the suggested interest-free capital market instrument for the model proposed in Figures 4&5, the benefits and the global examples. The solutions that the model brings to the current problems of the system are summarized in Table 7.

Table 6. The Sub-Funds and the Proposed Capital Market Instruments

Number	**Sub-Category/Fund**	**Applicable Interest-Free Capital Market Instrument**	**Does current regulation support the proposed model**	**Consumer benefit**	**Government benefit**	**World Examples**
1	Healthcare	real estate investment trust	There is no obstacle to establishing a healthcare REIT in the regulation, the dividend payment should be mandatory	Side benefits/returns	No need to provide guarantees as they provide at PPP projects	Al-'Aqar Healthcare REIT, established in Malaysia in June 2006 and was listed in the Main Board of Bursa Malaysia in August 2006
2	Industrial	venture capital investment fund, real estate investment trusts		Side benefits/returns	New sources for project financing	Sabana REIT, the Singapore based and the world's largest Islamic REIT was established in 2010 and listed in the Singapore Exchange Securities Trading Limited in order to make investments industrial real estates including high-tech industrial,
3	Infrastructure	Sukuk, infrastructure real estate investment trust	There is no obstacle to establishing an infrastructure REIT in the current regulation	Side benefits/returns	New sources for project financing	
4	Technology and Innovation	venture capital investment fund, REIT	There is no obstacle to establish a technology and innovation VCIF or REIT in the regulation -	Side benefits/returns	New sources for project financing	

			the dividend payments should be mandatory			chemical warehouse and logistics, warehouse and logistics, and general-industrial projects
5	Education	venture capital investment fund	There is no obstacle to establishing a healthcare REIT in the regulation	Side benefits/returns	New sources for project financing	The Securities Commission Malaysia (SC) launched its Sustainable and Responsible Investment (SRI) Sukuk Framework in August 2014 in order to enable the financing of socially responsible investments. Renewable energy or reduced greenhouse emissions, projects improving the quality of life for society, educational projects falling under the community and
6	Energy	Sukuk, REIT, venture capital investment fund	There is no obstacle to establishing an energy VCIF in the regulation	Side benefits/returns	New sources for project financing	
7	Social Responsibility	sukuk	The social responsibility funding system is needed to be reshaped in accordance with the proposed model	Transparency	Better management for social facilities	

						economic development category are the main projects that SRI Sukuk is interested in
8	Agricultural	real estate investment trust	No obstacle in the current regulation, the dividend payment should be mandatory	Side benefits/returns	New sources for project financing	Al-Hadaharah Boustead REIT, with an initial investment in palm oil plantation, was established in February 2007 in Malaysia
9	Real Estate and Urban Transformation	real estate investment fund	The pension funds can make investments to real estate investment funds and sukuk	New interest-free investment tools/returns	New sources for project financing	There are different REITs and REIFs established in the world and Turkey
10	Tourism	real estate investment trust, real estate investment fund	No obstacle in the current regulation, the dividend payment should be mandatory	Side benefits/returns	New sources for project financing	

Table 7: Problems of the Current Pension System vs the Solutions the Model Brings

Problems of the Current Pension System	Solutions the Model Brings to the Consumers	Solutions the Model Brings to the Government
The monthly contribution is too low	Additional side incentives such as discounts for examination, tuition fees, toll fees, etc. are recommended to attract people to	The more the contribution increases, the more the government will have the opportunity to finance more investment projects.

	increase their monthly contributions.	
The opt-out rate is high	If provided reasonable returns to the consumers, the construction and operation period of the investment projects are long enough to keep them in the system,	For those who are willing to direct their savings to the pool of interest-free capital market instruments that finance investment projects, an amendment to close the exit for a certain period is recommended
People above 45 years old are not included in the auto-enrolment	An amendment that includes this age group in the system is recommended. That may increase the total savings as the age group above 45 years old have a higher income.	An increase in total savings may increase the possible financing amount for investment projects.
Returns are not attractive	The returns based on the success of the projects are expected to be higher than the current average returns	The higher returns may increase the trust in the system.
Inadequate investment instrument options	Many alternative new investment tools are recommended to be issued and included in the new investment pools	The more new investment instruments, the more the capital markets get enhanced.
Insufficient interest-free investment tool options	Asset-based new interest-free investment instruments are recommended to be issued and included in the system. That may increase the number of participants who has religious concerns	The government may provide good alternatives for investments and build trust for citizens with religious concerns.
The fixed management fee of the portfolio management companies which manage the pension funds is not Sharia-Compliant and is needed to be remodeled.	Instead of a fixed management fee, a success fee based on the return of investments is recommended. That may also provide trust for the people who hesitate to invest in the pension funds.	A success fee based on the increase in the returns is fairer and more compliant to Sharia Law. That may open a new discussion for the rest of the fund management fees.
The sustainability of 25% of government incentives	The more returns the funds make, the more participants keep staying in the system. If the side incentives	As the side incentives attract the people and as the returns get higher, 25% of

	and returns are good enough for the sustainability of the system, the people may not be affected by the decrease in the 25% state incentives.	government incentives may decrease gradually. That may help the government to direct these incentives to other investment areas.

Discussions

The new model is aimed to shift the investment direction from treasury bills and corporate bonds to the future incomes of the invested projects by investing in a pool of asset-based capital market instruments. That will increase the interest-free asset-based investment tool options and may attract people with religious concerns. If the model is applied, it is believed that the share of the interest-free capital market instruments where the current pension funds invest in will increase and the shares of the majority of interest-bearing investment instruments shown in Figure 1. such as corporate bonds, treasury bills, time deposits and reverse repo will decrease gradually.

As Akgiray et al (2016) suggested, opening the door for investing in real estate and urban transformation projects through real estate capital market instruments may match the idea of the traditional investment behavior of the people focused on home investments. Providing an alternative home buying system through the high amount of monthly contribution to the pension funds may replace the mortgage loans with high-interest rates. That may decrease the loan load of the banks and shift their focus on financing investment projects.

Financing education, energy infrastructure and healthcare projects by enabling the pension funds investing in the pool of capital market instruments issued may increase the returns as well as the side benefits for the participants. For instance, if the people direct their savings to a pool of investment instruments consists of the capital market instruments that finance the education, energy, infrastructure and healthcare projects, they may get discount for tuition fees, fees of medical examinations, energy bills and toll fees for highways, tunnels and bridges.

Directing the savings to technology and innovation projects financing through investing in venture capital investment funds issued may make the people as the shareholder of a rapidly growing and cash generating company. That may increase the returns of the participants.

In summary, the model is structured as an ecosystem where their savings will serve for increasing their welfare in their daily lives before they even get retired and get the benefits of the projects they indirectly financed through the pension fund options they selected.

Conclusions and Recommendations

The pension system in Turkey has been developing since 2013 when the government started providing 25% incentives in addition to the savings of the participants enrolled in the voluntary pension system. This was followed by the new regulation came into force in 2017, which enrolls all the people currently working under the age of 45 in the auto-enrollment system with the option to opt-out after two months. The cumulative size of the pension funds and participants in both systems reached to 95,1 billion TL and 11,65 million respectively. Although this seems to be good progress within 6 years, the rate of the total savings over the GDP is only 2.6%, very far below the OECD average (Pension Monitoring Center, 2019, OECD Pension Report, 2018). In addition, the current pension system has major problems that are needed to be resolved such as decreasing the opt-out rate from auto-enrolment system, increasing the monthly contribution of the participants, providing alternative investment instruments which include new interest free fund options, including more people in the system and creating a sustainable model by building a trust on the system.

The new model proposed in this study is aiming to bring solutions to these problems by integrating the pension system with large investment project financing based on directing the savings to the new pool of interest-free capital market instruments issued for specific investment projects. The current high-interest rates are not sustainable for financing long term projects and alternative financing tools are needed for long-term investment projects. The model also brings a solution to the financing problems of investment projects.

The model suggests establishing a Fund of Funds as the main investment and financing regulatory mechanism under Treasury and creating many specific sub-funds under the regulatory Fund of Funds to invest in infrastructure, healthcare, technology, innovation, industrial, social responsibility, education facilities, renewable energy, agriculture, real estate, tourism and urban transformation projects. For each specific investment project (city hospitals, energy investments, infrastructure projects, technology and innovation investments etc), it is recommended to issue various capital market instruments including sukuk, green sukuk, revenue partnership shares, project-based SPV stocks, establishing interest free real estate investment trusts, real estate investment funds and venture capital investment funds. Directing the current and future savings of the participants in the pension funds to these new pools of investment instruments issued under the sub-funds may bring a new sustainable approach to the pension system.

The pension funds are seeking long-term investment tools with reasonable sustainable returns where they can keep their investments for long periods. It is believed that starting with directing even a very small percentage of the total contributed amount to the new investment pool suggested in this study may create leverage for future project investments. Although the interest-free investment tools that the pension funds invest in is less than 15% (SPK, 2018), the total savings in the auto-enrolment system directed to interest-free funds is growing. For sustainable growth, new interest-free investment tools are needed. The long-term interest-free capital market instruments that finance investment projects suggested in the model seem to be a solution for increasing the interest-free investment tool options. Besides, providing side benefits such as discounts in toll fees in the highways, medication fees or energy bills may be another solution both to keep the participants in the system for long terms, to create trust on the system and structure perception of collective benefits. The increase in returns, the side benefits and the trust in the system may result in an increase in the number of the participants and the size of the funds in the system.

For those who want to direct their savings to the abovementioned pool of interest free capital market instruments which finance the long-term investment projects, the main amendment recommendation to the current regulations is making the auto-enrolment pension system mandatory for a certain period of time to get the benefits of the long-term returns of the investments and stop the opt-out process of the participants. The second important recommendation is amending the regulation by including the people elder than 45 years old, the age group with a higher income level, in the system. That may increase the total size of the pension funds. Enabling the participants, who opted-out from either the voluntary based or auto-enrollment systems within the last two years to be included in the system, and for those who want to re-enter the system, it is recommended to give them the right to receive the 25% government incentives in the condition that they deposit the minimum total contribution amount of the total duration passed since they left the system. It is also recommended to give them the right of retirement without considering the period they left the system. Providing different investment tools for different age and interest categories are also suggested. For instance, providing alternative investment/retirement options such as enabling the participants to use their savings for initial payments of home purchasing and directing their monthly contributions for paying the rest of the cost of the houses by monthly instalments based on yearly rental increases may also open a discussing for creating a real estate-based pension system that match the traditional investment behaviors of the people. Starting a new campaign to introduce the new model by announcing the pension system participants as the shareholders of the investment projects and emphasizing the side benefits may increase the interest in the new pension model.

In the model proposed, the projects are planned to be financed by the savings accumulated in the pension funds by investing in the pool of different capital market instruments. After the model provides sustainable growth and reasonable stable returns for foreign investors, the international pension funds, sovereign wealth funds, insurance companies, banks and other financial institutions may be included in the model either as co-investors or creditors. That may also increase direct and indirect foreign investments in the country.

If structured with government support and governed properly, the model suggested in this study may also increase the sizes of the private real estate investment trusts, funds, infrastructure funds, venture capital investment funds that the pension funds may invest in due to its asset-based structure. The more asset-based interest-free investment tools increase, the more funds may be involved in the system and increase the total size.

One of the main limitations of the study is the lack of the rate of returns of the real estate investment funds, venture capital investment funds and sukuk coupon rates as the history of these instruments issued in Turkey goes only a few years back. It is suggested to analyze the fund performances of the current funds. The more Islamic capital market instruments are issued, and more return data are collected, the model suggested may be more reliable and sustainable.

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Deadweight Loss in the Interest-based and the Interest-Free (Islamic) Microfinance Programs: A Comparative Analysis

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Abstract

This paper illustrates the deadweight loss in the interest-based Microfinance program compared to the interest-free or Islamic Microfinance program in terms of 'consumer' surplus, producer' surplus, loan price and the quantity demanded of the Microfinance loan. This article analyzes the secondary data on twenty Microfinance institutions of the nine countries of the world, and world microfinance data. Deadweight loss is demonstrated by using a numerical example and graphical presentation. The findings expose that consumer' surplus is at least three times higher, and producer' surplus is also higher in the Islamic Microfinance than the interest-based Microfinance program. In contrast the loan price is at least 142%-241% higher in interest-based Microfinance than the Islamic Microfinance. Consequently, the quantity demanded of Microfinance loan is higher in the Islamic Microfinance than the interest-based Microfinance. Finally this paper recommends for converting the interest-based Microfinance institution into the Islamic Microfinance institution to attain the wellbeing of microfinance member.

Keywords: Deadweight Loss, Interest-based Microfinance, Interest-free Microfinance, Islamic Microfinance, Consumer and Producer Surplus, Loan price.

Jel Codes: G21, I31, Z12

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1. Background and Motivation of the Study:

The source of financing is the soul of investment to abolish the financial vulnerability of the people as well as an institution. The bank and non-bank financial institutions finance the people with collateral, whereas the Microfinance institution finances the people who have no collateral (Yunus, 2018). Accordingly, two types of Microfinance programs have been operating around the world. These are familiar as the interest-based Microfinance (conventional Microfinance) and the interest-free Microfinance (Islamic Microfinance) program, respectively.

However, despite having some structural differences, both Microfinance programs offer financial and non-financial services. Similarly, the group lending model is the most common process of microfinance transaction among both kinds of microfinance institutions (MFIs) around the world (Mughal, 2017; Grameen, 2018). However, regarding coverage, Islamic Microfinance industry only has 10% market share in the world microfinance industry. Besides, it secures only 1 percent market share to the world Islamic finance industry that has been experiencing a 17.82 percent growth rate per year (on average) during the 2007-2017 periods (GIFR, 2017). As well, at present, about 2,420 Microfinance institutions (Gonzalez, 2008), including 255 Islamic Microfinance institutions have been offering microfinance services in the world (CGAP 2017, GIFR 2017). Moreover, interest rate or profit rate is the primary motivation or financial benefit of the microfinance transaction. In this paper, the loan price will be synonymously used for the interest rate or profit rate. The interest rate (15-35%) of the conventional or interest-based Microfinance institutions (Badruddoza, 2011; Rosenberg et al , 2013) is higher than the profit rate (0-15%) of the Islamic Microfinance institutions around the world (Mannan (2015), Muslim Aid (2018), SSNF (2018), Al-arafah (2018), Exim bank (2018), TMSS (2018), IBBL (2018), Sadegh (2009).

At this circumstance, the policymakers and researchers raise the arguments that the Islamic Microfinance ensures the maximum benefit and welfare for its member by providing the exceptional products and services compared to the conventional Microfinance program. This is the primary motivation of this paper is to focus the welfare of the microfinance member by identifying the 'deadweight losses regarding loan price' through a comparison between the interest-free and the interest-based Microfinance program. The term 'deadweight loss' is synonymous with the word 'excess burden' or 'welfare loss'. It can be defined as the loss in total surplus that outcomes from a market inefficiency or distortion, such as a tax (Mankiw, 2014). Moreover, Paul Samuelson stated the deadweight loss as the fall in real income or loss of consumer' and producer' surplus that resulted from monopoly, quotas and tariffs, taxes, or other distortions like as inefficiency in resource allocation (Samuelson & Nordhaus, 2010). Also, it can be delineated as the excess of the total harm done by the tax or any other economic distortion (Black, 1997). Finally, it can be delineated as the loss of overall well-being or the societal surplus or consumer' utility/surplus or producers' surplus that is stimulated by the economic inefficiency or the failure of optimal resource allocation & equilibrium. For example, deadweight loss is the outcomes of tax, subsidy, externality, price ceiling or price floor, and monopoly pricing.

Finally, this paper presents the deadweight loss in the microfinance program on the subject of consumer′ surplus, producer′ surplus, and quantity demand of loan. The detailed methodology has been introduced in the section four. Besides, objective and the literature review have been described in section two and three, respectively. Moreover, determinants, as well as the indicators of the deadweight loss in conventional Microfinance, are discussed in section five. As well, key findings, recommendations, and conclusion are presented in section six, seven, and eight accordingly.

2. Objective:

The prime aim of this article is to detect and expose the evidences of the deadweight losses in the conventional Microfinance program in Bangladesh and the world. More precisely, this paper investigates and highlights the deadweight losses in the traditional (interest-based) Microfinance program by comparing it with the Islamic Microfinance (interest-free) program. The specific objectives are:

a) To expose the operational differences between the interest-based and interest-free Microfinance program in terms of nature and products.

b) To identify and highlight the deadweight losses/economic losses/welfare losses in the interest-based Microfinance program in terms of consumers’ surplus, producers’ surplus and the quantity demanded of the Microfinance loan.

3. Methodology

Data:

This paper is a comparative study between the interest-based and the interest-free microfinance program. It has been designed based on the secondary data on the twenty Microfinance institutions of the nine countries of the world, and world microfinance data. This paper uses the numerical example and graphical presentation to determine the deadweight loss. Furthermore, the primary sources of secondary data were the Global Islamic Finance data (2012-2017), websites of Microfinance institutions, statistics from the Bangladesh Microfinance regulatory authority, and so more.

Methods of Analysis:

To determine the deadweight loss, this study uses the three indicators these are (a) consumer′ surplus, (b) producer′ surplus and (c) the quantity demanded of the loan from Microfinance institutions. To measure these indicators, the loan price or interest rate or profit rate, the nature of the loan, contribution to real asset building, diversion of cash loan, and the charity tools were considered in this study. To illustrate the deadweight loss, the numerical example and graphical presentation are used in this study.

However, renowned economists also employed the technique of consumer′ surplus and producer′ surplus to determine the deadweight loss. Samuelson and Nordhaus (2010) apply the consumer′ surplus and producer′ surplus to identify the deadweight loss or net economic loss through graphical comparison between the perfectly competitive market and the monopoly market. Moreover, Webster (2003) also incorporates the concept of deadweight loss in the forms of consumer′ and producer′ surplus to show the welfare scenario of monopoly. He also described it mathematically. Besides, Samuelson and Stephen (2011) explained the deadweight loss regarding consumer′ surplus resulted for the tariff and quota in the market. Furthermore, Bishop (2004) discussed the deadweight loss of taxation in terms of consumer′ income and asset loss.

As well, after considering the above literature, this study measured the deadweight loss regarding the consumer′ surplus and producer′ surplus. The consumer′ surplus is calculated by "the difference between the willingness to pay by the consumer and the amount actually paid" Also, producer′ surplus is fixed by "the difference between the sales revenue (at the equilibrium price) and the cost of the producer."

4. Literature Review

Several studies have been accomplished on the field of the interest-free or Islamic Microfinance and interest-based or conventional Microfinance in Bangladesh and the world perspective. This paper employs a new idea 'the deadweight losses in the traditional microfinance program regarding consumer′ and producer′ surplus, loan price, and the quantity demanded of a Microfinance loan. The related researches have been discussed below.

Hossain (2019) presents a *Waqf* based Islamic Microfinance model for the slum dwellers. He proposed the Rehabilitation for the slum dwellers firstly, then secondly, offering the Islamic Microfinance for them. Zubair Mughal (2017) explains the funding sources of the interest-free Islamic Microfinance program. Abdullah et al. (2017) compare the IBBL-RDS Islamic Microfinance program with the Grameen bank. Alamgir et al. (2015) compare the IBBL-RDS Islamic Microfinance program with the conventional Microfinance of BURO Bangladesh and stated that IBBL applied Islamic modes of investment successfully. Widiarto and Emrouznejad (2015) examine the societal plus financial efficacy of interest-free microfinance institutions by comparing with the two interest-based microfinance institutions. Saaid Ali (2015) discusses the financing procedure of Islamic Microfinance for the best and effective outcome in alleviating poverty. Ismail et al. (2015) present a human resource proficiency model for interest-free Microfinance institution. Mahmood et al. (2014) inspect the efficiency of nine conventional and three Islamic MFIs. They find that the efficiency of Islamic MFIs is higher in comparison to the traditional MFIs. Haneef et al. (2014) propose a Microfinance model for poverty elimination by using *Waqf* for the OIC countries. Ashraf et al. (2014) measure the performance of the 754 MFIs from 83 countries (33 OIC countries) regarding coverage, loan repayment, profitability, and overall financial performance. They find significant results. Riwajanti (2013) describes the different model of poverty reduction by Islamic microfinance and its performance elaborately. Moreover, Ben Abdelkader and Ben Salem (2013) analyzed the performance of Islamic vs. conventional Microfinance institution and showed the differences in terms of member and performance. Bui (2013) presented the multidimensional usages of Microfinance among the conventional and Islamic microfinance members in Jordan. This research paper showed that how the choices of the traditional and Islamic members vary in determining the commercial investments, family development schemes, and the daily consumptions materials. El-Komi (2013) examines the information asymmetry in Islamic-compliant microfinance products. Norma (2012) in her article, at first scrutinizes the practices of interest-free Microfinance program of Bangladesh, and then finally, evaluates the operation of Amanah Ikhtiar Malaysia (AIM), the leading MFIs in Malaysia. She uses primary data on AIM. Masyita and Ahmed (2011) scrutinize the growth rate of conventional and Islamic microfinance regarding the choices and observations of the five hundred eighty-one microfinance members of Indonesia. Rahman (2010) discloses the potentials of *Qard Hasan, Murabahah*, and *Ijarah* instruments for the Islamic Microfinance. Akhter et al. (2009) discourse the contribution of Islamic Microfinance in lessening poverty by analyzing the success of *Akhuwat* Islamic microfinance in Pakistan. They propose to integrate the Islamic Microfinance with *Zakah, Waqf, Takaful*, and with NGOs, NPOs to increase its effectiveness in suppressing poverty. Obaidullah (2008), in his book, discusses the framework of Islamic microfinance as a proof of Islamic approaches for poverty alleviation. Seibel (2008) raises the issues of challenges for Islamic microfinance institutions regarding structural diversity, regulatory, and supervisory framework in the Indonesian perspective. Furthermore, Obaidullah and Khan (2008) explain the foundation, infrastructure, provider, guideline and supervision of Islamic Microfinance institutions; and the role of the donor as well as a financial institution to develop the Islamic microfinance institution. Wilson (2007) depicts the structure, instruments of an Islamic *Shariah* based microfinance program. Wajdi Dusuki (2007) highlights the potentiality of Islamic microfinance under Islamic banking. He shows that Islamic banks can incorporate the Islamic microfinance program for alleviating poverty by its excess liquidity, but must maintain banks' sustainability. Ubaidullah (2007) discusses the effect of interest-free microfinance on the poverty reduction in Indonesia, Bangladesh, and Turkey. Rahman (2007) describes the potentials of the Islamic Microfinance for socio-economic progress of the underprivileged people and micro-enterprises. Because it does not charge interest/*Riba* but provides *Qard Hasan* (benevolent loan). Ahmed (2002) proposes the theoretical and practical framework of Islamic Microfinance by illustrating the empirical evidence from three Islamic Microfinance institution of Bangladesh.

The above mentioned previous studies covers the issues of financing, institutional challenges as well as regulatory framework, supervising and *Shariah* compliance, potentials and *Shariah* scheme for Islamic Microfinance, case studies on Islamic Microfinance institutions (IMFIs), success of Islamic Microfinance in the eliminating of poverty, performance of Islamic Microfinance, information asymmetry in the Islamic microfinance products, and finally the comparison between the interest-free Microfinance and interest-based microfinance respectively. But none of these studies covers the issue of deadweight loss in the traditional microfinance program. This is the central point of this paper. This paper compares the Islamic Microfinance with the conventional Microfinance and analyzes the deadweight loss in the traditional scheme of microfinance regarding consumer' and producer' surplus, loan price, and the quantity demanded of a Microfinance loan. This is the new addition in the field of Microfinance research.

5. Nature, Structure, and Proliferation of Microfinance (Interest-based and Interest-free) Program:

Microfinance involves both financial and non-financial services. It also synonymously used as microcredit. The collateral-free Micro-loans, Micro-savings, money transfer, and micro-insurance, are the primary forms of financial services. Also, Microfinance institution offers children and women's education and training program, infants and maternity care, sanitation, etc. (FINCA 2018, Grameen 2018a, BRAC 2018). However, the interest-based microfinance institutions operate financial services by charging or paying interest or usury on principle amount of loaned money (Yunus and Jolis, 2006). Whereas non-financial services are being offered at a nominal price or free, depending on the availability of the funds from the donor agencies (UNDP, 2010). Figure 1-3 illustrates the financial, operational framework of the interest-based microfinance institutions.

Figure 1: Microcredit Operation

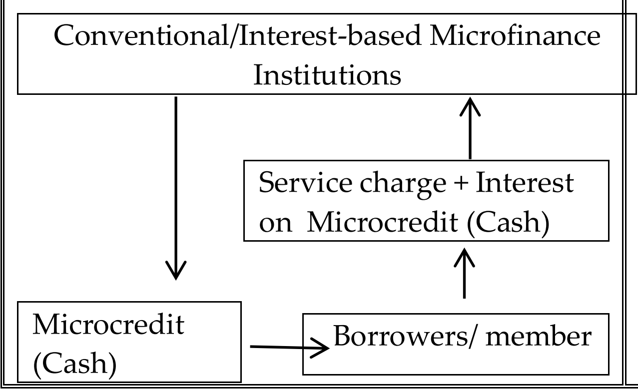


Figure 2: Micro-Savings Operation

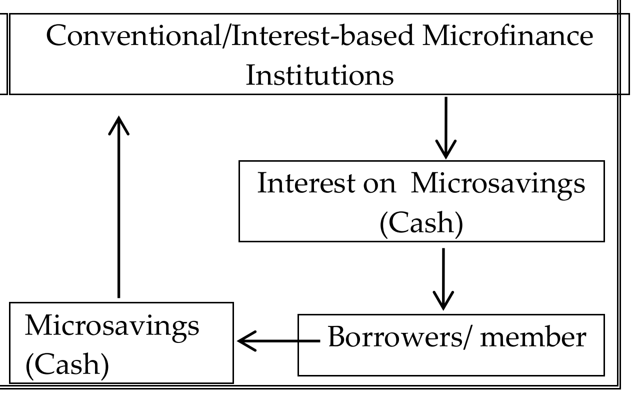
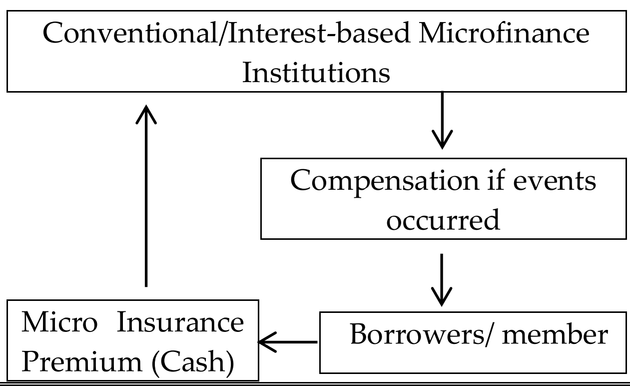


Figure 3: Micro-Insurance Operation



Source: Sketched by the Author

Similarly, like as interest-based Microfinance program, interest-free Microfinance program also offers both financial and non-financial services. But its operational framework is quite different that is run by the profit-loss sharing system. The financial services are highly concentrated in the trade or buying and selling business, followed by the benevolent loan (profit free loan). In the trade, the interest-free Microfinance institutions mainly sell the goods to its members instead of the cash loan, and charges profit on the goods (as the market rate) (Sadegh, 2009). This is the main functional dissimilarity between the interest-free and the interest-based Microfinance program.

Also, interest-free Microfinance institutions make available the profit-free loan (*Qard Hasan-* Benevolent loan) for its members for which no profit will be claimed, but the member only will repay the principal amount (Khan,1990). The figure 4-7 reveals the microfinance operation of the interest-free Microfinance institutions. Moreover, in the interest-free Microfinance program, the microcredit operation is fully concentrated to buying and selling system, that is run by the *Bai-Murabahah* (Cost plus Profit sales or deferred sales), Hire purchase (joint purchase and ownership transfer through rent) and *Bai-Salaam* (Future Sale) contracts (See Figure 4) (Mughal, 2017; Islami bank, 2018).

Figure 4: Microcredit Operation

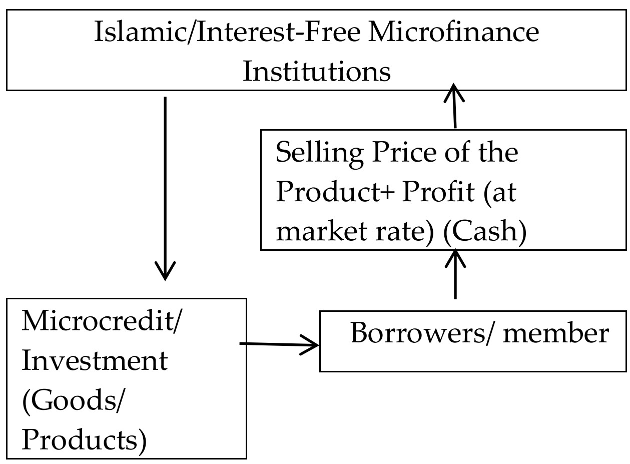
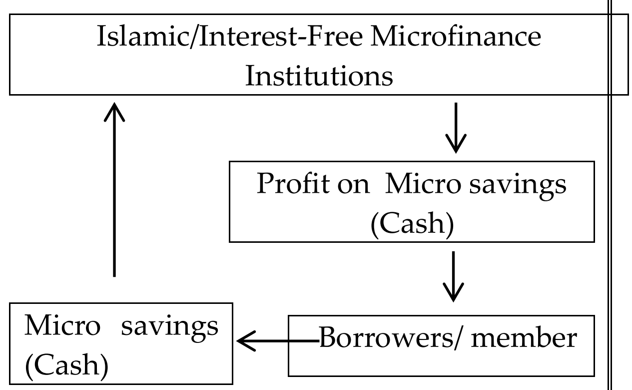


Figure 5: Micro-Savings Operation

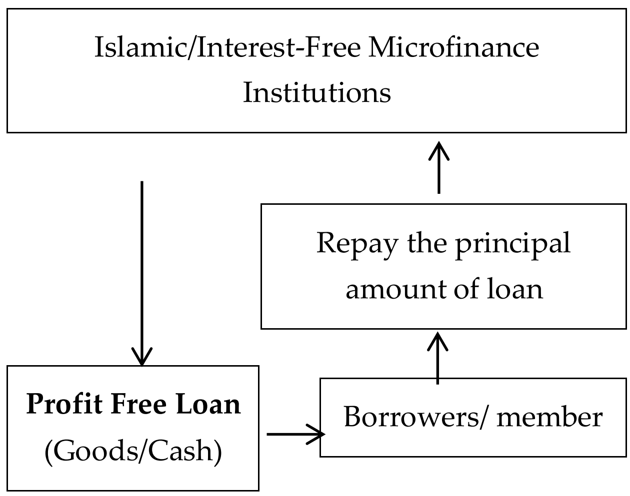


Source: Sketched by the Author

In savings framework, interest-free Microfinance applies *Mudaraba* (Trust Partnership) and *Musharakah* (Equity Partnership) modes /contract under the Islamic *shariah* (Islami Bank, 2018a). Figure 5 illustrates this function.

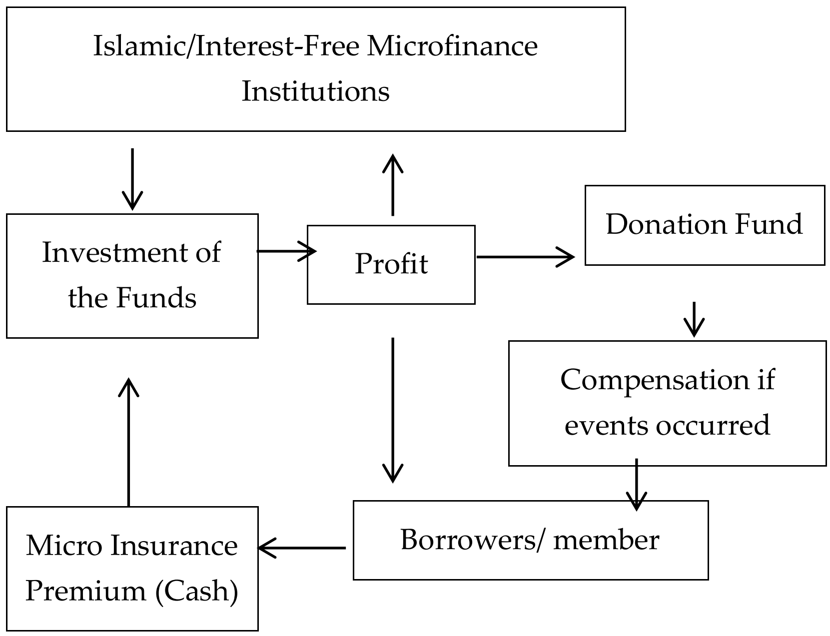
Also, the profit free loan system is offered through the *Qard Hasan* (Benevolent loan) modes. It should be mentioned out that, interest-free microfinance program abide by the principles of Islamic economics where profit satisfaction is highly appreciated and recommended rather than the profit maximization (Qarz Al-Hasaneh Mehr Iran Bank, 2017). This is why; the benevolent loan is a mandatory contract to be executed for interest-free microfinance program that makes it superior to the interest-based microfinance program. This framework is depicted in figure 6.

Figure 6: Profit Free Loan Operation



Furthermore, Micro-insurance program is known as micro-*takaful* in the interest-free microfinance program. Not only in the terminology, but it (micro-*takaful*) also differ from the micro-insurance regarding the procedure that is revealed in figure 7. In *takaful* system, the members' premium will be invested and refunded with profit to the member. For any damages, he will be compensated from donation funds that will be formed by the mandatory donations of all members of the micro *takaful* from their premiums' profit or premium (ISRA, 2012). In contrast, in the microinsurance scheme of interest-based microfinance program, the member will be compensated if, and only if the accident occurs, otherwise, all premiums will be added to the company profit (Rejda and McNamara 2013; Shrikrishna, 2009).

Figure 7: Micro-Takaful Operation



However, Table-1 exhibits the dissimilarities between interest-based and the interest-free Microfinance Program.

Table 1: Differences between Conventional Microfinance and Islamic Microfinance'

Basis	Conventional Microfinance (Interest-based)	Islamic Microfinance (Interest-free)
Funding sources	National and International donors, multilateral, bilateral and domestic organizations, private sector, central banks, government.	Islamic charitable sources: Zakah, sadaqah and waqf. Islamic financial institutions, Religious institutions, foreign donors, national agencies, private sector, Members' Savings
Basic Function	**Financial services:** Microcredit through Lending-borrowing, Micro-savings, Micro insurance	**Financial services**: Profit-Loss sharing based Business, buying & selling at a lower profit rate, Interest free Loan/ benevolent loan/ Qard al-hasanah Micro-savings, Micro insurance (Takaful)
	Nonfinancial services: Education, healthcare, child and maternal care etc.	**Nonfinancial services:** Education, healthcare, child and maternal care etc.
Basis of Loan	Interest rate	Profit-Loss sharing, Profit rate on buying selling Interest free Loan Religious charity
Loan/Fund disbursement	Cash	Goods/Products
Model	Group Lending and others	Individual and Group Investment,
Method of Loan Recovery	Group Liability, forces by the Group or unit	Group Liability, Group assurance, Islamic moral values
Socioeconomic advancement project	material and societal advancement	Spiritual motivation that incorporates moral behavior and social values from religion

Source: UNDP (2010) and compiled by the author from different sources

6. Deadweight Loss in the Conventional Microfinance Program

6.1. Determinants of the Deadweight Loss in the Conventional Microfinance:

After scrutinizing the different products and services of the interest-based and interest-free Microfinance program, this section presents the determinants of the deadweight loss, as follows.

a) Profit-Loss Sharing: To encourage the underprivileged people, Islamic Microfinance applied the profit-loss sharing business that is known as *Mudaraba* (trust partnership) and

Musharakah (equity partnership). In *Mudarabah* mode, the member of the Microfinance program invests fund with MFIs, then profit and loss are shared according to an agreed ratio. Islamic MFIs offers the maximum benefit in this scheme. Also, in *Musharakah* mode, both parties provide the capital, and then profit and losses are shared according to the capital ratio. On the contrary, conventional MFIs have no option of profit-loss sharing business. Thus, interest-free Microfinance produces a welfare loss by squeezing the investment options for the Microfinance borrower.

b) Charging the Interest Rate: the average loan price or the average loan interest rate is at least 142.05% (Bangladesh) and 241.84% (world) higher in the conventional Microfinance than the Islamic Microfinance (see Box-1 in the Appendix).

Moreover, Islamic Microfinance does not offer any interest but offer only profit rate based on buying and selling. The table-2 and 3 depict the interest rate scenario among the conventional and the Islamic Microfinance institution in Bangladesh and the world. Moreover, InM (2016) showed that the effective interest rate (on the weekly installment) in Bangladesh is at least 150% higher than the declared interest rate. The loan price scenario reveals the devastating welfare loss of the borrower in the interest-based Microfinance compared to the Islamic Microfinance.

Table 2: List of Loan Price in the Conventional (Interest based) and Islamic Microfinance (Interest Free) Institutions in the world

	Name	**Profit Rate**	**Country**	**Reference**
Islamic / Interest Free Microfinance Institutions				
1.	Muslim Aid Bangladesh	*Quard Hasan* 0%	Bangladesh	Muslim Aid (2018)
2.	Islami Bank Bangladesh Limited, Rural Development scheme (RDS), Urban Poor Development Scheme (UPDS)	12.5% (2.5% rebate on Timely repayment), Quard al-Hasanah	Bangladesh	IBBL (2018)
3.	Al-arafahIslami Bank, Krishi o KhudroBiniogProkolpo (Microfinance)	15% (Reducing balance method)	Bangladesh	Al-arafah (2018)
4.	Exim Bank Microfinance: Agricultural and Rural investment	9%	Bangladesh	Exim bank (2018)
5.	Akhuwat Islamic microfinance (AIM)	0%	Pakistan	Akhuwat (2018)

6.	The Qarz Al-Hasaneh Mehr Iran Bank	1-4%	Iran	QMB (2018)
7.	Wasil foundation	0-10%	Pakistan	Wasil foundation (2018)
8.	Islamic Relief	0% (*Qard Hasan*)	Bangladesh	Islamic Relief (2018)
9.	Islamic Relief	0% (*Qard Hasan*)	Pakistan	Islamic Relief (2018a)
10.	Ebdaa Microfinance bank	1.5% -15%	Sudan	Ebdaa bank (2018)
	Conventional / Interest based Microfinance Institutions			
1.	Grameen Bank	20%	Bangladesh	Yunus (2018)
2.	BRAC	26%	Bangladesh	BRAC (2018)
3.	ASA	25%	Bangladesh	ASA (2018)
4.	Buro Bangladesh	15-20%	Bangladesh	Buro (2018)
5.	Shakti Foundation	27%	Bangladesh	Shakti (2018)
6.	CARD Bank, Inc.	28%	Philippines	Card Bank (2017)
7.	"Mitra Bisnis Keluarga" (MBK), or "Family Business Partners"	20%	Indonesia	MBK (2018)
8.	Grameen koota	21%	India	Grameen koota (2018)
9.	Lead Foundation	16-21%	Egypt	Lead Foundation (2016)
10.	Vitas Lebanon	27.5%-41.27%	Lebanon	Vitas Lebanon (2018);

Source: Compiled by the Author

Table 3: Microcredit Interest Rate (2004-2011) in the World by Region

Sl no	Region		Interest rate
1.	MENA	Middle East and North Africa	31-32%
2.	Asia	South Asia,	25-26%
3.	EAP	East Asia and the Pacific	27%
4.	Africa	Sub-Saharan Africa	31-33%
5.	LAC	Latin America and Caribbean	31-32%
6.	ECA	Eastern Europe and Central Asia	28-29%
7.	World	World	27%

Source: Rosenberg, Gaul, Ford, & Tomilova (2013)

c) Interest-free Loan/ Benevolent Loan/ *Qard al-Hashanah*: Islamic Microfinance offers Interest-free loan or the benevolent loan or *Qard al-Hashanah*. In this mode, the recipient has to repay the principle amount of money only, but no extra money as either interest or profit. In contrast, conventional MFIs have no option of the interest-free loan. It produces welfare loss for microfinance member in the interest-based microfinance.

d) Real Asset Building: The most essential point is that Islamic Microfinance institutions contribute to building real asset more than conventional MFIs. Because Islamic MFIs always transfer goods or business means or materials instead of a cash/loan. It ensures real asset development. Whereas in traditional Microfinance, it is optional to handover products; instead, it lends the cash at a particular interest rate.

e) Fund/Loan Diversion: Since the conventional MFIs transfer the money as lending to its recipients. So there is a vast possibility to divert funds to another purpose instead of the investment. For example, most of the recipients of MFIs are women (about 85-90%). In many cases, husband or father or male member of the family insists the women in transferring the fund to the male member. Thus male member may use this fund for consumption, healthcare, or any other purposes instead of the investment. Conversely, the possibility of fund diversion in Islamic MFIs is almost impossible because of goods transfer. Thus, conventional MFIs again fail to fulfill the purpose of the Microfinance program.

f) Rebate for Timely Payment (as Reward): Islamic MFIs offer a discount on the profit rate for timely payment of the loan. On the contrary, such types of opportunity are absent in the conventional MFIs.

g) Charity: Moreover, Charity or *Sadaqah* is the permanent tool in the Islamic Microfinance institution because of using religious charity tools such as *Zakah, Sadaqah*, and many others. On the contrary, conventional MFIs do not use such an instrument; instead, these MFIs sometimes donate money based on the availability of the grants. But it is not permanent.

Table-4 illustrates and summarizes the evidence of deadweight losses through a comparison between the traditional (interest-based) and Islamic (interest-free) Microfinance program.

Table 4: The Evidences of Deadweight Loss: A Comparative Scenario

Basis/Particulars	**Conventional MFIs**	**Islamic MFIs**
Loan Interest rate	Higher than the Islamic MFIs 20-35%	Profit rate: it is always lower than the CMFIs. 0-15% Profit rate on buying & selling
Profit-Loss sharing	No	Yes
Trade: buying & selling	No	Yes
Interest free Loan/ benevolent loan/ Qard al-hasanah	No	Yes
Real asset building	May be, may not be	Must
Fund/Loan diversion	Easy	Impossible

Funding for the extremely poor	No option	Incorporated by the *Zakah and Sadaqah*. Then participated in the main stream microfinance model
Loan Sanctions method	Money in Cash	Products or Materials
Subtractions from the Sanctioned Loan at beginning	Yes	No
Rebate for timely payment (as Reward)	No	Yes
Charity	Optional: Based on available grants' fund disbursed by the donors	Mandatory: *Zakah, Sadaqah*

Sources: compiled by the author from the different sources

6.2. Evidences of the Deadweight Loss in the Conventional MFIs: Diagrammatic Presentation

This section exposes the evidence of the deadweight loss regarding consumer' surplus, producer' surplus, and the quantity demanded of the Microfinance loan. The detailed calculations of the loan price or the interest rate, consumer' surplus, producer' surplus are given in the Box-1.

a) The Deadweight Loss in Terms of Consumer' Surplus (CS):

Figure 8: The Deadweight Loss in terms of Consumer Surplus

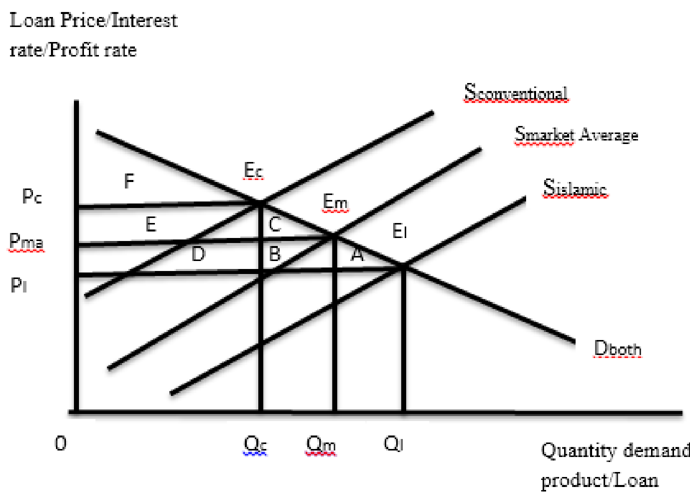


Table-5: Losses of the Consumer Surplus (CS)

	Consumer' surplus (CS)	Losses of CS	Deadweigh t loss in CS
At El & Ql,	CS=A+B+C+D+E+F	none	none
At Em & Qm,	CS=C+E+F	A+B+D	A
At Ec & Qc,	CS=F	A+B+C+D+E	A+B+C

Sconventional= Supply curve of the conventional MFIs

SIslamic= Supply curve of the Islamic MFIs (if all of the Islamic and the conventional MFIs provide Microfinance services at the Islamic loan prince)

$S_{market\ Average}$= Supply curve of the market

D_{both}= Demand curve of the market

P_c= The average loan price of the conventional MFIs. It is calculated through the arithmetic mean of maximum and the minimum loan price of the traditional MFIs. That is (maximum loan price of traditional MFIs + Minimum loan price of conventional MFIs) /2.

P_{ma}= Average loan price of the market that is determined by the arithmetic mean of conventional and Islamic loan price. Besides, in this graph, the average maximum loan price is assumed as the market loan price.

P_I= The average loan price of Islamic MFIs that is calculated through the arithmetic mean of maximum and the minimum loan price of the Islamic MFIs. That is (maximum loan price of Islamic MFIs + Minimum loan price of Islamic MFIs) /2.

Description: The figure-8 and Table-5 reveal the evidence of the deadweight loss in the form of the consumer' surplus. At the Islamic loan price (PI), the consumer surplus is A+B+C+D+E+F. At the market price (Pma), the consumer' surplus is C+E+F, and the traditional price (Pc), the consumer' surplus is the only F.

Moreover, at the market price the deadweight loss regarding the consumer' surplus is A. Also, at the traditional loan price (Pc), the lost consumer' surplus is A+B+C+D+E, and the deadweight loss is A+B+C. So, it can be decided that, regarding loan price, the conventional Microfinance produces the maximum burden or welfare loss or deadweight loss compared to the loan price of Islamic MFIs.

b) The Deadweight Loss in Terms of the Quantity Demanded (Qd)

However, the deadweight loss is also high in terms of quantity demanded of the Microfinance loan. The quantity demand of Islamic Microfinance loan is higher than the quantity demand at market loan price and the quantity demand of conventional Microfinance loan. On the contrary, the loan price or interest rate or profit rate is lower in the Islamic Microfinance loan than the market rate and the conventional rate. Table-6 presented that, the deadweight loss is Qc- QI in terms of the Quantity demand (Qd). Therefore Islamic microfinance is superior to traditional microfinance program.

Table 6: Deadweight Losses in terms of the Quantity demand (Qd) and the Loan Price (P)

Deadweight Losses in terms of the Quantity demand (Qd)				**Deadweight Losses in terms of the Loan Price (P)**			
	Qd of Islamic Microfinance Loan	Qd of Microfinance Loan at market Average price	Qd of Conventional Microfinance Loan	Price of Islamic Microfinance Loan	Price of Microfinance Loan at market Average price	Price of Conventional Microfinance Loan	

Qd	OQI	OQm	OQc	OPI	OPma	OPc	Loan Price
Losses of Qd	-	Qm-QI	Qc- QI	-	-	-	
Comparison in term of Qd	OQI> OQm > OQc Islamic Microfinance is better			OPI< OPma < OPc Islamic Microfinance is better			Comparison in term of price

c) The Deadweight Loss in Terms of the Producer Surplus (PS):

Figure 9: The Deadweight Loss regarding Producer Surplus (PS):

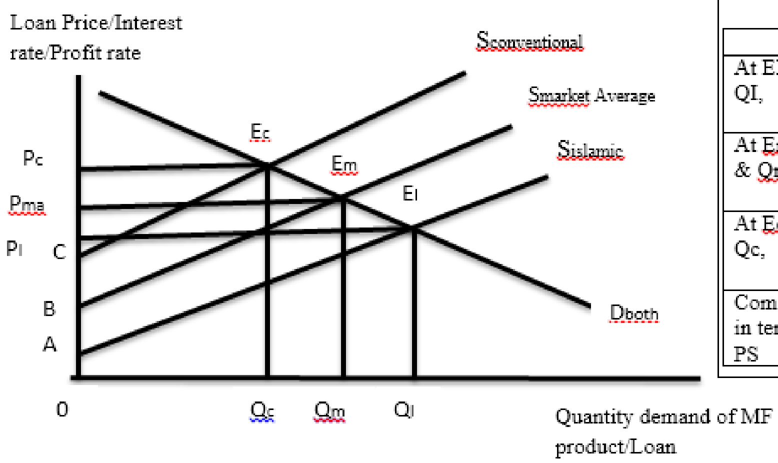


Table-7: Losses of the Producer Surplus (PS)

	Producer Surplus (PS)
At EI, PI & QI,	AEIPI
At Em,Pma & Qm,	BEmPma
At Ec, Pc & Qc,	CEcPc
Comparison in term of PS	AEIPI> BEmPma > CEcPc

Figure-9 and Table-7 disclose that producer surplus is also higher in Islamic Microfinance (AEIPI) than conventional Microfinance program (CEcPc). It is the evidence of the deadweight loss in the producer surplus (PS) under the traditional Microfinance.

7. Summary of Findings

The key findings of this paper are:

a) Deadweight loss is alarmingly higher (at least three times) in the conventional Microfinance regarding consumer' surplus.

b) Producer' surplus is higher in the Islamic Microfinance than the interest-based Microfinance

c) The loan price is at least 142% (Bangladesh) and 241% (world) higher in conventional Microfinance than the Islamic Microfinance.

d) The quantity demand of the Microfinance loan is higher in the Islamic Microfinance than the traditional Microfinance.

e) Islamic Microfinance has many excellent tools such as profit-loss sharing system, *Quard Hasan* or interest-free loan, *Zakah*, and *Sadaqah*. On the contrary, these are absent in conventional Microfinance

f) Islamic Microfinance is highly responsible for building the real asset, whereas the traditional Microfinance insignificantly contributes to it.

g) Fund diversion is the common phenomenon in the conventional Microfinance whereas it is almost impossible in the Islamic Microfinance

h) Finally, Islamic Microfinance is highly consumer-friendly and efficient than the traditional Microfinance, because it offers lower loan price, interest-free loan and religious charity tools, etc.

8. Policy Recommendations:

This paper recommends that,

a) Since the excess burden is higher in the conventional Microfinance, so traditional Microfinance Institutions should eliminate the interest and use the tools of Islamic Microfinance.

b) Islamic MFIs should propagate the superiority of Islamic Microfinance in society and should offer research grants to do research on it for future expansion.

c) Islamic MFIs should increase its coverage by managing funds from different sources.

d) Since there is strong proof that, in Bangladesh and the other countries of the world, conventional banks have been converted to Islamic banking. In the same way; to achieve the higher level of welfare of Islamic Microfinance program, the Microfinance regulatory authority of Bangladesh; and other countries should encourage and offer facilities to convert the conventional Microfinance institutions into Islamic Microfinance institutions.

Conclusion

Islamic Microfinance has first rated Islamic financial and charitable tools such as profit-loss sharing system, *Sadaqah, Zakah*, and *Waqf*. This paper investigates the operations of conventional and Islamic Microfinance program, then presented the deadweight loss/welfare loss/ excess burden in the traditional microfinance in the forms of consumer' and producer' surplus, loan price and the quantity demanded of a Microfinance loan. This paper found that consumer' surplus is at least three times lower in the conventional Microfinance program; producer surplus is higher in the Islamic Microfinance than the traditional Microfinance. The loan price is at least 142-241% higher in conventional Microfinance than the Islamic Microfinance. Hence, the quantity demand for Microfinance loan is higher in the Islamic Microfinance than the traditional Microfinance. This is why this paper recommends for converting the conventional Microfinance program into the Islamic Microfinance program.

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Appendix:

Box-1: Calculations of the loan price or the interest rate, Consumer Surplus, Producer surplus

a) Pc= the average loan price of the conventional MFIs.

   Pc=(maximum investments interest rate +minimum investment interest rate)/2

   =(33+15)/2

   =24

b) PI= the average loan price of Islamic MFIs

   PI=(maximum investment profit rate +minimum profit rate)/2

   =(15+0)/2

   =7.5

c) Pma= loan price of the market average

   Pma= (PC+PI)/2

   =(24+7.5)/2

   =15.75

d) Consumer surplus (CS):

   CS at Pc=willingness to pay by consumer - Pc

   CS at Pma=willingness to pay by consumer - Pma

   CS at PI=willingness to pay by consumer – PI

e) Producer surplus (PS):

   PS at Pc=PC - cost of producer

   PS at Pma=Pma - cost of producer

   PS at PI=PI - cost of producer

Disclosure of Governance Practice by Islamic Banks: An Application in Indonesia

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Abstract

This study aims to evaluate the governance practices in Islamic banks in Indonesia by using the governance standards developed from AAOIFI and IFSB as the international sharia governance guidelines accepted throughout the world. Furthermore, this research will also identify what aspects have been and have not been fulfilled by Islamic banking in Indonesia in order to realize governance as expected. This research is a quantitative descriptive study that uses content analysis to explore and analyse the data. This study uses data sourced from annual reports, financial reports and websites of 12 Islamic banks in Indonesia, in 2016. Overall the data indicated that the index of governance of Islamic banks in Indonesia was still low when the guidelines sourced from AAOIFI and IFSB were used as benchmarks. The average score achieved by Islamic banks was 37%. Based on the guidelines prepared by Hasan (2011), the score was classified as emerging practices. The focus of Islamic banks to general governance was higher than specific governance information. Statistical tests demonstrated that this difference is significant.

Keywords: Corporate Governance, Islamic Financial Institutions, Sharia Governance.

Jel Codes: G34, M14, M41.

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Introduction

The history of corporate governance can be traced back to the emergence of the company itself, when the separation of ownership between owners and management demands a transparent and accountable corporate management. This has been an interesting issue since the onset of the financial crisis. Many countries and international organizations have provided guidelines and codes for the best corporate governance practices (OECD, 2004). At the same time, with the advent of the Islamic finance industry, there is a need for the Islamic banking's governance practices.

The conventional financial system stands on a foundation of interest, uncertainty and gambling that is banned in Islam. Muslim scientists have proposed the Islamic financial system and its growth has been remarkable since it was first introduced (Muneeza & Hassan, 2014). The Islamic finance industry has grown not only in Muslim countries such as Malaysia, Indonesia and the Gulf Cooperation Council (GCC) but also in non-Muslim countries like Sri Lanka and Singapore. Since the goal of the Islamic financial industry is to implement sharia-based financial practices, sharia governance guidelines play an important role to ensure that the industry meets Islamic financial goals (Belal, Abdelsalam, & Nizamee, 2014).

1. Literature Review

In Indonesia, the development of the Islamic finance industry has grown rapidly since 1992. After experiencing high growth in previous years, Islamic banks face the challenge of decreasing growth since 2013. Currently, there are 13 Islamic Commercial Banks and 21 Islamic Business Units with total assets of 401.452 billion rupiah (OJK, 2017). Meanwhile, the market share of Islamic banks in Indonesia only reached 5.44% in the past 26 years. The Financial Services Authority alleges that the cause of the slow growth of Islamic banking in Indonesia is supervision and regulation that are not optimally implemented (OJK, 2015).

According to Shahzad, Saeed, & Ehsan (2017) governance in Islamic financial institutions is very important as well as corporate governance in a modern corporate organization. Governance is an arrangement that ensures compliance with Sharia rules and principles in every Islamic banking transaction. Sharia governance as described by Shaharuddin (2011) is a responsibility for ensuring the compliance of sharia principles in products, instruments, operations, practices and management of Islamic financial institutions. This kind of governance mechanism will improve the credibility of Islamic financial institutions. This is in line with the research result of Wardayati (2011) on one of the Islamic banks in Indonesia which revealed that implementation of sharia governance has a significant influence on the reputation and trust of customers to Islamic banking.

Recognizing the importance of governance for Islamic financial institutions, the Accounting Auditing Organization for Islamic Financial Institutions (AAOIFI) has issued Islamic governance standards (governance standards number 1 to 7). AAOIFI standards have become mandatory in some countries such as Bahrain, Jordan, Oman, Qatar, Qatar Financial Center, Sudan, and Syria. In Indonesia and Malaysia, the AAOIFI standards were used as a basis for the preparation of national standards.

Although there have been guidelines on governance for Islamic financial institutions, some studies have revealed that in practice there are still many weaknesses in the implementation of governance in Islamic financial institutions. Hasan (2011) revealed that there were many shortcomings in the implementation of sharia governance and further improvement is required. The fall of Islamic Money Management Companies in Egypt in 1988-1989, the collapse of Ihlas Finance House in Turkey in 2001 and the fraud that caused the loss of Dubai Islamic Bank between 2004 and 2007 are examples of the poor governance practices.

In Indonesia, the indication of the lack of good governance in Islamic financial institutions is marked by several cases such as the closure of 19 Branch Offices of Bank Mega Sharia in 2016, and a drastic decline in profits experienced by Bank Muamalat Indonesia up to 71.36% per June 2016, from Rp106.54 billion to Rp 30.51 billion in addition to an increase in NPF 7.23% from the previous year at 4.93% as of June 2015 (OJK, 2017).

Regarding the governance, Ali (2015) disclosed that governance standards for Islamic Banks in Indonesia couldn’t be considered as a model of the overall governance framework for Islamic Banks. The current guidelines for the governance of Islamic banking in Indonesia are merely the result of the adaptation of conventional bank governance guidelines issued by Bank Indonesia previously.

Based on what is described above, this study aims to evaluate the governance practices of Islamic banks in Indonesia by using governance standards developed using AAOIFI and IFSB guidelines. Furthermore, this research will also identify what aspect have and has not been fulfilled by Islamic banking in Indonesia in order to realize the governance as expected.

The stewardship theory was chosen as the framework in this study because of the contextual characteristics of Islamic financial institutions. Contextually, multifaceted objectives (which focus on more than just economic factors) include ideal board compositions supported by strategic committee councils - nominations, remuneration, risk management and audits (Ullah & Khanam, 2018). The good structure of these elements supports the appropriate accounting treatment for risk, the effective handling of internal control systems, transactions with related parties, compliance with issued guidelines and the creation of management reports to achieve operational efficiency within Islamic financial institutions. Stewardship is conceptualized as an outcome of leadership behaviors that encourage a deep commitment to the best interests of the organization and an individual motivation to work for the benefit of the organizational cause (Madison, 2014).

Stewardship theory as confirmed by Sulaiman, Abd Majid, & Noraini (2015) emphasizes the coordination of relationships based on personal beliefs and strengths (ie respect and expertise). As stewards, Islamic financial institutions managers and directors need to focus on managing the interaction process with their various stakeholders through "increased commitment and value identification" (Madison, 2014). This ultimately aims to create trust and improve the alignment of goals between Islamic financial institutions and their stakeholders. Once trust is achieved, collaboration is facilitated as it becomes an important point of the social system between Islamic financial institutions and their stakeholders (Sundramurthy & Lewis, 2003).

1.1 The concept of Corporate Governance From an Islamic Perspective

The concept of governance of Islamic financial institutions is as important as the concept of conventional corporate governance. This is also a concept used to evaluate the compliance of the sharia financial industry towards the sharia principles in order to ensure the trust of the stakeholders of the sharia financial industry (Haqqi, 2014). Shaharuddin (2011) asserted that sharia governance is a complete framework that not only provides guidelines for compliance of Islamic banking practices towards sharia principles but also provides a detailed framework of the duties and responsibilities of all stakeholders.

Many Islamic governance thinkers seek to formulate a governance framework based on an Islamic perspective. Bukhari, Awan, & Ahmed (2013) presented a framework that integrates shari'-ah and Islamic moral teachings; and emphasize institutions of shura, isbah and religious audits as a key component of corporate governance frameworks.

A more comprehensive corporate governance framework was illustrated by Bukhari et al. (2013). They clearly determined the appropriate structure and level of governance of each institution, along with their roles and functions; goals and objectives; and company legal regulations based on the Tawhid and Shura epistemology. Meanwhile Alnasser & Muhammed (2012) conceptualized an integrated framework that incorporates the corporate culture and control mechanisms within the Islamic Arrangement.

Overall, Hashim, Mahadi, & Amran (2015), Meutia & Febrianti (2017), and Almutairi & Quttainah (2016) concluded that the conceptual framework of the Islamic corporate governance must take into account the elements of Tauhid epistemology, the shuratical process, the concept of the caliph (Khilafah), social justice (al-adl wal ihsan), accountability (taklif), aspects of Islamic legal regulations, general banking laws and regulations, and principles of Islamic morality.

1.2 Conceptual Framework of Governance

According to Hasan (2011) that the philosophical foundations of corporate governance in Islam require a layer of additional governance for the purpose of sharia compliance. In this idea, the corporate governance in Islamic financial institutions requires a set of institutional arrangements to oversee the aspects of sharia business and operations. In the absence of corporate governance models in Islamic literature, Islamic financial institutions innovatively introduced the sharia governance system as part of their corporate governance framework, specifically exclusive to corporate governance frameworks.

1.2.1 The AAOIFI Governance Standards

AAOIFI has issued 92 standards and guidelines, including 24 accounting standards, 5 audit standards, 7 governance standards, 54 sharia standards and 2 codes of conduct (AAOIFI, 2015) Seven standards relating to governance are:

1. Governance Standard for IFIs No. 1: Sharia Supervisory Board: Appointment, Composition and Report

2. Governance Standard for IFIs No.2: Sharia Review

3. Governance Standard for IFIs No.3: Internal Sharia Review

4. Governance Standard for IFIs No.4: Audit & Governance Committee for Islamic Financial Institutions

5. Governance Standard for IFIs No.5: Independence of Sharia Supervisory Board

6. Governance Standard for IFIs No.6: Statement on Governance Principles for Islamic Financial Institutions

7. Governance Standard for IFIs No.7: Corporate Social Responsibility Conduct and Disclosure for Islamic Financial Institutions.

The need to have effective sharia governance is essential as it strengthens the credibility of Islamic financial institutions. The sharia governance framework should address various issues related to the above discussion. AAOIFI's governance standards are critical to improving and bringing harmonization to sharia governance practices. The standard is expected to effectively solve various issues related to sharia governance.

Governance standards number 1 to 5 relates specifically to the basic guidelines of sharia governance, standard number 6 deals with general governance principles for Islamic financial institutions. Standard number 7 specifically contains mandatory and voluntary standards for implementing the social responsibility in the all aspects of Islamic financial institutions' activities; and the disclosure guidance of the social responsibility information for the stakeholders of Islamic financial institutions.

1.2.2 IFSB Governance Guidelines

IFSB-3 provides guidance and key principles to facilitate IFIs with appropriate governance structures and processes with a stakeholder-oriented approach as the model basis. Part 1 and part 3 of IFSB-3 recommend an integrated corporate governance approach based on ethics and compliance with Sharia rules and principles.

IFSB-3 recommends several key principles related to efforts in protecting the rights and interests of investment account holders (IAHs). For example, principle 2.1 requires IFIs to recognize IAH's right to monitor their investment performance and risk-related, while principle 2.2 encourages them to adopt sound and transparent investment strategies (IFSB, 2006).

IFSB-3 defines governance as:

“as a set of relationships between a company’s management, its BOD, its shareholders, and other stakeholders which provides the structure through which the objectives of the company are set; and the means of attaining those objectives and monitoring performance are determined.”

Furthermore, this guide explains that corporate governance in Islamic financial institutions includes "a set of organizational arrangements in which the management of Islamic financial institutions must be aligned with the interests of stakeholders; providing appropriate incentives for governance units such as BOD, sharia supervisory boards, and management to pursue objectives (the interest of stakeholders); and facilitate effective monitoring, thus encouraging Islamic financial institutions to use resources more efficiently, and adherence to Islamic sharia rules and principles (IFSB, 2006).

1.3 Previous Research

Bukhari et al. (2013) explored the management's perceptions of the importance of the practiced various dimensions of corporate governance in Islamic banking in Pakistan. The study exposed that the most significant dimensions affecting the corporate governance in Islamic banks were the board of directors (BoD) and the Sharia Supervisory Board (SSB), while in the sharia business units, the significant factors were almost in all dimensions of corporate governance.

Muneeza & Hassan (2014) proposed a need to enforce sharia governance due to the formation of a widespread sharia financial institution in the world. It is important to have a special sharia governance code to regulate Islamic companies. Islamic law cannot be changed, so the constructing of the Code of Conduct for sharia governance will certainly facilitate the task of Muslims and non-Muslims who want to invest or benefit from Islamic companies.

Grassa & Matoussi (2014) used a descriptive analysis approach in exploring and analyzing data collected for 83 Islamic banks observed in the 2002-2011 period. The authors tested the mean differences and median attributes of corporate governance among Islamic banks in the GCC countries and Southeast Asian countries. They used corporate governance variables selected from different governance structures, namely ownership structure, the board of directors, sharia councils and CEO attributes. The findings confirmed that there were significant differences in Islamic banking governance structures in the GCC and Southeast Asian countries. This finding recognized that there was a lack of governance framework.

Almutairi & Quttainah (2016) analyzed the relationship between SSB and the performance of Islamic banks. Using a sample of 1,803 bank year observations, from 82 IBs in 15 countries, between 1993 and 2014, the research found that SSB did tend to improve the financial performance of IBs. In addition, the results demonstrated that SSB in IBs improves financial performance by an average of 12.43 per cent as measured by Tobin's Q, return on assets, and return on equity.

Meanwhile Khalid, Haron, & Masron (2016) investigated a conceptual relationship between the competence and effectiveness of internal sharia auditors in Islamic financial institutions. They used the theory of Maqasid al Sharia to understand the interrelationship between competence and effectiveness of internal Sharia audits that were supplemented by the roles and responsibilities of internal sharia auditors within Islamic financial institutions. The findings suggested that competence in terms of knowledge, skills and skills could affect the effectiveness of internal sharia auditors within Islamic financial institutions.

Shahzad, Saeed, & Ehsan (2017) analyzed the sharia audit mechanisms and the challenges facing Islamic banking after the implementation of the sharia governance framework by the State Bank of Pakistan (SBP). His findings indicated that although sharia audits were considered to be typical activities of conventional auditing, much training is required for external audit offices and Islamic financial institutions' employees. Shahzad et al. (2017) also concluded that the idea of SBP councils was an appropriate step towards future conflict resolution, but this governance framework might have certain financial implications for Islamic financial institutions.

Research by Amalina, Percy, & Stewart (2013) contributed to the discussion of the Sharia governance system by examining the level of disclosure of the Sharia Supervisory Board and the report of the Board of Directors in the annual report of 23 Islamic banks in Malaysia and Indonesia. This study also analyzed the disclosure of zakat. This study was a cross-sectional analysis of annual report disclosure in 2009. This study used the index of disclosure and content analysis to measure the level of disclosure about Sharia Supervisory Board (SSB) and zakat. This study also examined the relationship between SSB characteristics and the level of SSB disclosure and zakat. The findings suggested that disclosures related to SSB and zakat are limited, with only four banks disclosing more than half of the SSB Index. It is noticed that the level of disclosure was low in sensitive matters. Some of the factors related to SSB disclosure include cross-membership with other SSBs; and the expertise of SSB members in accounting, banking, economics or finance.

Following, Darmadi (2013) explored the disclosure of corporate governance mechanisms in the annual report of Islamic banks in Indonesia. Using a sample of seven Islamic banks in Indonesia, this study established a Corporate Governance Disclosure Index (CGDI) to measure bank disclosure rates. The corporate governance mechanisms discussed in this study include the sharia supervisory board, the board of commissioners, the board of directors, the board committee, internal controls and external audits, and risk management. It was revealed that Bank Muamalat and Bank Sharia Mandiri, the two largest and oldest commercial banks, scored higher than other banks. This study shows that the average disclosure rate among the sample banks was relatively low.

Hidayat & Al Khalifa (2018) evaluated the commitment of the Islamic banks in Bahrain to sharia governance. This research used quantitative and qualitative research methods. The survey results indicated that Islamic banks in Bahrain practice 7 out of 9 questions in the questionnaire, related to the aspects of sharia governance in accordance with the standards of governance of Islamic financial institutions (AAOIFI). Interviews also revealed that Islamic banks in Bahrain practice most aspects of sharia governance.

A review of research related to governance above shows that the issue of sharia governance has received considerable attention. From these studies it was found that several studies have attempted to develop a framework of sharia governance (Khalid, Haron, & Tajul, 2017); Hamza, 2013; Muneeza & Hassan, 2014), other research attempts to link governance practices with other components in Islamic banks such as performance (Almutairi & Quttainah, 2016; Khalid, Abdelhakeem, Haron, Hasnah & Masron, 2016).

Research that attempts to measure governance implementation in Islamic banking in Indonesia conducted by Amalina et al. (2012) and Darmadi (2011). The research conducted by Darmadi (2011) used the index of governance disclosure that was still based on conventional banking governance concept only added with the disclosure of DPS. The sample consisted of only 7 Islamic banks from 11 Islamic banks in Indonesia in 2010. Data was only taken from the annual report. The theory used to understand governance behaviour and agency theory.

Meanwhile, research conducted by Amalina et al. (2012) in 2009 measured the implementation of sharia governance on 19 Islamic banks in Malaysia and 4 Islamic banks in Indonesia. Data on the bank governance were taken from annual reports. Sharia governance index used was limited to SSB and zakat. The theory was the stakeholder theory.

This research is different from previous research in terms of the theory. This research uses the stewardship theory. The governance index used to measure governance implementation in Islamic banks is the governance index by (Sulaiman et al., 2015) derived from the governance standards issued by AAOIFI and IFSB. So the advanced concept of governance is expected to be more comprehensive. In addition, this study analyses the existing governance data in both annual reports and the bank's own website. The assessment of governance practices will provide a more complete picture. Assessment of governance implementation will be performed on all Islamic banks in Indonesia using 2016 data.

2. Methodology

This research is a quantitative descriptive research that will use content analysis approach and disclosure index in digging and analysing data coming from the web, annual report and financial report. Krippendorff (2004) defined content analysis as a "research technique for making conclusions and data that can be replicated and valid" and Berelson (1952) refers to it as "a research technique for objectively, systematically and quantitatively describing the content of real communication".

2.1. Data

Furthermore, to measure governance practices, this study uses data sourced from annual reports, financial statements and websites of 12 Islamic banks in Indonesia in 2016. The use of information from the website is one of the differences in this study with previous research.

Information from the website is quite important and easily accessible to all stakeholders. Until the end of 2016, there are twelve Islamic banks in Indonesia. The twelve banks are as in Table 1:

Table 1: List of Islamic Banks in Indonesia

No	Islamic Banks
1	Muamalat Indonesia Bank
2	Sharia Mandiri Bank
3	Mega Sharia Bank
4	BRI Sharia
5	Bukopin Sharia Bank
6	BNI Sharia
7	Jabar Banten Sharia Bank
8	BCA Sharia
9	Victoria Sharia Bank
10	Maybank Sharia Indonesia
11	Panin Sharia Bank
12	Bank Tabungan Pensiunan Nasional Sharia

Source: OJK (2017)

2.1 Analysis Technique

The researchers analyze all governance disclosures in certain parts of the annual report and financial statements, including notes to the financial statements. The method of content analysis used in this study specifically aims to measure the level of transparency of governance practices in Islamic banks. In this case, this study uses a disclosure index approach. This research approach has been described as a useful tool for measuring corporate disclosure (Beattie, McInnes, & Fearnley, 2004).

The disclosure indicators used in this study adopted from the indicators developed by (Sulaiman et al., 2015) consisting of 123 indicators. Sulaiman et al. (2015) develop indicators based on the existing governance concepts in AAOIFI and IFSB so that these indicators are considered to represent governance that should be practiced by Islamic banks. This indicator consists of 14 dimensions as show in Table 2.

Table 2: Disclosure Dimensions

Dimensions	Items
D1. *Board structure and functioning*	1 - 24
D2. *Nominating committee*	25 - 32
D3. *Remuneration committee*	33 - 41
D4. Risk management committe	42 - 49
D5. *Audit committee/ Audit & governance committee*	50 - 61

D6. Sharia committee/ Sharia Supervisory board	62 - 76
D7. Risk management	77 - 85
D8. Internal audit and control	86 - 93
D9. Related parties transactions	94 - 95
D10. Management reports	96 - 97
D11. Non-adherence to guidelines	98 - 99
D12. Customers/ Investment account holders	100 -113
D13. Governance Committee	114 - 119
D14. Sharia Compliance	120 - 123

To measure the level of governance's disclosure, this study follows the level used by (Hasan, 2011) into five categories of disclosure levels: Less than 16% of disclosures are classified as 'Underdeveloped practice', 16 - 33% as 'Emerging Practice', > 33 - 50% as 'Improved Practice', > 50 -77% as 'Good Practice' and > 77% as 'Best Practice'.

3. Results and Discussion

3.1 Governance Index

Table 3 describes the governance index of 12 Islamic Banks in Indonesia in 2016 based on standards developed by Sulaiman et al., (2015).

Table 3: Governance Index of Islamic Banks in Indonesia

No	Banks	Governance Index
1	Bank Muamalat Indonesia	0.41
2	Bank Sharia Mandiri	0.31
3	Bank Mega Sharia**	0.43
4	Bank BRI Sharia	0.36
5	Bank Sharia Bukopin	0.38
6	Bank BNI Sharia*	0.48
7	Bank Jabar Banten Sharia	0.31
8	BCA Sharia	0.41
9	Bank Victoria Sharia	0.33
10	Maybank Sharia Indonesia	0.32
11	Bank Panin Sharia	0.33
12	BTPN Sharia***	0.42

The data in table 4 shows that BNI Sharia owns the highest governance index at 48%. While the lowest index is owned by BSM and BJBS which is 31%. The average index of governance of Islamic banks in Indonesia as a whole is 37%. These data suggest that the governance index of Islamic banks in Indonesia is still low when guidance sourced from AAOIFI and IFSB is used as a benchmark. This finding is consistent with Darmadi (2011) who found that the average disclosure rate among the sample banks in Indonesia is relatively low. This means that to compete internationally is still needed to improve the governance of Islamic banks better. Based on categories (Hasan, 2011) the implementation of governance is still at the level of emerging practice.

Furthermore, data in Table 4 presents the disclosure of governance index per dimension in each Islamic bank in Indonesia.

Table 4: Governance Index by Islamic Banks per Dimension

No	Dimension	BMI	BSM	BMS	BRIS	BukS	BNIS	BJBS	BCAS	VS	MayS	BPS	BTPNS
1	D1	0.29	0.17	0.25	0.29	0.42	0.37	0.21	0.25	0.58	0.33	0.33	0.33
2	D2	0.62	0.62	0.62	0.62	0.62	0.62	0.5	0.62	0.37	0.5	0.62	0.62
3	D3	0.62	0.62	0.75	0.5	0.75	0.62	0.62	0.87	0.62	0.62	0.5	0.75
4	D4	0.62	0.62	0.87	0.62	0.5	0.25	0.62	0.12	0.75	0	0.25	0.75
5	D5	0.5	0.42	0.75	0.5	0.67	1.54	0.58	0.67	0.58	0.58	0.42	0.5
6	D6	0.68	0.56	0.62	0.37	0.44	0.62	0.37	0.62	0.44	0.5	0.5	0.62
7	D7	0.33	0	0.11	0.33	0.22	0.55	0.11	0.44	0.44	0	0.22	0.33
8	D8a	0.5	0.5	0.5	0.33	0.67	0.33	0.33	0.33	0.33	0.66	0.16	0.33
9	D8b	0	0	0	0.5	0	1	0	0	0.5	1	0	0
10	D9	0	0	0	0	0	0	0	0.5	1	0	1	0
11	D10	0	0	0	0.5	0	0.5	0	0	0	0	0	0
12	D11	0	0	0	0.5	0	0.5	1	0	0	0	0.5	0
13	D12	0.07	0	0	0	0	0	0	0	0	0	0	0
14	D13	0.5	0	0.83	0	0	0.5	0	0.67	0	0	0.5	0.67
15	D14	0.5	0.5	0.25	0.75	0.25	0.75	0.25	0.75	0	0.25	0.25	0.5

Based on the data in table 4 can be explained as follows:

Dimension 1. Board structure and functioning

For the dimensions of structure and function of the Board of Directors, Bank Victoria Sharia has the highest disclosure index (58%) compared to other Islamic banks. BSM has the lowest index that is equal to 16.7 %.

Dimension 2: Nominating Committee (NC)

Almost all Islamic Banks have disclosure index of nomination committee with value more than 50% (62,5%). Only three banks have indexes of less than 62.5%, namely BJBS, Maybank Sharia and Victoria Sharia.

Dimension 3: Remuneration Committee (RC)

BCA Sharia has the highest index of disclosure of remuneration committee dimensions compared to other Islamic banks, which is 87.5%. While BRIS and Bank Panin Sharia have the lowest index of 50%.

Dimension 4: Risk management committee (RMC)

For the fourth dimension, the risk management committee, BMS has the highest index of 87.5% compared to other banks. However, there are still banks that have an index of 0, meaning that they do not disclose information regarding risk management committee, namely Maybank Sharia.

Dimension 5: Audit committee (AC) / Audit & Governance Committee (AGC)

In the examination committee dimension, BNI Sharia has the highest index of 91.7%, while Bank Sharia Mandiri and Bank Panin Sharia both have the smallest index, which is 41.7%.

Dimension 6: Sharia Committee (SC) or Sharia Supervisory Board (SSB)

The highest percentage in the disclosure of sharia committee information was disclosed by Bank Muamalat Indonesia (68.8%), while the lowest percentage of information was disclosed by BRI Sharia and Bank Jabar Banten Sharia (37.5%).

Dimension 7: Risk management (RM)

In the dimensions of risk management, there are two banks that do not provide information at all namely Bank Sharia Mandiri and Maybank Sharia, while BNI Sharia provides the most information that is equal to 55.6%.

Dimension 8a: Internal audit and control

All Islamic banks provide information on the dimensions of internal audit and control (a), Bank Sharia Bukopin and Maybank Sharia both provide as much information (66.7%), while Bank Panin Sharia provides the least information (16.7%).

Dimension 8b: Internal audit and control

Only four Islamic commercial banks disclose information about internal Sharia reviews. BNI Sharia and Maybank Sharia conduct 100% disclosure, while BRI Sharia Bank and Bank Victoria Sharia disclose 50%.

Dimension 9: Related parties transaction

With regard to information on transactions with related parties, only three banks provided disclosures. Bank Victoria Sharia and Panin Sharia Bank provide 100% information on this dimension while BCA Sharia provides information of 50%. Nine other Islamic banks did not reveal the slightest information about this dimension.

Dimension 10: Management Report

For the tenth dimension, namely the management report, only BRI Sharia and BNI Sharia provide information that is 50% each. While 10 other banks did not disclose information relating to this tenth dimension.

Dimension 11: Non-adherence to Guidelines

Of the twelve Islamic banks, only four banks disclosed information regarding the 11th dimension, namely Bank Jabar Banten Sharia (100%), BRI Sharia (50%), BNI Sharia (50%), and Bank Panin Sharia (50%).

Dimension 12: Customers / Investment Account Holders (IAHs)

Bank Muamalat Indonesia is the only bank that provides information on this dimension of 7.1%. While 11 other Islamic Commercial Banks did not provide any information.

Dimension 13: Governance committee (GC)

Only half of the Islamic banks disclose information about the governance committee. The largest percentage was conducted by Bank Mega Sharia (83.3 %), the rest between 50 % and 67 %. Six Islamic banks that did not provide information were Bank Sharia Mandiri, BRI Sharia, Bukopin Sharia, Bank Victoria Sharia, and Maybank Sharia.

Dimension 14: Sharia Compliance

As for dimension 14 (Sharia compliance), only Bank Victoria Sharia does not provide information on this dimension. BRI Sharia, BNI Sharia and BCA Sharia have a fairly high disclosure index of 75%. The rest only revealed 25%.

The data in Table 4 also shows that in general Islamic Banks have more attention to governance dimensions related to dimensions 1 to 8a and dimension 14. While in dimensions 8b to 13, their attention is very small or almost non-existent.

Furthermore, in table 5 there is a description of the minimum, maximum and average values for each dimension in total.

Table 5: Minimum, Maximum and Mean of Governance Index

No	Dimensions	Min	Max	Mean
1	Board structure and functioning	0.17	0.96	0.37
2	Nominating committee	0.38	0.63	0.58
3	Remuneration committee **	0.50	0.88	0.66
4	Risk management committee	0.00	0.88	0.50
5	Audit committee ***	0.42	1.54	0.64
6	Sharia committee *	0.38	3.63	0.84
7	Risk management	0.00	0.56	0.26
8	Internal audit and control	0.17	0.67	0.42
9	Internal audit and control b	0.00	3.00	0.42
10	Related parties transaction	0.00	1.00	0.21
11	Management report	0.00	0.50	0.08
12	Non-adherence to guidelines	0.00	1.00	0.21
13	Customers / Investment Account Holders	0.00	0.07	0.01
14	Governance committee	0.00	0.83	0.31
15	Sharia compliance	0.00	0.75	0.42

The data in table 5 shows that the sharia committee dimension has the highest disclosure index, i.e. 84% followed by the dimension of the remuneration committee (66%) and the dimension of the audit committee (64%). The lowest disclosure index is in the Customers / Investment Account Holders dimension (1%). This dimension contains information about the customer's investment. In this dimension, Islamic banks are expected to disclose items about customer investment conditions such as profit sharing method as well as policies related to customer investment.

The high attention of Islamic Banks on governance issues related to remuneration committees and audit committees is more the result of the Regulation of Bank Indonesia Number 11/33/PBI/2009, December 7, 2009 on the Implementation of Good Corporate Governance for Sharia Commercial Banks and Sharia Business Units which explains that the Board of Commissioners shall establish at least the following: Risk Monitoring Committee; Remuneration and Nomination Committee; and Audit Committee.

The data also shows that there are banks that have not disclosed issues related to D4 Risk management, D9 Internal audit and control, D10 Related parties transaction, D11 Management report, D12 Non-adherence to guidelines, D13 Customers / Investment Account Holders, D14 Governance committee, D15 Sharia compliance.

3.2 General Governance and Specific Governance Information

Furthermore, the results of this study are grouped into two categories as Sulaiman et al. (2015), namely the general governance information and the specific governance information. General governance information includes D1, D2, D3, D4, D5, D7, D8a, D9, D10 and D11. These dimensions are oriented towards achieving operational efficiency to lead to the achievement of economic goals. Specific governance information includes D6, D8b, D12, D13 and D14. These dimensions broaden the orientation towards the realization of corporate social and ethical values through the application of partnership-based business principles. Table 6 shows information on the disclosure of general governance and specific governance undertaken by each Islamic bank in Indonesia.

Table 6: Disclosure of General Governance and Specific Governance Information

Banks	GCGi		SCGi	
	Total	Percentage	Total	Percentage
BMI	34	42.0%	17	40.5%
BSM	27	33.3%	11	26.2%
BMS	37	45.7%	16	38.1%
BRIS	34	42.0%	10	23.8%
Bukopin Sharia	39	48.1%	8	19.0%
BNIS*	41	50.6%	18	42.9%
BJBS	31	38.3%	7	16.7%
BCAS	34	42.0%	17	40.5%
Bank Victoria Sharia	34	42.0%	8	19.0%
Maybank Sharia	28	34.6%	11	26.2%
Bank Panin Sharia	30	37.0%	12	28.6%
BTPN Sharia	36	44.4%	16	38.1%

The data in table 6 shows that all Islamic banks in Indonesia pay more attention to general governance information compared to specific governance. The most attention to specific and general governance information is carried out by BNI Sharia of 50.6 % for general governance and 42.9 % for specific governance. The data above also shows that the highest value for general governance is 41 of 81 general governance items. While for the highest value specific governance is 18 of 42 specific governance items.

Furthermore, to support this result, paired samples test is used to determine whether the differences in Islamic bank's attention to general governance and specific governance are statistically significant. The result of the test as described in table 7 and table 8.

Table 7: Mean GCGi and SCGi

		N	Mean	Std. Deviation	Std. Error Mean
Pair 1	GCGi	12	41.667	5.2086	1.5036
	SCGi	12	29.967	9.5645	2.7610

Table 7 shows that the mean of general governance is 41,667. while the mean of specific governance is 29,967. To prove whether this mean difference is statistically significant the results can be seen in table 8.

Table 8: Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	GCGi - SCGi	11.70000	8.96306	2.58741	6.00515	17.39485	4.522	11	0.001

The test results indicate that there are significant differences (significance level 0.001 < 0.05) between the disclosure of general governance and special governance. Based on these results it can be concluded that Islamic banks in Indonesia tend to disclose general governance information compared to special governance. This is possible because the rules regarding the governance of Islamic banks in Indonesia do not touch matters relating to specific governance as referred by Sulaiman et al. (2011).

Conclusion

Based on the results of analysis and discussion can be summed up things as follows:

Overall the data shows that the governance index of Islamic banks in Indonesia is still at the emerging practices when the guidelines sourced from AAOIFI and IFSB are used as benchmarks. This means that to compete internationally is still needed improvement of better governance.

The basic issue of this study is the extensiveness of governance information expressed by Islamic banks in Indonesia in their annual report. The average score achieved by Islamic banks is 37%. Based on the guidance compiled by Hasan (2011) this value is classified at the level of emerging practice. The study also found that the best governance disclosure is in BNI Sharia (48%), while the lowest governance disclosure is found in BSM and BJBS at 31%. This implies that the length of the bank stands is not a guarantee of rising governance index. Given that BSM is one of the Islamic banks that stand much earlier than BNI Sharia.

The attention of Islamic banks to general governance oriented towards the achievement of operational efficiency to lead to the achievement of economic objectives is higher than the attention to specific governance issues oriented towards the realization of the company's ethical and social values through the implementation of partnership-based business principles. The range of general governance disclosure is in the range of 33.3% - 50.6%. However the specific governance disclosure range is at 16.7% - 40.5%. The difference is proved to be a statistically significant difference. This implies that Islamic banks in Indonesia are not specifically motivated to disclose information related to specific governance. Although according to the Stewardship theory, specific elements of governance actually reflect the aspects of accountability of Islamic banks to stakeholders. Furthermore, stewardship theory suggests that managers and directors of Islamic banks must provide governance information in their annual reports, specifically specific governance to gain the trust of stakeholders.

Based on the 14 dimensions of governance that should be disclosed by Islamic banks, it is found that Islamic banks disclose governance above 50 per cent for dimensions: nominating committee, remuneration committee, risk management committee, audit committee and sharia committee. While governance disclosures for board structure and functioning dimensions, risk management, internal audit and control, internal audit and control b, related parties transactions, management reports, non-adherence to guidelines, customers/investment account holders, governance committees and sharia compliance below 50 per cent.

The results of this study, however, have limitations. First, the small number of Islamic banks in Indonesia (only 12 samples) is a limitation of this study. Further research may be able to expand the sample by adding Islamic banks from other countries. Second, the use of cross-sectional data that only captures disclosure evidence in a given year has ignored the trend of governance disclosure over time. Third, each item in the governance index is assumed to have the same weight of interest. Subsequent research can consider the different weights of each disclosure item so it is expected to give better results.

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The Role of Zakat Potential in Reducing Poverty in Turkey

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Abstract

Poverty has been the leading social and economic problem of societies both in the past and today for the decades. This study examines the status of poverty in the Turkish economy and the role of zakat in poverty reduction. The zakat potential is analyzed in three methods and it is concluded that poverty in Turkey could be completely resolved via a potential zakat fund. It is suggested that to reduce poverty in Turkey, zakat should be enforced by favor of the state and it should be based on institutional foundations.

Keywords: Poverty, Reduction Poverty, Zakat, Zakat Potential

Jel Codes: E62, I31, P24, Z12.

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Introduction

Poverty has been the leading fundamental problem since the beginning of the history of humanity, and even today, societies try to overcome it. Human beings need to fulfill their basic needs such as water, food and shelter. Some people in the world can fulfill these needs, while some cannot. The people who have difficulty in maintaining their lives are described as poor by the society (Bozan, 2010: 36). Poverty was first defined in 1901 by Seebohm Roventree. According to Roventree's definition, poverty is the condition in which a person's total income is not sufficient to fulfill his/her minimum physiological needs, such as food and clothing that are required to maintain his/her biological existence (Arpacıoğlu and Yıldırım, 2011: 60).

In reference to another definition, poverty is the condition in which people do not have the means to fulfill their basic needs such as food, shelter and clothing, and in which people maintain their lives under minimum living standards (Öztürk and Çetin: 2664; Gül and Ergun, 2003: 389).

According to Islam, poverty is the condition in which a person's property does not amount to nisab. The people that do not possess property or money amounting to nisab (equivalent to 80 grams of gold), even though they have fulfilled their basic needs such as a house, household goods and a mount, are considered poor according to Islam. The ones who possess nothing and have to beg for food are called miskeen (Bilmen, ty: 358). In the Islamic literature, being miskeen can be defined as extreme poverty.

When we refer to the ayats and hadiths, we see that helping poor people and fulfilling their needs are duties for the wealthy. It has been stated that people cannot be indifferent to one another in an Islamic society. With reference to this understanding in Islam, the poor and needy have been taken care of, and waives and orphans have been helped in Islamic societies.

Although there are various means to reduce poverty, we come across zakat as the most significant means in Islam. The zakat system provides wealth by receiving from the rich Muslims and donating to the poor.

This study examines the rate and amount of poverty in Turkey. It analyzes in three methods the zakat potential in the Turkish economy and discusses the sufficiency of zakat as an alternative solution to reduce poverty.

1. A Conceptual Look at Poverty and Zakat

While there are different definitions of poverty in literature, the most referenced terms are absolute poverty, relative poverty and humanitarian poverty.

Absolute poverty is the condition in which people cannot obtain the materials for the minimum basic needs required (Bozan, 2010: 38). It is the condition in which the minimum physical needs to survive cannot be fulfilled. The ones in the absolute poverty condition cannot even fulfill their basic humanitarian needs, and in case there is no external help, they face death risks. As designated by the World Health Organization (WHO), poverty is the condition in which an adult gets less than 2100 kcal daily, and it is admitted that the ones who get less than this amount are living under the hunger threshold. Even though there is absolute poverty worldwide, it is mostly seen in the least developed countries and developing countries (Taş and Özcan, 2012: 424).

Prices are important in determining the absolute poverty thresholds of countries. The price differences in countries cause differences in poverty lines, as well. The absolute poverty threshold for the Eastern European countries, including Turkey, has been determined as 4 $ per day (Tireli, 2009: 33).

Relative poverty is a term related to income distribution. While this term is used in all countries, it is mostly seen in the developed and developing countries (Tatlı, 2013: 10). Relative poverty is the condition in which the income level of an individual is below a specific rate of the social wealth level. This rate is generally accepted as 50%. The OECD countries have designated the average wealth level as 50% to determine the poverty line in poverty comparisons. Accordingly, when the incomes of individuals are ordered from the lowest to the highest, the one in the middle is accepted as the poverty line. The ones whose total income is below this line are accepted as relatively poor (TÜSİAD, 2000: 98; Gönel, 2010: 33). The relative poverty rate is the ratio of the ones, whose per capita consumption is below the poverty line based on the individual median income, to the total population (Ensari, 2010: 10).

Humanitarian poverty term was first introduced in 1997 in the Human Development Report by United Nations Development Program (UNDP). It is a poverty criterion developed by UNDP, and it is the condition in which individuals do not have the means to live humanly (Aktan, 2002: 1). As income poverty measurements focus on absolute poverty, humanitarian poverty focuses on the lack of basic humanitarian qualities such as illiteracy, malnutrition, short life span, inadequate maternal-child health care and getting preventable diseases (Taş and Özcan, 2012: 425).

In the Islamic point of view, the poverty term is categorized in two types as poor and miskeen. Islam designates as poor the ones that do not possess any property amounting to nisab, despite fulfilling their basic needs such as food, clothing and shelter, and not facing the risk of starvation. This is measured as the equivalent to 80.18 grams of gold, and the ones whose wealth, except the fundamental needs such as a house, a car and clothing, is below this amount are considered poor. Miskeen, on the other hand, is described as the person that do not possess anything and has to beg to fulfill his/her basic needs such as food and clothing (Akar and Eser, 2012: 77; Erkal, 2007: 477).

In the dictionary, which means cleaning up, multiplying blessing and growing zakat (Yavuz, 2018: 31), is donating to the needy Muslims for Allah’s sake a portion of the property amounting to nisab, defined in accordance with the ayats and sunnah (hadiths), at a specific time (Yıldırım, 1980:107). Pursuant to Islam, zakat is the donation by the wealthy Muslims, of gold, money, agricultural products, livestock, minerals, industrial products and commercial products in the amounts and to the recipients defined in the Qur’an and sunnah. Zakat is a financial worship as well as being fard, and it can be seen that it has a significant role in poverty reduction, when used in the Islamic standards. This fact is confirmed by the enforcements in different periods in the history of Islam.

2. The Role of Zakat in Poverty Reduction

It is reported that zakat enforcement goes back to the Prophet (pbuh)'s prophethood in Mecca. In this period, zakat was not imperative, but it was encouraged and recommended. It was encouraged to help the poor and needy Muslims. Referring to the 4th ayat of Surah Al-Mu'minun: "And they who are observant of zakat". Some scholars report that zakat was made fard in Mecca. However, as the Muslims did not have a state in Mecca, it was neither imperative to give zakat nor zakat was collected by the state (Dumlu, 2010: 99).

In another view, on the other hand, it is indicated that zakat was made fard in the second year of hijrah, and that Muslims were handing in their zakat to the Prophet (pbuh) by the ninth year of hijrah. In the ninth year of hijrah 103rd ayat of Surah At-Tawbah descended, and it is noted that zakat was collected and distributed to the poor by the state, along with the order: "Take alms out of their property" (Kılıç, 2017: 48-50; Samad and Glenn, 2010: 307). The Prophet (pbuh) assigned zakat officials to collect and distribute zakat. He notified the officials via letters about the rules indicating how and what amount of zakat is to be taken from specific properties, and demanded that the officials act accordingly (Kılıç, 2017: 51-57). The officials collected the zakat in the manner determined by the Prophet (pbuh) and distributed them to the poor in the region (Yavuz, 1972: 309).

During the period of the Rashidun Caliphs, as well, after the Prophet (pbuh) had passed away, the Caliphs followed the Prophet (pbuh)'s way. They acted in accordance with the documents that He dictated (Bilmen, t.y: 340-352).

During the Caliph Omar's period the zakat revenues increased. Muaz b. Jabal, who had been sent to Yemen by the Prophet (pbuh) as the governor, remained in office during Caliph Omar's era and sent the 1/3 of the zakat revenues to Medina. When Caliph Omar reminded that zakat should be collected from the wealthy in the region and distributed to the poor, Muaz b. Jabal stated that he had distributed zakat to the poor in the region and that he had sent the surplus. In the second year, he sent half of the zakat collected. Caliph Omar once again reminded that zakat should be collected from the wealthy in Yemen and distributed to the poor. Muaz b. Jabal, on the other hand, stated that he had distributed zakat to the poor and that he had sent the surplus. And in the third year, he sent to Medina the total zakat revenues collected, and informed that there was no one in Yemen to give zakat. This shows that during the Caliph Omar's period, the poverty problem was resolved in some regions by means of zakat (Boynukalın, 2017: 97-98; Rizvi, 1981: 18; Kutup, 1968: 442). It became harder to find a poor person to give zakat during the Caliph Omar's period. He adopted the principle of giving zakat until the poor turned rich. He ordered that the total zakat collected be distributed (Saad and Sawandi, 2016: 173). In this period, a council board was established to record the public revenues.

Following Caliph Uthman's martyrdom, Muslims hesitated about whom to give zakat. Sa'ad bin Abu Vakkas, Abu Hurairah and some other companions of the Prophet (pbuh) stated that zakat was to be given to the sultan. Abdullah ibn Omar, too, stated that zakat was to be given to the rulers (Apak, 2017: 165).

During the Umayyad and Abbasid periods, the council board improved, and "Diwan Al-Sadaqah" (Council for Alms) was established. Caliph Omar ibn Abdul Aziz also adopted the principle of distributing zakat where it is collected. He ordered the officials that zakat be distributed where it is collected, and that it be transferred to and distributed in the closest region, in case of a surplus (Apak, 2017: 312). In the Caliph Omar ibn Abdul Aziz's era, it got harder to find poor people to give zakat (Er, 2016: 65). Thus, the Caliph freed the slaves with the zakat revenues by taking judicial decisions regarding zakat. Houses were built and given to the poor for free, the young who wanted to get married were helped, and mounts were donated to the ones without a means of transport (Saad and Sawandi, 2016: 442). This shows that zakat is one of the most effective means of poverty reduction, if the zakat revenues are collected and spent properly by the government.

Imam Abu Yusuf, who was appointed as the head kadi in the Abbasid era, followed the Prophet (pbuh)'s way, adopting the opinion that zakat should be distributed where it is collected, and that it would not be proper to transfer it to somewhere else before distributing it to the poor in the region (Yeşilyurt, 2015: 108). Kardavi also believes that the distribution of zakat in the region where it is collected would not be transferred to other regions unless there is valid reason (Kardavi, 2017: 51).

3. Current Poverty and Zakat Potential in Turkey

Poverty in Turkey is not peculiar to today, but it is a condition dating back to the first years of the Republic. Even though Turkey did not participate in the Second World War, it was subjected to the negative effects of the war and poverty persisted, along with the destruction by the Turkish war of independence (Kayalıdere and Şahin, 2014: 68; Kızıler, 2017: 85).

Poverty in Turkey was brought to the agenda in the 1950s. As industrialization expanded in the 1950s, migration from rural to urban areas began. And the migration from rural to urban areas caused urban squatting and an increase in the infrastructure problems. The migrants had to live in urban slums, due to lack of economic opportunities. In these places, the former comers tried to help the later comers. At that time, poverty was not so evident, thanks to the traditional institutions and moral values. However, since the 1980s, poverty has become apparent (Açıkgöz and Yusufoğlu, 2012: 82). And since the second half of the 1980s, during the ANAP government led by Turgut Özal, the poverty problem has begun to be dealt with (Gül, 2002: 112).

The economy downsized, unemployment increased and income distribution deteriorated, due to the economic crises in Turkey in the 1990s. Despite the economic growth, increased unemployment caused increased poverty. The economic crisis in 1994, specifically, led the poverty to be more evident. The inequality in income distribution increased more and more in Turkey, where economic crises continued in the 2000s. 2 million people in Turkey became unemployed by the economic crisis in 2001. Although Turkey was little affected by the global crisis of 2010 and 2011, the crises increased the inequality in income distribution (Yıldırımalp, 2017: 248-249). Turkey ranked among one of the countries where the inequality in income distribution is the highest in the world. The fact that the inequality in income distribution increased because of crises led the gap between the top and bottom income groups to widen gradually, and the income distribution to deteriorate further (Arabacı, 2014: 184).

3.1 Current Poverty Indicators in Turkey

Based on the table 1, food poverty (hunger) rate in Turkey is quite low. This rate was 1.35% in 2002 and decreased to 0.48% in 2009. The hunger rate in urban areas was 0.92% in 2009 and decreased to 0.06% in 2009. In rural areas, it decreased from 2.01% in the same period to 1.42% in 2009. The hunger rate in rural areas in 2009 is 23-fold of that in urban areas. While the number of people living under the hunger threshold in Turkey was 926 thousand in 2002, it decreased to 539 thousand in 2006. In the same period, the number of people suffering from hunger in urban areas decreased from 376 thousand to 18 thousand, as the number of people suffering from hunger in rural areas decreased from 550 thousand to 521 thousand. The number of people living under the hunger threshold in urban areas reduced 21-fold, while the reduction rate in the ones in rural areas was only 5% (Kabaş, 2010: 195).

World Bank designated 4.3$ per capita daily as the poverty line for Eastern Europe and Turkey. Accordingly, poverty rate in Turkey was 30.3% in 2002, and this rate decreased to 20.89% in 2004; to 13.33% in 2006; to 6.83% in 2008; and to 4.35% in 2009 (TurkStat: 2015; Çilingiroğlu, 2009: 27). The rate of those with an income below 4.3 $ daily reduced to 3.66% in 2010; to 2.27% in 2012; to 2.06% in 2013; to 1.62% in 2014; and to 1.58% in 2015. Turkey's population was 78,741 thousand in 2015, and the number of those with an income below 4.3 $ daily was 1,244 thousand. In 2002, the rate of those living under the poverty line of 4.3 $ daily was 24.62% in urban areas, while this rate decreased to 0.96% in 2009; to 0.94% in 2011; and to 0.64% in 2013. On the other hand, in rural areas in 2002, this rate was 38.82%, and it reduced to 11.92% in 2009; to 6.83% in 2011; and to 5.13% in 2013 (TurkStat, 2015). While poverty reduced 38-fold in urban areas, it reduced 7-fold in rural areas.

In Turkey, the poverty rate based on food + non-food expenditure was 26.96% in 2002, it reduced to 20.50% in 2005; and to 18.08% in 2009. In the same period, this rate decreased from 21.95% to 8.86% in urban areas, while it increased from 34.48% to 38.69% in rural areas. The poverty rate based on food + non-food expenditure decreased in urban areas, as it increased in rural areas. The number of poor people based on food + non-food expenditure was 18,441 thousand in 2002, decreased to 12,930 thousand in 2006, but it increased to 13,119 thousand in 2009. In the 2002-2006 period, as the number of poverty based on food + non-food expenditure decreased from 9,011 thousand to 4,225 thousand in urban areas, it decreased from 9,429 thousand to 8,706 thousand in rural areas. In this period, there was a reduction of 5.5 million in the number of poor people, while 4.8 million of this amount was in urban areas and 0.7

million was in rural areas. Turkey's population increased by 3,3 million in this period, as the number of poor people reduced by 5.3 million (TurkStat, 2015; Kabaş, 2010: 197).

In Turkey, while the rate of relative poverty based on expenditure was 14.74% in 2002, it increased to 15.15% in 2009 with a rising and falling course. In the same period, the rate of relative poverty based on expenditure decreased from 11.33% to 6.59% in urban areas, and it increased from 19.86% to 34.20% in rural areas (TurkStat, 2015). In the interim period, as the rate of relative poverty based on expenditure decreased by 42% in urban areas, it increased by 72% in rural areas. This shows that poverty in rural areas increased significantly in the interim period (Çalışkan, 2010: 120).

Because most of the poor in Turkey are living on a level close to the food poverty threshold, it is possible to save them from poverty with a small transfer aid. However, the efficiency of the transfer expenditure aimed at the poor in Turkey has not yet reached to the desired level (DPT, 2010: 15-16).

Table 1: The Poverty Rates of Individuals According to Poverty Line Methods (Turkey), 2002-2009 (%)

Years	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Food Poverty (hunger)	1.35	1.29	1.29	0.87	0.74	0.48	0.54	0.48
Complete Poverty (food+non-food)	26.96	28.12	25.60	20.50	17.81	17.79	17.11	18.08
Below 2.15 $ per capita per day	3.04	2.39	2.49	1.55	1.41	0.52	0.47	0.22
Below 4.3 $ per capita per day	30.30	23.75	20.89	16.36	13.33	8.41	6.83	4.35
Relative poverty based on expenditure	14.74	15.51	14.18	16.16	14.50	14.70	15.06	15.15
Urban								
Food Poverty (hunger)	0.92	0.74	0.62	0.64	0.04	0.07	0.25	0.06
Complete Poverty (food+non-food)	21.95	22.30	16.57	12.83	9.31	10.36	9.38	8.86
Below 2.15 $ per capita per day	2.37	1.54	1.23	0.97	0.24	0.09	0.19	0.04
Below 4.3 $ per capita per day	24.62	18.31	13.51	10.05	6.13	4.40	3.07	0.96
Relative poverty based on expenditure	11.33	11.26	8.34	9.89	6.97	8.38	8.01	6.59
Rural								

Food Poverty (hunger)	2.01	2.15	2.36	1.24	1.91	1.41	1.18	1.42
Complete Poverty (food+non-food)	34.48	37.13	39.97	32.95	31.98	34.80	34.62	38.69
Below 2.15 $ per capita per day	4.06	3.71	4.51	2.49	3.36	1.49	1.11	0.63
Below 4.3 $ per capita per day	38.82	32.18	32.62	26.59	25.35	17.59	15.33	11.92
Relative poverty based on expenditure	19.86	22.08	23.48	26.35	27.06	29.16	31	34.20

Source: TurkStat, Poverty Study, 2015.

Table 2: The Poverty Rates of Individuals According to Poverty Line Methods (Turkey), 2010-2015 (%)

	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Those who live below 2.15 $ per capita per day	0.21	0.14	0.06	0.06	0.03	0.06
Those who live below 4.3 $ per capita per day	3.66	2.79	2.27	2.06	1.62	1.58
Urban						
Those who live below 2.15 $ per capita per day	0.04	0.02	0.02	0.02	-	-
Those who live below 4.3 $ per capita per day	0.97	0.94	0.60	0.64		
Rural						
Those who live below 2.15 $ per capita per day	0.57	0.42	0.14	0.13	-	-
Those who live below 4.3 $ per capita per day	9.61	6.83	5.88	5.13	-	-

Source: TurkStat, Poverty Study, 2015.

Table 3: Poverty in Turkey, Based on Median Equivalised Household Disposable Income, 2006-2007

Years	**2006**	**2008**	**2010**	**2012**	**2014**	**2015**	**2016**	**2017**
50%								
Poverty Threshold TRY	2351	3164	3714	4515	5554	6246	7116	7944
Number of the Poor (Thousand)	12,548	11,580	12,025	11,998	11,332	11,219	11,026	10,622
Poverty Rate %	18.6	16.7	16.9	16.3	15	14.7	14.3	13.5
Poverty Deficit	31.7	25.6	26.6	26.9	24.4	25.3	24.3	22.6
60%								
Poverty Threshold TRY	2821	3797	4457	5418	6665	7495	8539	9532
Number of the Poor (Thousand)	17,165	16,714	16,963	16,741	16,501	16,706	16,328	15,864
Poverty Rate %	25.4	24.1	23.8	22.7	21.8	21.9	21.2	20.1
Poverty Deficit	33.6	27.9	28.7	29.2	27.2	26.8	26.5	25.8

Source: TurkStat, Income and Living Conditions Survey.

Median is the midpoint in a statistical range, dividing the range into two equal parts. Median income is the income of the individual in the middle of the sequence (Özdemir, 2017: 82).

In Table 3, poverty threshold in Turkish lira, poverty rates and number of the poor in Turkey between 2006 and 2017 are indicated, based on the individual median disposable income. According to the poverty threshold calculated based on the 60% of the individual median disposable income -also used by the EU member states- the poverty rate in Turkey was calculated 25.4% in 2006; 23.8% in 2010; 21.8% in 2014; 21.2% in 2016; and 20.1% in 2017. In the interim period, the poverty rate decreased by 5.3 points. The number of the poor was 17,165 thousand in 2006, decreased to 15,864 thousand in 2017, and the number of the poor decreased by 1,301 thousand people (TurkStat, 2017).

According to the poverty calculation based on the 50% of the individual median disposable income, the poverty rate in Turkey was 18.6% in 2006; 16.9% in 2010; 14.7% in 2015; 14.3% in 2016; and 13.5% in 2017. In this period the poverty rate decreased by 5.1 points. Turkey's population was 69,729 thousand in 2006, it increased to 80,810 thousand in 2017, and it increased by approximately 11 million in 12 years. The number of the poor based on the 50% of the individual median disposable income was 12,548 thousand in 2006; 10,622 thousand in 2017, and the number of the poor decreased by 1,926 thousand. While the GDP per capita was 7,906 $ in 2006, it increased to 10,602 $ in 2017, increasing by 34% (TurkStat, 2017). The fact that the GDP per capita in Turkey increased by 34% in dollar and that in the same period

Turkey’s population increased 11 million, while the number of the poor decreased by 1,9 million indicate that Turkish economy has developed.

Table 4: Income Distribution in Turkey, Based on 5 Percentiles

i^{th} percentile	2006	2008	2010	2011	2012	2013	2014	2015	2016	2016 Annual Approximate Per Capita Income (TRY)
1st 5%	0.7	0.9	0.9	0.8	0.9	0.9	1	0.9	0.9	3,569
2nd 5%	1.1	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.4	5,465
3rd % 5	1.5	1.7	1.7	1.7	1.7	1.8	1.8	1.8	1.8	6,702
4th %5	1.8	1.9	2	2	2	2	2.1	2.1	2	7,788
5th %5	2.1	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3	8,787
6th %5	2.3	2.5	2.5	2.5	2.5	2.6	2.6	2.6	2.5	9,716

Source: Çalışkan, 2010: 106; TurkStat, Statistics on Income Distribution and Living Conditions

In Table 4, the income distribution in Turkey along 2006-2016 is given in 5 percentiles. At the end of the table, the annual per capita income of each percentile is given. In 2016, the minimum wage was 1,300 TRY for the singles and 1,362 TRY for the married with two children (Republic of Turkey Ministry of Family and Social Policies, 2016).

The first 5 percentile’s of GDP was 0.7% in 2006 and it increased to 0.9% in 2016. In 2016, the annual approximate per capita income of this group was 3,569 TRY and the monthly per capita income was 297 TRY. In 2016, minimum wage for the singles was 1,301 TRY; and 1,362 TRY for the married with one salary and two children. The monthly income of a family of four in this group is 1,190 TRY, even below the minimum wage. In 2016, the average exchange rate of dollar by the Central Bank was 3.022 TRY. The monthly income of a family of four in this group is 393.7 $, and the monthly per capita income is 98.4 $. The daily per capita income of this group is 3.28 $. The poverty threshold designated for Turkey is 4.3 $. The daily poverty deficit of this group is 1.02 $. The table shows that this percentile is living under the poverty threshold.

In 2016, Turkey’s population was 79,814,871. When the population is divided in 5 percentiles, the number of people per each percentile is 3,990,743. The amount of transfer to save this group from poverty is 4,070,557 $ daily; 122,116,735 $ monthly; and 1,465,400,830 $ annually. This is 4.428.441.308 TRY.

The annual per capita income of the second 5 percentile was 5,465 TRY and the monthly per capita income was 455 TRY in 2016. The monthly approximate income of a family of four in this group was 1,821 TRY in 2016, and it was higher than the minimum wage. The monthly income of this group in 2016 was 602 $; monthly per capita income was 150.6 $; and daily per capita income was 5.02 $. This group has an income higher than the 4.3 $ of poverty threshold. Yet, this group lives with an income below the relative poverty threshold.

In the third 5 percentile, one person's income was 6,702 TRY annually; 558 TRY monthly; and 18.6 TRY; 6.16 $ daily in 2016. The monthly approximate income of a family of four in this group is 2.234 TRY. The share this group received from the GDP was 1.5% in 2006, while it increased to 1.8% in 2016. There is 0.3 points of increase in the share this percentile received from the GDP.

Based on the 50% of the median income in Turkey, the poverty rate in 2016 was 14.3% (TurkStat). This shows that the first three 5 percentile are living under the relative poverty threshold.

The share the fourth 5 percentile received from the GDP was 1.8% in 2006, and it increased to 2% in 2016, rising 0.2 points. The lowest income group of 20%, which is the sum total of the first four 5 percentiles, receives 6.2% from the GDP. Annual approximate income of a person in the fourth 5 percentile is 7,788 TRY; monthly income per capita is 649 TRY. The daily income per capita is 21.6 TRY; 7.15 $. The monthly income of a family of four in this group is 2,596 TRY, and it equals to the salary of 2,564 TRY of a civil servant of 9/1 grade, in the same year.

The arithmetic mean of the third and fourth 5 percentiles gives us the poverty threshold, based on the 50% median income. This sum is per capita 7,245 TRY annually; 603.75 TRY monthly; and 20,12 TRY daily. It equals to 6.66 $ on the basis of dollars.

3.2 Methods for Calculating the Zakat Potential in Turkey

The first zakat potential studies in Turkey were conducted by the end of 1980s. There are three methods to calculate the zakat potential. These are the method to calculate the zakat potential based on the GDP, the method to calculate the zakat potential based on the Credit Suisse Global Wealth Report and the method to calculate the zakat potential based on the Forbes Richest 100 List.

3.2.1 Calculating the Zakat Potential Based on the GDP

In the calculation of zakat potential based on the GDP, zakat is calculated by the 5% or %10 of the components of agriculture and industry revenues, and 2.5% of the service revenues. Indirectly measured financial intermediation, tax and subsidies are excluded from zakat. In the agriculture sector, the zakat ratio to designate the zakat potential is 1/20, as production is generally achieved by irrigation (El-Kardavi, 1973: 468; Tabakoğlu and Turan, 2017: 918). The zakat ratio of the industry sector is 5%, and that of the service sector is 2.5%. Özek et al. (1987), Zaim (1987), Kahf (1989) and Shirazi (2014) used this method to calculate the zakat potential.

3.2.2 Zakat Potential Based on the Credit Suisse Global Wealth Report

In the calculation of the zakat potential based on the Credit Suisse Global Wealth Report, the richest 10% of the population is taken into account. The population under 20 years of age is not taken into account. In the calculation of the zakat potential, 1/40 (2.5%) of the total wealth of the richest 10% is designated as the zakat potential (Tabakoğlu and Turan, 2017: 903).

These assets are calculated, and the debts are deducted. In this calculation method acquired, it is aimed to make the best zakat estimations, based on the household balance sheet data. Although financial and nonfinancial data may not be precisely accurate in calculating the amount of wealth per capita, they are not far from the reality. (Tabakoğlu and Turan, 2017: 902).

3.2.3. The Zakat Potential Based on the Forbes Magazine the Richest 100 List

In this calculation method, the stocks, real estate values and all the other assets of the richest 100 are calculated, based on the list by the Forbes Magazine issued every year. It is stated that this method is more accurate than the other two methods in calculating the zakat potential, as in this method, the wealth of the 100 people is calculated by the experts. The real estate and other assets, along with the value of the stocks owned are taken into account. The unfavorable side of this method is that it is not known whether there are non-Muslims in the list, and that the assets included in the calculation cannot be known in detail (Tabakoğlu and Turan, 2017: 903).

3.3 A Trial for Calculating the Zakat Potential in Turkey

3.3.1 Literature Review

The studies on the zakat potential in Turkey began in the 1980s. A book prepared by Özek et al. (1987) and published by ISAV attempts to estimate the zakat potential in Turkey.

In the article titled "Zekatın İktisadi Önemi" (The Economic Importance of Zakat), Zaim (1987) attempts to estimate the zakat potential in Turkey for 1986.

In the article titled "Zakat: Unresolved Issues in the Contemporary Fiqh", Kahf (1989) attempts to designate the zakat potential of some Islamic countries, including Turkey.

In the article titled "Integrating zakat and waqf into the poverty reduction strategy of the IDB member countries", Shirazi (2014) attempts to estimate the zakat potential in the Islamic Development Bank member countries.

Tabakoğlu and Turan (2017), considering Kahf's and Kardavi's opinions, measure the zakat potential in Turkey, and designate the ratio of the zakat potential to the GDP. In their study, although the zakat potential has been calculated, its impact on poverty reduction is not clearly defined. To fulfill this gap in the literature, this study examines the Turkish economy in 2012-2017 in terms of the practices suggested by Kardavi, presenting it in three different methods.

3.3.2. Calculating the Zakat Potential in Turkey, Based on the GDP Method

In the zakat calculations based on the GDP, as the haram and illegitimate revenues are included, it cannot be said that zakat is fard for all of them. Since there is no way to differentiate these revenues that are not subject to zakat, this calculation method may not give properly accurate results (Tabakoğlu and Turan, 2017: 919).

In their study, Özek et al. (1987) calculate the zakat potential in Turkey in 1983-1985. They calculate the ratio of the zakat potential to the GDP for 1984 as 1.9%.

In his study, Zaim (1987) calculates the ratio of the zakat potential to the GDP in Turkey in 1986 as 1.8%.

Furthermore, in his study in 1989, Kahf calculates the zakat potential in some Islamic countries, based on the traditional fiqh and on Kardavi's opinion. According to his calculations, the ratio of the zakat potential to the GDP in Turkey is 1.9% based on the traditional fiqh; 4.9% based on Kardavi's opinion; and 7.5% based on Kardavi's opinion regarding that the zakat of real estate should be calculated as 2.5%.

According to the calculation by Tabakoğlu and Turan, based on this method, the mean zakat potential in Turkey between 2012 and 2017 is around 2.78% of the GDP. (Tabakoğlu and Turan, 2017: 919). It is possible that the real zakat potential is below this amount. However, the informal economy is excluded from this potential calculation.

Table 5: Turkey's GDP with Current Prices Based on the Economic Activity Sectors (Million TRY)

Sectors	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Agriculture, forestry and fishery	112,635	115,658	124,586	161,448	161,304	188,651
Industry	273,789	299,799	341,782	461,963	511,806	640,580
Construction	61,807	69,557	79,765	190,619	223,363	265,680
Services	815,224	903,090	1,009,365	1,246,696	1,402,413	1,655,362
Sectors Total	1,263,456	1,388,104	1,555,498	2,060,726	2,298,896	2,750,273
Indirectly Measured Financial Intermediation	22,390	25,195	25,063	-	-	-
Tax-Subsidies	175,750	204380	217,732	277,921	309,629	354,633
GDP	1,416,816	1,567,289	1,798,293	2,338,647	2,608,525	3,104,906

Source: TOBB Economic Report, 2012: 55; TOBB Economic Report, 2015: 34; TOBB Economic Report, 2017: 32.

Table 6: Calculating the Zakat Potential Based on Turkey's GDP (Million TRY)

	Agriculture	Industry	Services	Sectors Total	Zakat Potential	The Ratio of Zakat Potential to GDP (%)
2012	112,635/20 = 5,631.75	273,789/20 =13,689.45	815,224/40 =20,380.6	1,201,648	39,701.8	2.80
2013	115,658/20 = 5,782.9	299,739/20 = 14,990	903,089/40 = 22,772.2	1,318,486	43,545.1	2.78
2014	124,586/20 =6,229.3	341,782/20 = 17,089	1,009,365/40 = 25,234.1	1,475,733	48,552.4	2.78
2015	148,287/20 = 7,414.35	371,458/20 =18,572.9	1,120,756/40 = 28,018.9	1,640,501	54,006.15	2.76
2016	161,304/20 = 8,065.2	511,805/20 = 25,590.2	1,402,423/40 = 35,060.5	1,234,008	76,781.2	2.94
2017	188,650/20 = 9,432,5	640,580/20 = 32,029	1,655,362/40 =41,383.8	1,517,897	82,845.3	2.67

Source: TOBB, 2012: 55; TOBB, 2015: 34; TOBB, 2017: 32.

3.3.3 Calculating the Zakat Potential, Based on the Credit Suisse Global Wealth Report

In Table 7, Turkey's zakat potential in 2015 has been calculated based on the Credit Suisse Global Wealth Report. Based on this method, Turkey's zakat potential is 20,756 250 thousand $, and this equals to 60,193,125 thousand TRY, corresponding to 2.57% of the GDP.

Table 7: Turkey's Zakat Potential in 2015 Based on the Global Wealth Report

Global Wealth Report Data for 2015	$
Total Wealth Worldwide	250,145,000,000,000
Total Wealth in Turkey	1,025,000,000,000
Ratio of Turkey's Wealth to Total Wealth Worldwide	0.40%
Ratio of the Richest 10% in Turkey to Total Wealth	81%
Total Wealth of the Richest 10% in Turkey	830,250,000,000
10% of the Population Holding the Highest Wealth	5,308,300
Per Capita Wealth of the % 10	19,303
Zakat Potential of the 10%	20,756,250,000

Source: Tabakoğlu and Turan, 2017: 922.

3.3.4 The Zakat Potential in Turkey, Based on the Forbes Method

Based on this method, the wealth of the richest 100 in Turkey in 2015 was 100.4 billion $. The 1/40 of this amount is the zakat potential, and it is 2,510 million $, corresponding to 6,827 million TRY (Tabakoğlu and Turan, 2017: 923). This also shows the big zakat potential of the richest 100 people in Turkey. Considering 1,465 million $ as the required amount to save the people from poverty in Turkey, even the zakat potential of the richest 100 people in Turkey is sufficient to save people from absolute poverty.

The zakat potential was 2,367 million $ in 2016; 2,572 million $ in 2017; and 3,035 million $ in 2018. It is indicated that the zakat potential of the richest 100 people is close to the 1/10 of the probable potential (Tabakoğlu and Turan, 2017: 924). The greatness of the zakat potential in Turkey becomes evident, considering that 10 times of the zakat potential of the richest 100 people is the zakat potential of a country.

Table 8: The Wealth and Zakat Potential of the Richest 100 Turkish People Based on the Forbes Magazine

Year	Wealth (Million $)	Zakat Amount (Million $)	Zakat Amount (Million TRY)
2015	100,400	2,510	6,827
2016	94,700	2,367	7,148
2017	102,900	2,572	9,387
2018	121,400	3,035	14,416

Source: Forbes, 2016; Forbes, 2018.

When 2015 is taken as the basis, the zakat potential is calculated as 54 billion TRY based on the GDP, the first method; 56.4 billion TRY based on the Credit Suisse Global Wealth Report, the second method; and the zakat potential of the 100 people is calculated as 6.8 billion TRY based on the Forbes Magazine the Richest 100 List, the third method. When it is defined that the potential of the richest 100 based on the Forbes report equals to approximately 1/10 of the country potential, the sum is 68 billion TRY. The fact that the figures are close to one another provides the estimated zakat potential. As the first method provides the zakat potential based on production and the second method based on wealth, and as zakat is calculated based both on production and on wealth, the zakat potential in 2015 was 54 + 56.4 =110.4 billion TRY. Taking the Prophet (pbuh)'s order into account stating: "when you make an estimation regarding zakat of the crops, leave 1/3 to the owner"(Yavuz, 2018: 605; Erkal,2008: 193), the approximate zakat potential is calculated as 73.6 billion TRY. This amount is close to the calculation based on the Forbes report. The unrecorded economy and mattress savings have not been taken into account, while calculating this potential. When these are also taken into account, it is reasonable to think that the real zakat potential is much higher than the probable potential calculated.

Table 9: The Annual Transfer Amount in 2016 to Save the Poor in Turkey from Poverty

	Poverty Threshold	Annual Per Capita Income	Poverty Deficit	Number of People per Percentile	Transfer Amount (Million TRY)
1st 5 Percentile	7,245	3,569	3,676	3,990,743	14,670.
2nd 5 Percentile	7,245	5,465	1,780	3,990,743	7,103
3rd 5 Percentile	7,245	6,702	543	3,990,743	2,167
Total TRY	-	-	-	-	23,940
Total $					7,922 million $

Source: Prepared by the writers based on TurkStat poverty data.

Based on Table 9, the amount required in 2016 to save the poor from relative poverty was 23,940 million TRY; 7,922 million $. The zakat potential of the same year based on the wealth of the richest 100 Turkish people designated by Forbes magazine is 7,148 million TRY. When the country potential is estimated as the 10 times of this amount, it equals to 71,480 million TRY, and it makes 23,670 million $, excluding the mattress savings. It is forecasted that the amount will increase when the mattress savings are included. It is estimated that approximately 1/3 of the zakat potential will be sufficient to save the people in Turkey from poverty

Conclusion and Recommendations

This study has examined the importance of zakat in reducing poverty. As known the poverty is one of the most significant social problems in societies. Considering Islamic history, it can be seen that zakat had an effect on reducing poverty and that in this context, poverty was at times reduced and at times removed. Acting on the statistical data, it is observed that poverty is substantially in question in Turkey. In Turkey, even though some practices such as transfer expenditures, social aids and so on are present in poverty reduction, they cannot effectively remove this problem. On the other hand, the zakat potential, which has a significant value, is not benefitted from in a planned manner. It can be seen that the zakat potential of Turkey is higher than the total poverty figure, taking into account the GDP method, Credit Suisse Global Wealth Report and the Forbes Wealth Report. According to Shirazi’s study (2014) on the poverty and zakat potential in the Islamic countries, the required transfer of funds to save the people living with an income under 2$ in Turkey in 2005 equals to 0.244% of the GDP. Therefore, it is possible to remove poverty by means of the zakat potential, considering that the zakat potential in Turkey in the mentioned year is 1.77% of its GDP, based on the traditional fiqh; and 3.78% and 4.26% based on Kardavi’s opinion. Bilen (2016), too, shares similar results in his study based on Shirazi’s research. In light of these data, it can be pointed out that in Turkey, it is possible to reduce poverty and even remove it completely by means of the zakat revenues. The society and economy are devoid of this benefit, as the zakat potential, which is a significant instrument, is not used.

Within this context, first of all the government should take into consideration that the zakat potential is an important means to reduce poverty. The government should allocate a fund to collect zakat and distribute it to the appropriate recipients via this fund. The principle of distributing zakat where it is collected should be followed. This practice will help the trust in the zakat fund to increase and to encourage giving zakat. Thus, zakat can be collected effectively and make a significant contribution in poverty reduction.

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Şeriatın Maksatları ve İslami Finans Ürünleri: Değerlendirme İçin Bir Çerçeve[1]

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Giriş

İslam hukukunun genel amacı, insanlığın refahını veya faydasını (maslahat) artırmak veya kötülükten (mefsedet) sakındırmaktır. Şâtıbî'ye göre maslahat; zaruri ihtiyaçlar (zaruriyyat), tamamlayıcı ihtiyaçlar (haciyyat) ve güzelleştirici ihtiyaçlar (tahsiniyyat) düzenlenerek elde edilir (Hallaq, 2004). Zarurat, iyi bir hayatın temel unsurlarını içermektedir ve onları korumak şeriatın maksatlarını oluşturmaktadır (*makasıdu'ş-şerîa*). Gazali *makasıdı*; dinin, nefsin, aklın, neslin ve malın korunması olarak tanımlar (Chapra, 2008). Dolayısıyla, İslam Ticaret Hukuku'nun amacı, *makasıd*ın bir veya birkaçını korumak ve güçlendirmek olmalıdır. Bu, İslam'da sözleşme ve ticari işlemlerin mülkiyet ve nesli koruduğu, geliştirdiği ve desteklediği için kutsandığını ve teşvik edildiğini savunan Hallaq (2004) tarafından da teyit edilmektedir.

İslami finans, doğası gereği sosyal/toplumsal yönü olan bir İslam ekonomisi sisteminin parçası olarak görülmektedir. Bu sistemin genel hedefi; ekonomide büyüme ve adaleti sağlayarak tezahür edebilen şeriatın maksatlarını gerçekleştirmektir (Siddiqi, 2004). Bu, hukuki gereklilikleri yerine getirmenin ötesinde, bir İslami finansal sistemin aynı zamanda bir toplumun sosyal ihtiyaçlarını da karşılaması gerektiğini işaret etmektedir. Buna göre, *makasıd*ın İslami finans kurumlarının faaliyetlerinde ve ürünlerinde içselleşmiş olması gerektiği şeklinde genel bir mutabakat vardır (Siddiqi, 2006). Dusuki ve Abdullah, *makasıd*ın firmaların faaliyetleri üzerindeki etkisini ve maslahat piramidinin (zaruriyyat, haciyyat, tahsiniyyat) kurumsal sosyal sorumluluk üzerine etkilerini incelemektedir. Bununla birlikte, finansal ürünler düzeyinde *makasıd*ın uygulanabilme yollarını araştıran spesifik bir araştırma bulunmamaktadır. Bu çalışmada, ürünlerle ilişkili olarak *makasıd*ın karakterizasyonu/tarifi ortaya konulmaktadır.

İslami finansın çağdaş uygulaması, *makasıd*ı yerine getirmediği için eleştirilmektedir. İslami finansın uygulanması etrafındaki tartışma, şer'i uyumlu ve şer'i temelli İslami ürünler

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arasında bir ayrıma sebep olmuştur. Bununla birlikte, bu terimlerin neyi içerdiğine dair net tanımlar yoktur. Bazı akademisyenler şer'i uyumlu ve şer'i temelli ürünlerin aynı olduğunu ileri sürdüğünden hukuki ve toplumsal şer'i gereksinimler açısından İslami finansın farklı ayrıntıları arasında bir ayrıma ihtiyaç vardır. Bu araştırmada, İslami finansal ürün kategorilerini sınıflandırmanın nesnel bir yolu önerilmektedir. Özellikle, *makasıd*da belirtilen hukuki ve sosyal şer'i gereklilikler, İslami finansal ürünlerin şer'i temelli, şer'i uyumlu ve sözde İslami şeklinde sınıflandırılması için kullanılmıştır. Bu çalışma aynı zamanda ürün çeşitlerini seçme hususunda farklı paydaşların rolünü de tespit etmektedir.

1. *Makasıd* ve Şer'i Gereklilikler

İslami finans işlemlerinde şeriatın maksatlarının yerine getirilmesinin gereklilikleri olarak şu iki şart belirtilebilir. İlk şer'i gereklilik; işlemlerin hukuki yönleriyle ilgilidir. Kahf (2006) işlem aşamasındaki *makasıd*ın, İslam hukukunda öngörülen mübadelenin temel hedefleri yerine getirerek gerçekleştirileceğini iddia etmektedir. Bunlar; mülkiyet haklarını korumak, kişilik haklarıyla oluşan sahipliğin sürekliliğine/sabitliliğine saygı göstermek, işlemi gerçek hayat faaliyetiyle ilişkilendirmek, mülkiyet haklarının satışlarda devri, borç satmayı yasaklamak vb. içermektedir. Ayrıca, hukuki kurallar (el-kavâidu'l-fıkhıyye) İslam hukukunun ruhunu yansıttığından, tüm amaçlar veya maksatlarla ilişkilendirilebilir (Kamali, 2006). Böylece, finansal ürünler ile alakalı kuralları geliştirmek için ilgili hukuki kurallara uyma, işlem aşamasındaki *makasıd*ı gerçekleştirmekle bağdaştırılabilir. *Makasıd*ın ikinci yönü; sosyal gereklilik ile ilgilidir. İslam ekonomisinin bir bileşeni olan İslami finans, şeriatın maksatlarını gerçekleştirmelidir. Grais and Pellegrini (2006)'nin de dikkat çektiği gibi, şeriatın maksatlarına (*makasıd*) ve prensiplerine dayalı entegre bir İslami finans sistemi, toplumsal hedefleri besleyen faaliyetleri yerine getirerek sosyal yardımseverliği teşvik eden bir endüstriyi içermektedir. *Makasıd*dan doğan ürünlerle alakalı hukuki ve sosyal şer'i gereklilikler aşağıda ana hatlarıyla belirtilmektedir.

1.1. Hukuki Gereklilikler

Hukuki şartların yerine getirilmesi, sözleşmeye dayalı hükümlerin sağlanması ve gerekli tüm belgelerin, süreçlerin ve işlemlerin İslam hukukunun prensipleri ile uyumluluğunu zorunlu kılar. Belirtildiği gibi, *makasıd*ın hukuki gerekliliklerini yerine getirmek aynı zamanda mübadelenin amaçlarını gerçekleştirmek ve ilgili hukuki ilkelerle uyumlu olmak anlamına da gelir. 'Sözleşmelerde önemli olan şey, maksat ve anlamdır, lafızlar ve sözün yapısı değildir.' (Mecelle, 2001, Madde 3) şeklindeki hukuki ilke, finansal ürünleri tasarlamada kullanılan sözleşmeler için yol gösterici prensibi sunmaktadır. Buna göre, İslami bankalar tarafından kullanılan sözleşmeler, şeriatın şeklini ve özünü yerine getirmelidir. İslami sözleşmeye dayalı düzenlemelerdeki şekil ve özün bir olası sonucu, işlemin neticesiyle ilgilidir. Farklı hukuki İslami sözleşmeleri bir araya getiren ve öz olarak gayrimeşru sonuçlara yol açan yahut hukuki kuralları ihlal eden ürünler, şer'i ilkelerin ruhuna aykırı olacaktır. Birçok İslami bankacılık ürünü ihtilaflıdır çünkü bunlar, tek başına hukuki olan fakat birkaç sözleşme ile birlikte ele alındığında, öz olarak yasaklanmış işlemlere benzer şekilde sonuç üreten birçok işlem kullanmaktadırlar. Bu nedenle, bazı şeriat alimleri/organları, form üzerinde odaklanıp özü görmezden gelen ürünlere itiraz etmektedir. Örneğin, Delorenzo (2007), şekil olarak şer'i uyumlu olmasına rağmen, toplam getiri takasını(swap) kabul edilemez bulmaktadır. Benzer şekilde, İslam Fıkıh Akademisi riba unsurları içerdiği için İslami finans endüstrisinin uyguladığı organize teverruku kabul etmeyeceğine karar vermiştir.[2]

Esasen hukuka aykırı olan veya hukuki ilkeleri bozan sonuçlar üretmek amacıyla hileyi veya hukuki taktikleri (hile) kullanmak, şeriatın maksatlarına aykırı olacaktır (Habil, 2007). Bununla birlikte, 'Güçlükler, kolaylığı getirir.' (Mecelle, 2001, Madde 17) kuralı, zaruret kuralını ifade eden 'Zaruretler yasaklanan şeyleri mubah kılar.' (Mecelle, 2001, Madde 21) kuralını beraberinde getirir. Bunun anlamı, yerleşik bir kuralın gücünü hafifletmek için meşakkat durumlarında istisnai şekilde ruhsat kullanılabilmesidir. Böylece, ancak şer'i uyumlu çözümlerin müsait araçlar içinde mevcut olmadığında hilenin kullanılmasına izin verilebilir.[3] Bununla birlikte, bir meşakkat yüzünden yapılan istisnaların meşakkat durumu sona erdikten sonra geçersiz hale geldiği de kesinlikle unutulmamalıdır. Bu, 'Bir özür nedeniyle izin verilen şey, o özrün kalkmasıyla hükümsüz olur.' kuralından çıkarılmıştır (Mecelle, 2001, Madde 23). Böylece, ihtiyaçlar yoğunluklarına/şiddetlerine göre değerlendirilir ve buna göre izin verilir. Mazeret ortadan kalktıktan sonra, zorunlulukla ilgili ruhsat, gayrimeşru olur (Laldin, 2006, s. 144).

1.2. Sosyal Gereklilikler

Finansal kurumların sosyal boyutları/durumları, sosyal yönden sorumlu olan faaliyetlere katılımlarının incelenmesiyle değerlendirilebildiği için, bir ürün perspektifinden sosyal rol, piyasa segmenti ve karşılanan ihtiyaçlarla belirlenebilir. Tanımlamanın nesnel bir yolu ve sosyal hedeflerin değerlendirilmesi bir sonraki adımda sunulacak olan bu iki ürün özelliğine dayanmaktadır.

a. Piyasa Segmenti: İslami bir banka tarafından sunulan piyasa segmenti, onun sosyal yönünü belirleyecektir. Bölümler müşterinin türüne ve sınıfına göre sınıflandırılabilir. Müşteri türleri genel olarak hane halkı sektörü ve iş/ticaret sektörü şeklinde ayırt edilebilir. Her sektörde üç sınıf kategorisi belirlenebilir. Hane halkı sektöründe piyasa segmenti, gelir düzeylerine göre sınıflandırılabilir. Buna göre, varlıklı, orta gelirli grup ve yoksullar şeklinde belirlenebilir. İş sektöründe ise İslami bankacılık ürünleri, önce kumarhaneler, bira fabrikaları vb. yasaklanmış sanayilerin uygunluğunu denetleyecektir. İş sektöründeki piyasa segmentleri, büyük, orta ve küçük/mikro şeklinde büyüklüklerine göre gruplandırılabilir. Şeriatın sosyal hedeflerini yerine getirmek, genel olarak tüm piyasa segmentlerinin ve özel olarak da küçük/mikro işletmelerin ve yoksul/orta sınıf grupların finansal ihtiyaçlarını karşılamayı beraberinde getirecektir.

[2] Kural, Uluslararası Fıkıh Akademisi Kurulu tarafından, 26-30 Nisan 2009 tarihinde Birleşik Arap Emirlikleri, Şarika'da düzenlenen 19. oturumda yayınlanmıştır.

[3] Ahmed (2011) potansiyel ürün alanı ve uygun ürün grubu arasında ayrım yapmaktadır. Birincisi, belirli bir ürün için kullanılabilecek tüm olası alternatif usulleri içeriyor olsa da, ikincisi, İslami bankaların kurumsal ve organizasyonel kısıtlamalar altında kullanabileceği usulleri temsil etmektedir.

b. İhtiyaçlar/Amaç: Piyasa segmentiyle yakından bağlantılı olarak bir ürünün, hedef nüfusun finansal gereksinimlerine uyması gerekmektedir. Finansal ihtiyaçlar hiyerarşisi, farklı ürünlerin kullanım amacını ifade etmektedir. Finansal ihtiyaçların kategorize edilebileceği farklı yollar vardır. Maslow (1954) alt düzey ve üst düzey ihtiyaçlar arasında ayrım yapar. Daha yüksek ihtiyaçları yerine getirmek isteyen insanlar ancak ilki yerine getirildikten sonra tatmin olur.[4] Harrison (1994) ve Kamakura ve ark. (1991) finansal ihtiyaçların beş seviyeli bir hiyerarşisini sunmaktadırlar: Kuruluş ürünleri, acil nakit rezervleri, risk yönetimi, enflasyonu dengelemek için büyüme, risk ve vergi koruması. Benzer şekilde, Xiao ve Anderson (1997), ihtiyaçları üç seviyede tanımlamaktadır: Hayatta kalma, güvenlik ve gelişme. Gelir arttıkça, güvenlik ve gelişme ile ilgili ihtiyaçlara olan talep de artmaktadır.

İfade edildiği gibi İslami perspektiften ihtiyaçlar hiyerarşisi, maslahatın farklı aşamaları bağlamında tartışılabilmektedir. Refah, gereklilikler (zaruriyyat), tamamlayıcı ihtiyaçlar (haciyyat) ve güzelleştirici ihtiyaçlara (tahsiniyyat) teşvik edilerek arttırılabilir. İhtiyaçların klasik tasnifi Xiao ve Anderson (1997) tarafından ortaya konulan tasnifle uyumlu olarak, finansal ürünler ve hizmetlerin üç tipine şöyle dönüştürülebilir. İlk olarak ihtiyaçlar, temel ihtiyaçları giderecek olan hayatta kalma ürünleri olacaktır. Bu kategorideki ürünler, temel faaliyetler/kalemler için gerekli olan çeşitli mevduat türleri (kontrol ve tasarruf), ipotek ve finansman vb. olacaktır. İkinci olarak ise güvenlik ya da tamamlayıcı ürünler, zorunlu seviyenin ötesindeki ek ihtiyaçları giderecektir. Bu ürünler nakit rezervi ve risk yönetimi ihtiyaçlarını karşılayacak ve sigorta, emeklilik planları, bağışlar ve vadeli mevduatlarını içerecektir. Son olarak gelişme veya daha üst düzey ihtiyaçlar, enflasyonu dengeleyebilen ve risk ve vergilere karşı koruyabilen iyileştirilebilir ürünlerle karşılanacaktır. Bu kategori altındaki ürünler ise hisse senedine yapılan yatırımları, yatırım fonlarını, vergi korumalı tahvilleri, spekülatif gayrimenkul alımlarını finanse etmeyi, eğlence amaçlı yurtdışı seyahatlerini, gösterişçi tüketim vb. içermektedir. Hizmet verilen piyasa segmentinin, yerine getirilmesi gereken ihtiyaçları da belirleyeceği unutulmamalıdır. Örneğin fakir bir aile için finanse edilen bir araç, taksi ve gelir getirici bir kaynak olarak kullanılabilirken ve hayatta kalma ya da temel kategoriye girerken, varlıklı bir birey için finanse edilen ikinci veya üçüncü bir araç, gelişme ya da lüks eşya olarak sınıflandırılacaktır.

Finansmanın sosyal yönleri Tablo 1'de özetlenmiştir. Tablo, ihtiyaçların ve piyasa segmentlerinin sosyal olarak kabul edilebilecek faaliyet alanlarını tanımlayabilen bir matris/temel oluşturmak için nasıl etkileşimde bulunduğunu göstermektedir. İhtiyaçların karşılanması, hayatta kalma ihtiyaçlarını karşılayan ürünler sağlanması (Tablo 1'de A1, B1 ve C1), güvenlik gereksinimlerine (Tablo 1'de A2, B2 ve C2), hizmet etmekten daha yüksek bir sosyallik düzeyine sahiptir ki buna karşılık tatmin edici büyüme ihtiyaçları (Tablo 1'de A3, B3 ve C3) daha yüksek düzeyde olacaktır. Benzer şekilde bir İslami bankanın sosyal rolü, yoksul ve mikro işletmelerin piyasa segmentleri, orta sınıf ve varlıklı müşterilerle birlikte sunulabilirse de artırılabilir. Bununla birlikte ihtiyaçların/bölüm matrisinin ışığında sosyal

[4] Maslow'un insan ihtiyaçları hiyerarşisi fizyolojik, emniyet ve güvenlik, sevgi ve aidiyet, saygınlık ve kendini gerçekleştirme olarak sınıflandırılmaktadır (Olesan 2004).

rolü değerlendirmenin göreceli olacağına ve farklı toplumlar için farklılık gösterebileceğine dikkat edilmelidir. Örneğin yoksul, mikro ve küçük işletmelerin (Şekil 1'deki A1 ve A2) hayatta kalma ve güvenlikle ilgili finansal ihtiyaçlarını karşılamak, bazı ülkelerde sosyal hedeflerin yerine getirilmesi şeklinde düşünülebilirken, diğerlerinde orta-sınıf gelirli grup ve orta büyüklükte işletmeler (Şekil 1'deki B1 ve B2) de sosyal alana dahil edilebilmektedir.

Tablo 1: Sosyal Gereklilikler ve İhtiyaçlar / Bölümler Matrisi

İhtiyaçlar Segmenti(Bölümü)	**Yoksul/Mikro/Küçük**	**Orta Sınıf/Orta**	**Zengin/Büyük**
Hayatta Kalma (İhtiyaçlar)	A1	B1	C1
Güvenlik (Tamamlayıcı)	A2	B2	C2
Gelişme (Lüks)	A3	B3	C3

Kaynak: Yazar

2. Şer'i Gereklilikler ve Ürün Kategorileri

Yukarıda tartışılan hukuki ve sosyal şer'i gerekliliklere dayanarak, farklı İslami finansal ürün kategorileri tanımlanabilir. Tartışıldığı üzere, hukuki gereklilik, şekil ve madde açısından ele alınabilir ve ürünün sosyal yönleri, piyasa tarafından sunulan piyasa segmentinde oynadığı rolde fark edilebilir ve amaç/ihtiyaçlar karşılanır. Bu doğrultuda, aşağıdaki şu üç ürün tipi saptanabilir:

a. **Sözde-İslami Ürün:** Sözde İslami bir ürün sadece hukuki forma uygundur, şeriatın özünü yerine getirmez veya sosyal ihtiyaçlara hizmet etmez. Bu, sözleşmelerin hukuki şeklini yerine getiren ürünleri geliştirmek için *(hile)* kullanıldığında ortaya çıkacaktır, ancak bu maddi olarak yasa dışı bir işlemi ifade eder. Acil ihtiyaçları karşılayacak şer'i uyumlu alternatiflerin bulunmadığı belirli durumlarda gereklilik ilkesine başvurulabileceğini unutmayın. Bu gibi durumlarda yasaklar, acil ihtiyaçları karşılamak için esnetilebilir. Ancak, ihtiyaç ortadan kalktığında ve/veya alternatifler mevcut olduğunda, gereklilik nedeniyle hukuki karar geçersiz hale gelir. Acil ihtiyaçlar olmadığında yahut kullanılabilecek diğer alternatif şer'i uyumlu yöntemler bulunmadığında *hile* ye başvurmak, sözde-İslami ürünlere sebep olacaktır. Bu nedenle, diğer şer'i uyumlu alternatiflerin mevcut olmadığı durumlarda teverruk tabanlı bir ürün kullanmak yasal olabilir. Bununla birlikte, şer'i uyumlu alternatiflerin mevcut olması durumunda teverruk kullanmak, onu sözde-İslami ürün haline getirecektir.

Gereklilik ilkesine başvurulduğu durumlarda ortaya çıkan temel mesele, acil ihtiyaçların ne olduğunu tespit etmektir. Bu sorunu çözmenin tek yolu, acil ihtiyaçları neyin oluşturacağına karar vermek için Tablo 1'deki alternatifleri incelemektir. Örneğin, dar bir bakış açısı, tüm piyasa segmentlerinde hayati ihtiyaçları acil ihtiyaçlar olarak görebilir. Daha liberal bir yorum da Tablo 1'de belirlenen güvenlik ihtiyaçlarını acil ihtiyaçlar kapsamına alabilir. şer'i uyumlu alternatifler uygun bir ürün grubuna dahil olduğunda veya acil ihtiyaçlar durumu hasıl olduğunda gereklilik ilkesinin uygulanmayacağını unutmamak gerekir. Bu gibi durumlarda, sözde-İslami alternatifleri üretmek için hile kullanmak, hukuki şer'i gereklilikleri yerine getirmeyecektir.

b. Şer'i Uyumlu Ürün: Şer'i uyumlu ürünler, İslam hukuku yapısını ve özünü tamamlayacak, ancak sosyal hedeflere dikkat etmede başarısız olacaktır. Özellikle, şer'i uyumlu bir ürün, dar gelirli ve küçük/mikro işletmelerin hayatta kalma ve güvenlik mali ihtiyaçlarını yeterli düzeyde karşılamayacaktır. Örneğin yalnızca çok yüksek asgari yatırım gereksinimlerini belirlemek suretiyle ortak fon sağlamak şer'i uyumlu olurken, toplumun orta sınıfına ve yoksul kesimlerine hizmet etmediği için sosyal hedefleri karşılamamaktadır.

c. Şer'i Esaslı Ürünler: Şer'i esaslı bir ürün, tüm piyasa segmentlerinin meşru ihtiyaçlarını karşılayan şer'i uyumlu bir üründür. Bilhassa, şer'i esaslı bir ürün, sadece İslam hukukunun yapısını ve özünü tamamlamayacak, aynı zamanda dar gelirli ve küçük/mikro girişimciler de dahil olmak üzere nüfusun tüm kesimlerinin hayatta kalma ve güvenlik ihtiyaçlarını karşılayacaktır. Bu nedenle, şer'i esaslı bir ürün sosyal hedefleri gerçekleştiren şer'i uyumlu bir üründür. Örneğin, yoksullar dahil olmak üzere nüfusun tüm kesimlerini hedef alan bir ev finansmanı ürünü şer'i esaslı olacaktır.

Farklı ürün kategorilerinin özellikleri Tablo 2'de özetlenmiştir.

Tablo 2: Şer'i Gereklilikler ve Ürün Kategorileri

Ürün Tipleri	**Hukuki**		**Sosyal**	
	Yapı	**Öz**	**Piyasa Segmenti**	**İhtiyaçlar**
Sözde-İslami	✓	?	?	?
Şer'i-Uyumlu	✓	✓	?	?
Şer'i-Temelli	✓	✓	✓	✓

Kaynak: Yazar

3. Şer'i Gereklilikler: Seçim ve Kararlar

Uygun bir ürün grubundan geliştirilen spesifik ürünler, birçok faktöre bağlı olacaktır. Sosyal ve hukuki gerekliliklerle ilgili karar vermenin iç dinamikleri en iyi şekilde, şer'i gereklilikler ile ilgili farklı kontrol alanları ve karar verme konularını inceleyerek anlaşılabilir. Ürün geliştirme, bir bankanın çeşitli aktörlerini ve departmanlarını da içeren karmaşık bir süreç olduğundan, hangi finansman yönteminin kullanılacağının belirlenmesinde uyuşmazlıklar ortaya çıkabilir. Ekonomik faktörler ve şer'i gereklilikler arasında takaslar varsa gerilimler ortaya çıkabilir. İslami bir bankada hukuki ve sosyal şer'i gerekliliklerin belirlenebileceği yollar aşağıda tartışılmaktadır.

3.1. Hukuki Gereklilikler: Kim Karar Verir?

Bir ürün geliştirme süreci, bankanın gelişim döngüsünün farklı aşamalarında girdi sağlayan çeşitli bölümlerini içermektedir. Şer'i departman ve Şer'i Danışma Kurulu (ŞDK) yasal gerekliliklerin yerine getirilmesinde önemli bir rol oynamaktadır. Şer'i Danışma Kurulu (ŞDK)'nun, ürünün piyasaya sürülmesinden önce, şeriatın ilkeleri ve değerleri ile uyumlu olduğunu doğrulamak için doğrudan sorumluluğu vardır. Uygun yöntemin seçimi, altında faaliyet gösterdiği finansal kurumların kurumsal ve teşkilatla ilgili kısıtlamalarına ve uygun ürün grubunda alternatiflerin elverişliliğine bağlı olacaktır.

İslami olanlar da dahil olmak üzere bankaların hedefleri, verimli ve yüksek getiri elde edebilecek ürünler ortaya koymaktır. Ürünlerin verimliliği, gelişme ve teslimat açısından daha düşük risk ve maliyet anlamına gelir. Bununla birlikte, bazı durumlarda ekonomik faktörlerin hesaplanma yöntemi şer'i ilkelerle çelişebilir. Bu durumlarda, banka, bir yandan beklenen getiri/kâr ve riskler arasındaki öncelikler hakkında, diğer yandan da şer'i ilkeler hususunda karar vermek zorundadır. Ekonomik faktörlere çok fazla vurgu yapılması, daha düşük finansman yöntemlerinin seçilmesine yol açabilir. Eğer Şer'i Danışma Kurulu gevşekse ve uygulanabilir grubun şer'i uyumlu ürünler içerdiği durumlarda bile sözde-İslami alternatiflere izin veriyorsa bu durum ortaya çıkabilir.

Şer'i Danışma Kurulları, sözde İslami ürünlerin kullanımını en aza indirmede önemli bir rol oynasa da, eğer şeriat ile ilgili meseleler hakkında kârlılık karşısında yönetim kademesinden gelen net direktifler varsa şer'i gerekler ve ekonomik çıkarlar arasındaki gerilim önemli ölçüde azaltılabilir. Tercihen, İslami bankalarda kural, şer'i ilkeler ve ekonomik faktörler arasında birinden vazgeçme durumunun meydana geldiği durumlarda ilkinin geçerli olması şeklinde olmalıdır. Bununla birlikte, yönetim kademesinin kârlılığa ve ekonomik faktörlere çok fazla vurgu yapması, yasal şer'i gerekliliklerin etkisini azaltmak için teşvikler yaratacaktır.

3.2. Sosyal Gereklilikler: Kim Karar Verir?

Belirtildiği üzere, bir bankanın sosyal performansı, piyasa segmentlerinin ve ürünlerinin sunulduğu ihtiyaçların belirlenmesiyle oluşturulabilir. Piyasa/ürün kararları stratejik seviyelerde yapıldığından, bankanın sosyal sorumluluğu ve ürün düzeyindeki etkileri, üst düzey kurumsal karar alma süreçlerinde oluşturulacaktır. Bankalar, ürünlerin şer'i esaslı veya şer'i uyumlu olup olmayacağı konusunda genel misyon ve vizyon düzeyinde karar vermek zorundadırlar. Şer'i esaslı ürünler üretmek daha maliyetli ve riskli olabileceğinden, ekonomik kaygılar bankaları şer'i uyumlu veya sözde-İslami ürünlere yöneltme eğiliminde olabilir. Yönetim kademesi ve yönetim kurulu, piyasa/ürün boyutlarını içerecek olan bankanın genel stratejisini belirler. Yönetim kurulu, genel stratejik hedeflerde piyasa/ürün hedeflerini tanımlayarak kuruluşun sosyal yönelimini belirledikten sonra, üst düzey yönetim, ürün geliştirme stratejisini ve uygulama planlarını tasarlar. Her bir ürün tipi için mümkün olan grup, İslami bankaların bu planları gerçekleştirebilmesi için mevcut seçenekleri belirler.

Yönetim kurulunun alması gereken ilgili bir karar, şer'i hedefler ve kârlılık alanındaki tercihleri belirlemektir. Şer'i esaslı ürünler bir hayli maliyetle geliştirilip sunulabileceğinden, bazı durumlarda ekonomi ve şer'i hedefler arasında kalma söz konusu olabilir. Kârlılık tek endişe ise, bankalar bazı sosyal şer'i gereklilikleri feda edebilir. Örneğin, yoksullara finansman sağlamak sosyal olarak arzu edilebilir ancak kârlılık açısından bu mantıklı olmayabilir. Banka, finans piyasalarını göz önünde bulundurarak bu piyasa segmentini finanse etmeyi tercih edebilirken, şer'i esaslı yaklaşım, ilgili riskleri en aza indirecek ve bankayı tatmin edici bir getiri oranı sağlayacak uygun ürünler geliştirecektir. Yönetim kurulu, şer'i esaslı ürünleri tercih ettiğini, bu yaklaşımı kabul etmek ve onları geliştirecek kaynakları temin etmek suretiyle açıkça göstermek zorundadır.

Sonuç

Bu çalışma, ürünler düzeyinde İslam hukukunun (*makasıd*) genel hedeflerinin uygulanmasını değerlendiren bir çerçeve sunmaktadır. *Makasıd*, biri hukuki ve diğeri sosyal olan iki Şer'i gerekliliğe işaret etmektedir. İlki, sözleşme düzeyinde İslam hukukunun şekil ve özünün yerine getirilmesiyle tanımlanırken, ikincisi, bir ürün tarafından sunulan piyasa segmentleri ve amaç/ihtiyaçları yoluyla kabul edilmektedir. Bu şer'i gereklilikler göz önüne alındığında, üç tür İslami finans ürünü tespit edilmektedir. Şer'i esaslı bir ürün, hem yasal hem de sosyal gereksinimleri karşılayan bir üründür. Şer'i uyumlu bir ürün, yasal gereklilikleri yerine getiren, ancak sosyal gereksinimleri yerine getirmeyen bir ürün olacaktır. Son olarak, sözde İslami bir ürün, İslam hukukunun özünü değil, biçimi yerine getiren bir üründür.

Şer'i Danışma Kurulları'nın İslami bankalarda *makasıd* uygulamasından sorumlu olması gerektiğine dair bir kanaat vardır.[5] Bununla birlikte bu çalışma, *makasıd*ın ürünlerle ilgili iki boyutunun olduğunu ifade etmektedir. Şer'i Danışma Kurulları'nın rolü, *makasıd*ın, sözleşme düzeyinde İslam hukukunun biçimini ve özünü yerine getirerek elde edilmesini sağlamaktır. Diğerleri arasında bu, şer'i uyumlu ürünlerin onaylanmasını, sözde-İslami ürünlerden sakınılmasını gerektirecektir. Bankacılık faaliyetlerinin ürün ve piyasa özellikleri açısından sosyal karakterinin daha kapsamlı bir kontrolü, Şer'i Danışma Kurulu'nun değil, yönetim kurulu ve üst düzey yönetimin elindedir. Diğer bir ifadeyle, ürünlerin şer'i esaslı veya şer'i uyumlu olup olmadığını belirleyen taraf yönetim kurulu olurken, ürünlerin sözde-İslami olmadığını garantilemek Şer'i Danışma Kurulu'nun sorumluluğundadır.

[5] Örneğin Siddiqi (2006), ŞDK'nun İslam hukuku ya da *makasıd*ın genel amaçlarının yerine getirilmesinin denetlemesi gerektiğini savunmaktadır.

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Finans Teorisini Yeniden Düşünmek

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Mehmet Saraç

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Mehmet Saraç tarafından kaleme alınan eser, bilimsel bir çalışma alanı olarak finans teorisine ve teoriye getirilen eleştirilere odaklanır. Sekiz bölümden oluşan kitapta finans teorisinin en temel konuları/teorileri (etkin piyasa hipotezi, sermaye yapısı, portföy teorisi, varlık fiyatlama modelleri vb.) bu bölümlerin başlığını oluşturur. Her bir bölümün sistematiği hemen hemen aynıdır. İlk olarak finans teorisi içerisinde yer alan temel konu, finans teorisinde nasıl izah ediliyorsa, olduğu gibi açıklanır. Bu izahat, gayet sade ve anlaşılır bir dille yapıldığından iktisat/finans nosyonuna sahip olmayan kişiler de kitabın okuyucu kitlesi içerisinde yer alabilir. Daha sonra teorinin sorgulaması yapılır ve teoriye getirilen eleştiriler açıklanır. Son olarak konu İslam iktisadı perspektifinden ele alınır.

"Finans Teorisine Genel Bir Bakış" başlığını taşıyan birinci bölümde bilimler arasında nispeten yeni sayılan bir alan olan finansın ortaya çıkışı, gelişimi ve güncel durumu ortaya konmuştur. 1900'lü yılların başına kadar İktisat biliminin bir alt dalı olan finans, 2000'li yıllara gelindiğinde, firmaların muazzam büyümesi, yeni endüstrilerin kurulması, teknolojik gelişmeler, piyasalardaki hareketler ve yaşanan dünya krizleri sonrasında artık işletme yönetimi biliminin kapsamı altına girmiştir. Bugün geldiğimiz noktada finans biliminin başlıca konuları, işletme sermayesi yönetimi, sermaye bütçelemesi, finansal analiz ve planlama ve kurumsal yönetişim gibi alanlardır. Finansal yönetimin nihai amacı ise firmanın değerini maksimize etmek olarak ifade edilir. Bu noktada yazar, finansal yönetimin mevcut durumunu sorgulayarak üç kritik soru ortaya atar:

i. *"Firma değeri, konvansiyonel finanstaki meşhur vekalet/temsil (agency) teorisinin de esas aldığı hissedar (stockholder) yaklaşımıyla mı analiz edilmeli ve dolayısıyla firma değeri sadece firma hissedarlarının çıkarlarıyla mı ilişkilendirilmelidir?*

ii. *Değerlemede esas alınan yaklaşımlardan iskonto edilmiş nakit akımları (İNA) analizi ne ölçüde adil ve insanidir?*

iii. *Manipülasyonun, kontrolsüz risk iştahının ve dolayısıyla balonların son derece yaygın olduğu günümüz sermaye piyasalarındaki değer göstergeleri ne kadar geçerli ve güvenilirdir?"*

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Bu soruları kitabın ileriki bölümlerinde daha detaylı tartışacaktır. Bu bölümde bu soruları ortaya atarak finans teorisini ve finans teorisinin altında yatan paradigmanın sorgulanması gerektiğini ifade ederek alternatif paradigma arayışlarından kısaca bahseder. Alternatif paradigma sunmaya çalışan batılı iktisatçılardan bir kısmını zikreder. Bu iktisatçılardan bazıları, Joseph A. Schumpeter, Frederick Soddy, Karl Polanyi, Amartya Sen, Joseph Stiglitz'dir. Batılı iktisatçıların yanında İslam iktisadı üzerine kafa yoran Mehmet Asutay'a ve onun iktisadı economics'in dar çerçevesinden çıkarıp political economy düzlemine çıkarma ve bu çerçevenin içine Islamic Moral Economy'yi yerleştirme çabalarına atıfta bulunur. Asutay, İslam iktisadı teorisini kurulacağı zeminin politik ekonomi perspektifi olduğunu ifade etmektedir. Bu görüşü destekler mahiyette Ahmet Tabakoğlu'nun "Her medeniyet anlayışı, kendi sosyal yapılanmasını ve üretim tarzlarını belirler ya da tersten ifade etmek gerekirse, üretim tarzlarına bakarak medeniyetleri ayrıştırmamız mümkün olur" şeklindeki değerlendirmesini ekler. Asutay ve Tabakoğlu'na ilaveten benzer görüşlere sahip olan Choudhury'ye de atıfta bulunur. İktisatta yeni paradigmanın gerekliliği, bugün sadece İslam iktisatçıları tarafından değil,batılı pek çok iktisatçı tarafından yüksek sesle dile getirilir. Nitekim son yıllarda verilen Nobel iktisat ödüllerinin davranışsal iktisat çalışanlara verilmesi bunun en büyük göstergelerinden biridir. Zira davranışsal iktisat çalışmaları, ekonomi bilimindeki temel varsayımların koltuğunu sallamaktadır. Aynı şekilde finans teorisinin de köklü bir değişime ihtiyaç duyduğu yüksek sesle dile getirilmekte iyi finans, insani finans, ahlaki finans gibi kavramlar ortaya atılmakta ve finansın ahlak ve sorumluluk kavramlarını öne çıkaran pek çok platform oluşturulmaktadır.

"Tüketim, Tasarruf ve Yatırım" başlığını taşıyan ikinci bölümde neo-klasik iktisadın, kişilerin tüketim ve tasarruf davranışlarını fayda kavramı çerçevesinde izah etmesi eleştirilir. Neoklasik iktisada göre tasarruf, ertelenmiş tüketim olarak tanımlanmakta ve bireysel fayda her halükarda tüketimle sağlanmaktadır. Kişi tasarruf ederek/yatırım yaparak tüketimden feragat etmemekte, tüketimini ertelemektedir. Bu erteleme karşılığında da faiz talep etme hakkını elde etmektedir. Yani neo-klasik iktisat mallar arasındaki tüketim tercihinin merkezine faydayı yerleştirir. Yazar, neo-klasik iktisadın bu fayda anlayışını eleştirerek, alternatif bakış açılarına yer verir.

"Faiz Ekonominin Bir Gereği Mi, Sorunu Mu?" başlığını taşıyan üçüncü bölümde ilk olarak faiz yasağının geçirdiği evreler açıklanır. Yahudilik, Hristiyanlık, Hinduizm ve İslam dininin özgün kaynakları faizi yasaklamıştır. Ancak daha sonraları Hristiyanlar ve Yahudiler faiz yasağını giderek gevşetmişlerdir. Örneğin 1545'te kilise faiz yasağından taviz vermiş ve azami olarak yüzde 10 oranında faiz alınabileceği İngiliz kanunlarına girmiştir. Artık kilisenin faiz tanımında yüzde 10'u aşan kısım faiz olarak kabul edilmiştir. Yazar, bu bölümün devamında konvansiyonel iktisat anlayışının ileri sürdüğü faizin gerekçelerini tek tek sayarak, her bir gerekçenin aslında makul gerekçeler olmadığını ileri sürer. Bu gerekçelerden bazıları şunlardır: *"Faiz paranın satın alma gücündeki kaybın tazminatıdır, faiz paranın fiyatıdır, faiz tüketimden mahrum kalınmasının bir ödülüdür; marjinal fayda azalan bir eğridir, gelecekteki ekstra birim tüketim, bugünkü ekstra birim tüketimden daha az fayda sağlar, dolayısıyla faiz, bir miktar parayı* *harcamakla elde edilen bugünkü ve gelecekteki faydalar arasındaki mukayese sonucu ortaya çıkar."* yazar bu gerekçelerin hepsini reddederek, bunun gerekçelerini anlaşılır bir şekilde ortaya koyar.

"Değerleme ve Yatırım Kararları" başlığını taşıyan dördüncü bölümde finans teorisinin yatırım kararı almada belirlediği yöntemler izah edilir. Bu yöntemlerden en kabul göreni olan iskonto edilmiş nakit akımları(İNA) yönteminin insanlığı ve çevreyi nasıl tehdit ettiği bir örnekle açıklanır. İNA yaklaşımına dayalı proje değerlendirme yöntemi neo-klasik fayda anlayışının finans alanında tezahür eden yansımalarından biridir. Bu yöntem proje değerlendirmesini sadece yatırımdan elde edilecek kar/faydaya indirger. Yatırımın, doğal kaynaklarda oluşturacağı olumsuz etkiyi ihmal eder. Bunu bir örnekle kanıtlar. Yılda 100.000TL'lik nakit girişi elde eden ve doğal kaynaklara zarar vermeyen bir proje ile yılda 150.000TL'lik nakit akışı sağlayan ama 15 yıl sonra doğal kaynakları kullanılamaz hale getiren bir proje yüzde 10 iskonto oranı üzerinden İNA yaklaşımıyla değerlendirildiğinde, İNA yaklaşımı ikinci projenin seçilmesi gerektiğini söyler.

"Etkin Piyasa Hipotezi ve Finansal Krizler" başlığını taşıyan beşinci bölümde, EPH'nin doğruluğu sorgulanarak bu hipotezin geçerli olmadığına ilişkin pek çok kanıt sunulur. Eğer EPH geçerliyse piyasa başarısızlığının olmaması gerekir. Oysa mevcut durumda piyasa başarısızlığı pek çok durumda ortaya çıkar. Konvansiyonel teorinin, piyasa başarısızlığının altında yatan sebebi asimetrik bilgi sorununa bağlamasının hatalı olduğu ifade edilerek, bu durumun kanıtı olarak sigara piyasası örnek verilir. Eğer sigara piyasasında asimetrik bilgi olmasa, insanlar için zararlı olan (kansere sebep olduğu kanıtlanmıştır) sigaranın tüketilmesini piyasa engelleyecek midir? Tabi ki hayır. O halde piyasa başarısızlığının altında başka sorunlar yatmaktadır. Piyasa başarısızlığının altında yatan asıl sorun, bir tarafın kararlarındaki irrasyonellik veya diğer tarafın sahtekarlığı/insafsızlığıdır. İslami öğretide bu, hem istismar hem de insanın kendisine zarar vermesini de içine alan zulüm kelimesiyle karşılanır. Faiz yasağının illeti de büyük oranda zulüm bağlamında izah edilir.

"Risk, Portföy Teorisi ve Varlık Fiyatlama Modelleri" başlığını taşıyan altıncı bölümde finans teorisinin kapsamında yer alan Modern Portföy Teorisi (MPT) ve Finansal Varlıkları Fiyatlama Modelleri kısaca açıklandıktan sonra İslami finans çerçevesinde ele alınır. Bu modellerin ortak noktası, hesaplamalarının merkezine risksiz faiz oranını yerleştirmeleridir. Yazar, orta ve uzun vadede bu modellerin altında yatan varsayımların baştan aşağıya yenilenmesi gerektiğini, ancak kısa vadede bu modelleri İslami finans çerçevesinde revize etme çabalarının da kıymetli olduğunu ifade eder. Bu modelleri İslami finansa uygun hale getirmeye çalışan çalışmaların ortak özelliği, modellerden risksiz faiz oranını kaldırarak onun yerine başka bir parametre koymalarıdır. Kimileri risksiz faiz oranı yerine İslami endekslerin değerini koyarken, kimileri de ortalama getiri-varyans optimizasyonunu koyar.

"Sermaye Yapısı Teorisi" başlığını taşıyan yedinci bölümde, firmaların sermaye yapısının nasıl olması gerektiği (sermaye yapısında borç/özkaynak oranlarının ne olması gerektiği) ile ilgili ileri sürülen teoriler kısaca izah edilir. Daha sonra borçlanma meselesi üzerine yoğunlaşılır. Sermaye yapısında denge (trade off) teorisi, firmaların sermaye yapılarını belirli bir düzeyde borçtan oluşturabileceğini, borcun optimum düzeyi aşması durumunda firma değerinin düşeceğini ileri sürer. Fakat finansal krizler, denge teorisinin egemen işletmecilik anlayışında hiç de dikkate alınmadığını gösterir. 1999 Güneydoğu Asya, 2001 Türkiye krizi, 2008 Mortgage krizi dahil pek çok krizin ana sebebi aşırı borçlanma ve kısa vadeli haz düşkünlüğüdür. Yazar, finans teorisindeki borçlanma meselesini izah ettikten sonra İslam'ın borçlanmaya bakışını ele alır. İslam'ın borç konusundaki temel yaklaşımı ne bugünkü egemen sistemin benimsediği gibi sorumsuz, kontrolsüz ve sömürü aracına dönüşecek bir esnekliktedir, ne de borca kat'i bir şekilde karşı çıkar. Bir yardımlaşma aracı olarak borç verme teşvik edilmekte, öte yandan borç alanın borcu zamanında ödemesi hususunda titiz davranması emredilmektedir. Dolayısıyla İslam'ın borç konusunda mutedil bir yaklaşımı benimsediğini söyleyebiliriz.

Vekalet Teorisi ve Kurumsal Yönetişim başlığın taşıyan son bölümde, yöneticiler ve hissedarlar arasındaki vekalet çatışmasına değinilir. Bu vekalet çatışması aynı zamanda finanstaki vekalet teorisinin de (agency theory) konusunu oluşturur. Bu bölümde şu soruya cevap aranır: "Yöneticilerin aldığı yatırım, finansman, üretim, pazarlama kararları acaba gerçekten firma değerini yükseltecek kararlar mıdır, yoksa yöneticilerin kendi çıkarlarına hizmet eden kararlar mıdır?" Yöneticiler ile hissedarlar veya firmaya borç verenler arasındaki çıkar çatışmasını önlemek için finans teorisinin bulduğu bazı çözümler aktarılır. Bunlardan bazıları, yöneticiye performansa bağı ücretlendirme sistemi getirmek, kurumsal hissedarların firmaya doğrudan müdahale edebilmesi, yöneticinin işten çıkarılması tehdidi gibi önlemlerdir. Bu noktada, günümüzde paydaş (stakeholder) yaklaşımı olarak adlandırılan ve firmanın sadece hissedarlarının refahını maksimize etmesinin değil, ilgili tüm paydaşların (çevrenin, bireylerin, toplumun, devletin) menfaatini gözetmesi gerektiğini söyleyen yaklaşım bahis konusu haline geliyor. Paydaş yaklaşımının artık çok daha yüksek sesle dile getirildiği fakat halen finans teorisi içerisinde kendisine yer bulamadığı ifade ediliyor. Konvansiyonel anlayışın hissedar merkezli anlayışı halen hakimiyetini devam ettiriyor. Konu, İslam iktisadı çerçevesinde değerlendirildiğinde firmanın sadece çevresindeki topluluğu ya da toplumu değil, sahip olduğu varlıkların elde edilmesinde katkısı bulunan her kesimin mülkiyet haklarını gözeten bir anlayışa sahip olduğunu görüyoruz İslam'daki mülkiyet haklarına ilişkin ilkeler, paydaşların karar süreçlerine dahil edilmelerini ve ekonomik birimlerden hesap sorabilmeyi rahatlıkla gerekçelendiriyor. Bu bağlamda kendisine konvansiyonel anlayışta yer bulamayan paydaş (stakeholder) teorisinin İslam iktisadı anlayışına daha uygun olduğu sonucuna ulaşılıyor.

Partnership and Profit in Medieval Islam

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Abraham L. Udovitch 1970 senesinde Princeton University Press tarafından yayımlanan eserinde Ortaçağ'da İslam'da ortaklık ve commenda konularını ele almaktadır. Udovitch eserinin giriş bölümünde ortaklık ve commenda akitlerini, "Ortaçağ İslam dünyasının ticari hayatının kusursuz birer nitel bileşeni" olarak tanımlamaktadır. Mezkûr tanımlamadan da anlaşılacağı üzere bu eser, ortaklık ve commenda akitlerinin nitel yönlerini ele almış, yine yazarın ifadeleri ile "kaynak ve doküman yetersizliğinden dolayı Ortaçağ ticaretinin nicel taraflarına dair araştırma yapmanın büyük ölçüde imkânsız olması" sebebiyle ortaklık ve commenda akitlerinin nicel yönlerine yer vermemiştir.

Günümüz İslamî finans literatüründe konvansiyonel finans ürünlerine daha yakın olduğu kabul edilen murâbaha akdine alternatif bir ürün arayışı içerisinde olunduğu bu zamanda, ortaklık ve commenda akitlerinin bu anlamda Ortaçağ ticari hayatı içerisinde oynadığı rolü açık bir şekilde ortaya koyan bu eserin ne denli bir önemi haiz olduğu izaha muhtaç değildir. Nitekim ortaklık ve commenda'ya dair kaleme alınan Udovitch'in eserini müteakip eserlerde bu kitaba yapılan atıflar da bu kanaati destekler niteliktedir.

Eserin konuları ele alış biçimi daha ziyade temel İslam fıkıh kitaplarında ortaklık ve commenda akitlerine dair yer alan bilgilerin Hanefi, Mâliki ve Şâfiî mezhepleri bağlamında aktarılması, analiz edilmesi ve eğer varsa Batı ticari hayatındaki uygulamaları ile mukayese edilmesi şeklindedir. Udovitch bu tarz bir yol izlerken pek çok farklı esere atıfta bulunuyor olsa da, kitabın genelinde ön plana çıkan bazı isim ve eserler de vardır. Örneğin Hanefi fıkhına dair materyal daha ziyade Serahsî'nin *Mebsût*'undan, Şeybânî'nin *El-Asl* ve *El-Câmiu's-sağîr*'inden ve Kâsânî'nin *Bedâiu's-sanâi*'inden alınmıştır. Mâlikî mezhebinde ortaklık ve commenda ele alınırken daha ziyade Mâlik'in *Muvatta*'ına ve Sahnûn'un *Müdevvene*'sine başvurulmuştur. Şâfiî fıkhı bağlamında ise daha ziyade Şâfiî'nin *El-Ümm*'üne ve Nevevî'nin *Minhâcu't-talibîn*'ine atıf yapılmıştır. Yazarın ortaklık ve commenda akitlerine dair yaptığı güncel bir takım yorumlar ve atıflarda ön plana çıkan isimler ise Joseph Schacht, Ignac Goldziher, C. Snouck Hurgronje ve S. D. Goitein'dir.

Ayrıca yazar, kitabın ana bölümlerinden de anlaşılacağı üzere, ortaklık ve commenda akitlerini ele alırken daha ziyade Hanefi mezhebindeki yapıyı ve görüşleri baz almaktadır.

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Bunun sebebini ise Hanefi mezhebinin, geleneksel fıkhın rijit yapısını istihsân ve hiyel ile nispeten esnetebilmiş ve ticari hayatın ve tüccarın pratik ihtiyaçlarını daha fazla karşılayabilmiş olması olarak göstermektedir.

Eser yedi ana bölüm ve bu bölümler altında yer alan doksan dört alt başlıktan müteşekkildir. Eserin yedi ana bölümü aşağıdaki gibidir:

I) Giriş

II) Mülkiyet Ortaklığı

III) Hanefi Mufâvaza Ortaklığı

IV) Hanefi ʻİnân Ortaklığı

V) Mâliki Ortaklık

VI) Commenda

VII) İslam Hukuku: Teori ve Uygulama

Giriş bölümünde eserin yöntemi ve kaynakları ele alınırken fıkıh ve pratik arasındaki ilişki ele alınmış ve fıkhın genel olarak ticari hayatın pratik ihtiyaçlarını karşılayabildiği ve bunun da daha ziyade *şurût* ve *hiyel* ile başarıldığı vurgulanmaktadır. Burada üzerinde durulan bir başka mesele de commenda akdinin esasında Arap kökenli bir ticari kurum olduğu, İslam fıkhının bir inovasyonu olmadığıdır. Eserde temel olarak üç İslam fıkıh mezhebi baz alınmıştır: Hanefi, Mâlikî ve Şâfiî. Yazar bu üç mezhep dışında kalan, Hanbelî ve Zâhirî gibi mezheplere yer vermeyişini, bu mezheplerin erken dönemlerde ortaklık ve commenda'yı çalışmaya imkan verecek derecede sistematik eserler verememiş olmaları ile açıklamaktadır.

İslam fıkhında ortaklıklar genel anlamda iki ana kategoride ele alınmaktadır: Mülkiyet ortaklığı ve akit ortaklığı (sözleşmeye dayalı, ticari). Yazar da bu minvalde eserinin ikinci bölümünü mülkiyet ortaklığına hasretmiştir. Hanefi ve Mâliki mezheplerinde mülkiyet ortaklığının esaslarını zikreden yazar, şirket kavramından ilk anlaşılan şeyin aslında akit ortaklığı olduğunu ancak ortak mülkiyet kavramının da ortaklık kavramı içerisinde ele alındığını fıkıh kitaplarından bir takım atıflar yaparak ortaya koymaktadır. Ayrıca mülkiyet ortaklığının ticari akitler açısından öneminin asgari düzeyde olduğuna ve geçerli bir ortaklık kurulabilmesi için şart olmadığına işaret edilmektedir. Şâfiî mezhebinde ortaklığın temelinde sermayelerin birbirine karıştırılmış olması esas olduğundan dolayı ortaklık kurumunun yapısı Hanefi ve Mâlikî'lerdekindan farklı bir durum arz etmektedir. Bu sebeple Şâfiî ortaklık yapısı için ayrı bir başlık açılmış ve konu kapsamlı olarak ele alınmıştır. Yazar Şâfiî ortaklık yapısını ele alırken Şâfiî mezhebinin bu konudaki katı ve daha kısıtlayıcı yapısını da zaman zaman eleştirmektedir.

İkinci bölümde ortaklık yapısının ilk ayağı yani mülkiyet ortaklığı ele alındıktan sonra kitabın esas konuları olan akit ortaklıkları yani mufâvaza, ʻinân ve commenda ortaklıkları ayrı ayrı ele alınmıştır. Yukarıda ifade edildiği üzere yazar söz konusu akitleri ele alırken Hanefi mezhebini baz almış ve ana başlıkları da buna uygun olarak tasarlamıştır.

Hanefi mufâvaza ortaklığının ele alındığı üçüncü bölümde öncelikle mufâvazanın kökeni ve taraflar arasında eşitlik hususlarını ele alan yazar, bölümün geri kalan kısmında mufâvazanın kuruluşundan sona ermesine kadar tüm aşamaları ayrıntılı bir biçimde zikretmektedir. Söz konusu ortaklık günlük ticari hayatta kurulması ve sürdürülmesi oldukça güç olan bir ortaklık türü olduğundan dolayı fıkıh kitaplarında konu ile ilgili verilen örneklerin farazi örnekler olma ihtimalinin oldukça yüksek olduğuna dikkat çekilmesi, yazar bölüm içerisinde yaptığı nadir yorumlardan ön plana çıkanıdır.

Dördüncü bölüm, ticari hayattaki ortaklıkların çoğunluğunu teşkil eden, mufâvaza olmayan ortakları ifade etmek için kullanılan ʻinân ortaklıklarına ayrılmıştır. Üçüncü bölümde olduğu gibi burada da baz alınan mezhep Hanefi mezhebidir. ʻİnân ortaklığına dair fıkıh kitaplarında yer alan bilgiler genel hatları ile, üçüncü bölümde de olduğu gibi, ortaya konmuştur.

Üçüncü ve dördüncü bölümlerde ele alınan mufâvaza ve inân ortaklıklarında kar paylaşım esasları kitabın temel konularını teşkil etmeleri bakımından önemlidir. Yazar bu açıdan mufâvaza ortaklığında tarafların her anlamda eşitliği söz konusu olduğundan dolayı kar paylaşımındaki yarı yarıya eşitliğin adil olduğunu, inân ortaklığında kar paylaşım oranlarının tamamen tarafların arasındaki anlaşmaya bırakılmış olmasının da fıkhın ticari hayatın ihtiyaçlarını karşılama anlamında ortaya koyduğu serbestiyi açık bir şekilde ortaya koyduğunu vurgulamaktadır.

Üçüncü ve dördüncü bölümlerde Hanefi mezhebinde genel olarak ortaklık yapılarını ele alan yazar beşinci bölümü Mâlikî ortaklık anlayışına hasretmiştir. Hanefi mufâvaza ve ʻinân ortaklıkları ayrı ayrı ana başlıklar olarak ele alınmışken, Mâliki mufâvaza ve ʻinân ortaklıkları tek başlık altında ve nispeten daha yüzeysel ele alınmışlardır. Yazarın burada Mâlik'in Muvatta'da ticari ortaklıklara yer vermemiş olmasının, onun bu konudaki bilgi eksikliğini göstermediğini, kendisine yapılan atıfların ve Müdevvene'deki ifadelerin Mâlik'in ortaklıklar konusunda oldukça donanımlı olduğunu gösterdiğine dair yapmış olduğu çıkarımlar dikkat çekicidir.

Eserin altıncı bölümünde commenda akdi ele alınmıştır ve eserin en geniş bölümünü teşkil etmektedir. Commenda akdinin kökenine özel bir önem atfeden yazar İslam'daki mudârebe, kırâz ve mukâraza olarak kullanımlarına dikkat çekmekte ve "commenda'nın, İslam öncesi Arap kervan ticareti bağlamında geliştirilen Arap yarımadasına özgü bir kurum olması oldukça muhtemel görünmektedir" ifadeleri ile de kökenine direkt olarak işaret etmektedir. Ayrıca diğer ortaklık yapılarına nazaran commenda akdine dair görüşlerin mezhepler arasında daha benzer bir yapıda olduğunu da vurgulamaktadır. "Hanefi commenda'sı, bu akdin en kapsamlı, kullanışlı ve esnek şekli olarak tebellür etmektedir. Bu kriterler açısından Hanefi commenda'yı, sırasıyla azalan seviyede Mâlikî ve Şâfiî versiyonları takip etmiştir. Bu sebepten dolayı müteakip açıklamlarda, Hanefi mudârebe'yi esas aldım ve gerekli yerlerde diğer iki fıkhi mezhepteki benzerlikler ve farklılıklara değindim." Yazara ait bu ifadeler, commenda bölümünde izlenen yöntemi açık bir şekilde göstermektedir. Commenda ile ilgili bu noktalara değinen yazar bölümün geri kalan kısmında meseleyi tüm yönleri ile ele almakta ve mezkur İslam fıkıh mezheplerindeki görünümünü etraflıca ortaya koymakta ve değerlendirmektedir.

“Önceki bölümlerde fıkıh metinlerinde yer alan Ortaçağ İslami ticari işbirliklerinin iki ana kurumuna değindikten ve tarif ettikten sonra, şimdi burada söz konusu metinlerin bizim yöntemimizin onlara atfettiği güveni haklı çıkarıp çıkarmadıklarını soruşturmak uygun olacaktır” şeklindeki ifadeleri ile yazar aslında yedinci ve son bölümün temel hedefini ortaya koymaktadır. Bu minvalde yazar; “Bu teorik metinler gerçekten de erken dönem Ortaçağ İslam dünyası ticaretinin nitel yönlerine rehberlik edebilir mi? Commenda ve ortaklık kurumları fıkhi tasvirlerinde olduğu gibi gerçekten de fiili ticari uygulamaları yansıtmakta mıdır?” gibi sorular bağlamında değerlendirmelerde bulunmaktadır.

Bir takım küçük kayıtlar ve Hanefi mezhebine özel atıfla bu sorulara tamamen olumlu cevap verilmekte ve ayrıntılı bir şekilde bölümün geri kalan kısmında izahata yer verilmektedir. Yazar bu bölümde özellikle Hanefi fıkıhçıların iktisadi çevrelerine karşı olan duyarlılığının, ortaklık ve commenda hukukunun çeşitli yönleri ile ilgili tartışmalarda tekrar tekrar kanıtlandığına işaret etmekte ve bu konudaki başarılarının ticaret hukukuna yön verdiğini vurgulamaktadır. Hanefi ticaret hukukunda örf, istihsân ve hiyelin önemine de tekrar tekrar işaret etmektedir. Ayrıca İslam fıkıh metinlerindeki uygulamalar ile Geniza kayıtları arasındaki benzerliklere dikkat çekmekte ve daha esnek ve kullanışlı yapısından dolayı commenda’nın her zaman daha fazla tercih edilen akit olduğunu ve uzun mesafeli ticaretin yapı taşını teşkil ettiğini özellikle vurgulamaktadır.