T. C.

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Institute for Islamic Studies

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THE ROLE OF INTEREST- FREE FINANCING TOOLS FOR ENSURING SUSTAINABLE EXPORT

MASTER THESIS

Osman AYMAN

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ACCEPTANCE AND APPROVAL PAGE

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ABSTRACT

Nowadays, no country can survive without involving into (international) trade activities. Exports and imports are two elements of the foreign trade. The major source of foreign reserve, GDP and other advancements for almost all developing states is exports. The main purpose of this thesis is to identify export related tools under Islamic finance, track recent improvements and highlight the best Islamic export financing practices in the world.

The methodology used in this study is descriptive approach followed by some foreign trade financing experiments. The study also utilized the methodology of induction to clarify how Islamic finance can increase and improve export performance of the states. Due to the lack of interest free-financing data under export related statistics, an empirical or analytical approach seemed impossible for now.

In this study, prominent interest free financial methods for exporting companies that do not wish to operate with interest and/or do not have necessary capital are investigated and policy recommendations are brought forward. In this regard, first; literature review, the importance of exports and financing status are discussed; then, the necessity of interest free finance is explained. Lastly, interest-free financing methods and examples at the export stage are debated.

The study concluded that Islamic finance is far away from its potential to be used in the export finance. While we underline the overall situation in terms of interest free financing at the export stage, we realize in the literature review that there is almost no study focusing on the Islamic financing of export. Most of them are concerned with domestic trade or Islamic banks, rather than the export financing. This reveals that there is a need for further research on this topic.

When we look at the interest-free export finance examples, we also realized that the international organizations have a crucial role. Essentially, interest-free financial activities are carried out with the help of international organizations.

Keywords: Islamic finance, export, interest-free finance, foreign trade

ÖZET

Artık, ülkelerin diğer ülkelerle ticari faaliyet içerisine girmeden hayatta kalabilmesi mümkün değildir. İhracat ve ithalat dış ticaretin iki unsurudur. Neredeyse tüm gelişmekte olan ülkeler için dış rezervlerin ana kaynağı ihracattır. Bu çalışmanın ana amacı, İslami finansal araçlar, bu alandakison gelişmeler ve dünyadaki bazı İslami ihracat finansmanı örneklerine odaklanarak ihracatı islami finans yardımıyla artırmaktır.

Bu çalışmada kullanılan metodoloji, tanımlayıcı bir yaklaşım olup, bunu bazı dış ticaret finansmanı örnekleri izlemektedir. Çalışmada ayrıca, İslami finansın devletlerin ihracat performansını nasıl artırıp iyileştirebileceğini açıklığa kavuşturmak için tümevarım metodolojisi kullanılmıştır. Faizsiz finansman kaynaklı ihracat verilerinin eksikliğinden dolayı, ampirik veya analitik bir yaklaşım izlenememiştir.

Bu çalışmada, konvansiyonel yöntemlerin dışında olan ve faizle faaliyet göstermek istemeyen ve / veya gerekli sermayesi bulunmayan ihracatçı şirketler için halihazırda mevcut olan faizsiz finansal yöntemler incelenmekte ve Türkiye için politika önerileri yapılmaktadır. Bu çerçevede öncelikle; ihracatın önemine, finansman şekillerine ve literatür taramasına yer verilmiş, sonrasında ise faizsiz finansmanın gerekliliği üzerinde durulmuştur. Son olarak, ihracat aşamasında faizsiz finansman metodları ve örnekleri tartışılmıştır.

Çalışma ile, İslami finansın ihracat finansmanında kullanım potansiyelinden oldukça uzak olduğu sonucuna varılmıştır. İhracat aşamasında faizsiz finansman bilonçosu incelenirken, literatür araştırması sırasında İslami ihracatın finansmanına odaklanan neredeyse hiçbir çalışma olmadığı tespit edilmiştir. Halihazırda mevcut olan çalışmaların çoğu ya İslami bankalarla ya da iç ticaret ile ilgili olup, ihracat finansmanına özel çalışmalar yok denecek kadar azdır. Bu durum, ihracatın faizsiz finansmanı hususunun daha fazla araştırmaya ihtiyaç duyduğunu ve acilen geliştirilmesi gereken bir alan olduğunu ortaya koymaktadır.

Çalışma sonucunda, ihracatın faizsiz finansmanı örneklerine baktığımızda, uluslararası kuruluşların çok önemli bir role sahip olduğu ortaya çıkmıştır. Faizsiz finans faaliyetlerinin tamamına yakını doğrudan veya dolaylı olarak uluslararası kuruluşların yardımıyla gerçekleştirilmektedir.

Anahtar Kelimeler: İslami finans, ihracat, faizsiz finans, dış ticaret

LIST OF ABBREVIATIONS

AAOIFI: The Accounting and Auditing Organization for Islamic Financial Institutions

AATFP: The Arab Africa Trade Finance Program

BADEA: Arab Bank for Economic Development in Africa

BRSA: Banking Regulation and Supervision of Agency of Turkey

CAGR: Compound Annual Growth Rate

CM: Collateral Manager

COMCEC: The Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation

DHAMAN: Arab Investment and Export Credit Guarantee Institution

ECA: Export Credit Agencies

ECR: Export Credit Refinancing

EFS: Export Financing Scheme

e.g.: For Example

GCC: Gulf Cooperation Council

GDP: Gross Domestic Products

GIBN: Global Islamic Bank Network

ICIEC: Islamic Cooperation for the Insurance of Investment and Export Credit

ID: Islamic Dinars

IDB: Islamic Development Bank

IEFS: Islamic Export Finance Scheme

IFS: Islamic Financing System

IFSB: Islamic Financial Services Board

IFSI: Islamic Financial Services Industry

ILC: Islamic Letter of Credit

IMF: International Monetary Fund

ITC: International Trade Center

ITFC: International Islamic Trade Finance Corporation

LC: Letter of Credit

LIBOR: London Inter Bank Offered Rate

LTTFS: Longer Term Trade Financing Scheme

MENA: Middle East and North Africa

MEXIM: Eximbank of Malaysia

NAIFE: National Agency for Insurance and Finance of Exports

OECD: Organization for Economic Co-operation and Development

OIC: Organization of Islamic Cooperation

S&P: Standard and Poor's

SEP: The Saudi Export Program (SEP)

SFD: Saudi Fund for Development

SME: Small- Medium Sized Enterprise

SOFITEX: Societé Burkinabh des Fibres Textiles

SSA: Sub-Saharan African

PBAT: The Participation Banks Association of Turkey

PBUH: Peace be Upon Him

PSS: Private Sector Stimulus Program

PT ASEI: Asuransi Ekspor Indonesia (Indonesian Export Insurance)

RA: God have Mercy on Him

QDB: Qatar Development Bank

TDB: Trade and Development Bank

TIM: Turkish Exporter Assembly

TL: Turkish Lira

TURKSTAT: Turkish Statistical Institute

UK: United Kingdom

USA: United States of America

USD: US Dollars

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CHAPTER 1.

INTRODUCTION

The field of Islamic banking and finance has been attracting researchers, scholars and people who are interested in their economic life with Islamic finance in the last decades. After the global recession in 2008, Islamic alternatives of the finance industry have managed to stay stronger than conventional ones and became more popular.

High profitable banks remain strong and have simple access to the funds. In addition to this, comprehensive banking regulations and systems play a vital role in allocation of resources, economic potential and financial performance. Islamic finance is growing significantly and ready to have a larger seat in international finance markets.

Islamic banks prefer financial instruments and services that are compatible with Islamic rules and regulations. So, Muslim society and firms with Islamic concerns find a way to operate their financial actions in a flexible way. That enables global financial system to reach a wider population.

Today, Islamic banking system is implemented by many countries worldwide and total assets of the Islamic banking system have reached almost 3 trillion dollars (Belatik, 2019) even though it is smaller than current conventional banking and financial transaction volume. These improvements in the Islamic finance and banking system were followed by the increase in demand for Islamic finance instruments. It also sparked the emergence of new financial products and paved the way for a strong legal framework in the sector (Uppal &Mangla, 2014: 1). Interest free finance at the export stage is one of these fields which need to be strengthened as a component of foreign trade and which demands more awareness from the society.

1.1. PROBLEM STATEMENT

Export activities are mostly conducted by financially strong entrepreneurs who have sufficient capital or can borrow with confidence. But it can be challenging to access the finance for smaller companies or SMEs. For this particular incident, this study offers interest free finance rather than conventional banks that are ready to overcharge small producers who haven't got enough capital to produce or no time to wait until the payment.

While developed countries are good at exporting technological and value-added goods, developing or underdeveloped countries mostly export raw materials, agricultural products or simply lower value-added products. That unbalanced trade activities result in foreign trade surplus for developed countries, while it means a deficit for developing countries. Islamic countries can be assessed as developing countries and, except some oil exporters, all Islamic countries have a significant amount of foreign trade deficit.

In this study, we focused on export financing rather than domestic trade or import activities due to reasons explained above. As it is mentioned in chapter 5, there are limited number of studies in the field of interest free export financing. In other words, there are only few examples although export activities keep playing larger roles in the global economic arena. Hence, we have a strong reason and motivation to seek interest-free export finance facilities.

1.2. METHODOLOGY OF RESEARCH

The methodology used in this study is descriptive approach followed by some foreign trade financing experiments. The study also utilized the methodology of induction to clarify how Islamic finance can increase and improve export performance of the states. Due to the lack of interest free-financing sourced export data, an empirical or analytical approach couldn't be followed. In addition to speaking with local Islamic banks, many data sources were investigated such as local and international bank databases, World Bank, IMF, ITC, TURKSTAT, ICIEC, Trademap. Databases of these resources were searched online. Relevant data were requested from some employees and managers of financial institutions. Unfortunately, the relevant data were not available. Yet, a mathematical basis has been tried to be formed with the help of some trade data.

In this study, rather than measuring the mathematical analysis in financial terms, we tried to define interest free export finance possibilities within the framework of the information obtained by using impressions, opinions and ideas. Within this framework, qualitative methodology has been adopted instead of quantitative.

1.3. RESEARCH QUESTIONS

This study tries to find an answer to these questions:

1- Is interest free finance possible at the export stage? If so how? Does Islamic Banking contribute to export financing?

2- Does Islamic Banking have an effective instrument for this purpose?

3- Are there any examples or initiatives on interest-free financing of exports? What are these instruments in the export stage?

4- What is the role of Islamic International Organizations in Export Finance? Is it effective or not?

1.4. STRUCTURE OF THE THESIS

In this context, the study consists of four sections to answer questions mentioned above.

The introduction contains the background of the thesis. In this section, general information about problem statement, research objectives, research questions and the structure of the thesis provided.

The second chapter concentrates on the literature review. In the literature review, previous similar studies are evaluated. The results obtained from these studies are presented. In the following section, the differences of conventional and Islamic finance tools are examined in detail.

The third section focuses on the importance of export for both Turkey and other countries. This chapter explains the issues and current situation of foreign trade in the world and Turkey. In this section, the role of the export credit agencies including Turkish Eximbank is also discussed.

The forth section attempts to explain best fitted interest free finance tools including *"takaful"* to the export finance and examines various models around the world.

The conclusion consists of recommendations and policy implications for the issues and challenges on interest-free export financing.

CHAPTER 2.

LITERATURE REVIEW

The main aim of the literature review is to explore results, experiments and the motivation of the previous studies related to interest free finance of export. In this context, we tried to clarify what the literature is by revealing the challenges, similarities and differences. In order to form the conceptual framework, after the literature review, we will clarify what conventional and interest-free finance is.

There are not many studies in the literature on foreign trade financing, while there are lots of studies dwelling on the relation between the Islamic finance and domestic trade related studies. But when it comes to interest-free export finance, just a few studies exist which will be mentioned subsequently in this section.

2.1. INTRODUCTION

The most important core or relevant studies are studied by Suwaidi (1991) Furqani&Mulyany (2009), Icellioglu &Özturk (2019:969), Usmani (1999) and Gündoğdu (2012).

Al-Suwaidi (1991) expresses some Islamic international trade methods. In addition to the cash documentary letter of credit, he investigated "mudaraba", "murabaha" and "musharaka" methods in detail. According to him, there is less flexibility in Islamic banks in obtaining the required security than in the conventional banks because of the difficulties faced by Islamic banks in recovering murabaha letter of credit debts as interest is not levied. According to him, the cash documentary letter of credit, under the rules of Islamic Banks, is similar in the procedures and obligations to that used by the conventional banks. The exception is that the Islamic Banks do not pay, nor charge, any interest whatsoever in respect of the amount paid immediately by the applicant at the time of opening the credit or the rest of the credit which is paid later, on the due date. He considers this as qard-hasan.

He found that the method of Islamic banks in financing international trade is more convenient to the customer than with the conventional banks because the former act as the buyer taking the full risk and responsibility for defects in the goods. In addition to the above the selling price is fixed and no charges are collected in cases of delay which is not the case with conventional banks.

Furqani & Mulyany (2009) analyzed the relationship between Islamic banks and international trade in Malaysia. In the long term, they concluded that international trade activities are not co-integrated with Islamic financing. The study results were explained by the relatively small share of Islamic bank financing international trade activities on the basis of some data. They confirmed that Islamic finance affects the economic growth and fixed investments in Malaysia but in international trade activities, there is no such positive effect. According to the authors, together with the current commitments to develop a comprehensive Islamic Finance system and to be more integrated with the International financial system, this insufficient effect could be handled in the following years. As we can see in the following sections, Islamic finance in Turkey's financial system has a share of only 5%. Due to its limited usage, it is not possible to measure exactly how Islamic Finance affects Turkey's export finance.

Icellioglu & Özturk (2019:969), investigated the effects of the export amount of funds allocated by participation banks in Turkey. Three largest participation banks, Albaraka Turk, Turkiye Finans and Kuveyt Turk, in terms of assets were analyzed by the panel data between the years of 2008-2018. According to the results, there was no unit effect in the model. In other words, the results did not vary by the units. According to the results obtained in this study, the funds allocated by participation banks in Turkey boosted exports. Economic growth will be supported if the finance requirements of the real sector are met. According to the study, participation banks transferred Islamic funds to the financial market and caused positive contributions to the real sector. In other words, while Furqani & Mulyany (2009) could not reach these results for Malaysia, the authors in this study were able to reach a positive relationship between Islamic funds and exports.

Usmani (1999) declared in his article on how the exporters can be financed in their export transactions on the basis of Musharaka/Mudaraba models that, the profit expected by the financier can be easily calculated when the exporter sells the goods via cash in advance. The author divided export financing into two categories as pre-shipment and post-shipment financing. Pre-shipment financing includes musharaka, mudaraba and murabaha models. The author characterized post-shipment financing similar to the discounting of the bill of exchange. In his study, he reminded that responsibilities of both sides in detail for every Islamic finance type which are suitable best to use in export financing by showing how Islamic finance system works perfectly to share risk and to allocate the sources. According to him, if both sides do what they should do, Islamic wisdom regulating finance can be valid in the society and economic system.

Some studies reveal that there is no consensus for Islamic finance reaching its potential. According to Gündoğdu (2016), despite the fact that standard financing tools (murabaha contracts) have an active role in import financing, Islamic financial institutions are not able to meet the financial needs of rising exports because of the challenge of developing both productive and Sharia compliant products and the fact that export financing is one of the most controversial issue for the Islamic trade finance industry.

In another study, Gündoğdu (2012) declares a case study concerning employing Islamic finance instruments in a structured trade finance deal in the context of the Five-Year OIC Cotton Action Plan as an alternative to conventional finance tools. This study goes beyond the mentioned case and the plan mentioned here includes a wide export finance opportunities for producers. In his study, Gündoğdu proposes salam contract for a whole supply chain financing which starts from input financing to post-harvest financing. After explanation of the extended structure and facility structure for supply chain financing with salam, Gündoğdu conducted in his study a comprehensive risk analysis to identify preventive actions, possible risk, causes of these risks and contingencies in order to show the integrated approach introduced with this Islamic finance instrument. In the context of Societé Burkinabh des Fibres Textiles (SOFITEX), the concept of Islamic supply chain financing which starts from input financing to pre-export finance is explained, leading ginning conglomerate in Burkina Faso, West

Africa. SOFITEX is an agro-industrial and commercial entity controlled by the government of Burkina Faso. This type of organizations are important and useful to demonstrate how structured Islamic financial instruments are functionalized related to real life issues. We will discuss some other experiments of the world in the following sections.

Regarding the distinctive challenges of Islamic financing system (IFS), Khan & Bhatti (2008:708) clarifies these challenges in 5 steps. First, interest and usury are prohibited and every type of contracts and transactions need to be purified from interest. Second, it is forbidden in IFS to invest in illegitimate areas such as alcohol, gambling, drugs, tobacco, pig products, pornography, etc. Third, all forms of contracts must be free from excessive uncertainty causing imbalances between the parties and risks should be shared. This condition is conceptualized as the "*garar ban"* which eliminates the problem of asymmetric information and thus prevents non-systematic risks. Fourth, IFS is an efficiency based system. Fifth, the importance of fair contracts is highlighted in IFS. In this content, investors should not be forced to carry out a transaction nor should they be prevented from pursuing any type of a transaction.

Kahf (1999) divides trade finance into three categories: partnership, sales and leasing. The partnership is divided into full equity share and non-voting equity financing. In the sale, the financing agent receives the goods on behalf of the customer and sells the mentioned good to the customer. In the leasing method, the financier purchases the equipment and leases it (by Ijarah WaIqtina). Kahf states that people were familiar with cheque and demand deposits 1200 years ago and that they used musharaka as their main financing model. As far as our literature review is concerned, it is possible to say that the Partnership approach stands out more than other two components of Islamic trade finance defined by Kahf.

Zamir Iqbal (Bilal: 2016:18) reported in his research that all the pioneer references trading activities confirming to Sharia developed under the umbrella of either Islamic or interest free banking. But, defining Islamic financial system only as interest free is not enough and does not provide complete view of the Islamic system. Undoubtedly, prohibition of interest is one of the most important issues of the Islamic financial system but in addition to this, it is also supported by the principles of risk sharing, individual rights and duties, property rights and sacredness of the contract. Islamic banking system also puts equal emphasis on many dimensions, such as the ethical, moral, social and religious, to enhance equality and fairness for the goodness of overall society. Furthermore, limiting Islamic financial system with banking only is not enough, it also covers capital formation and its markets, and all types of financial intermediations. The author, who states that existing or proposed export financing products are widely criticized by Muslim community because of similarity of factoring, introduces some methods to overcome the inadequacy of existing structures. The author frequently implies the function of Islamic finance is not just a financial tool, but also a component of solidarity, brotherhood and risk sharing.

While there are lots of studies concerning Islamic financing advantages, benefits and how the system works in practice, Al-Jarhi (2013) handled gaps in the practice and the theory of IFS. He collects all of the main gaps in the IFS in 10 titles. First one is about the division of labor between Sharia scholars and economists. He thinks Sharia scholars sometimes seem satisfied with any contract. Second gap is about the absence of Islamic economic system in real life. The existence of other systems like capitalism has helped economists to introduce realistic and purposeful models for analysis. Third gap is about the absence of a general equilibrium model for an Islamic economy. According to him, Islamic finance perception requires refocusing on the absence the of spot-against-future money market. Fourth gap is the role of Sharia boards. Fifth gap states absence of unified and well defined Sharia methodology. According to Al-Jarji:

"Once the methodological gap has been filled, Sharia Boards will stop applying ingenious subterfuges to mimic conventional financial products carefully dressed in an Islamic garb."

The other gaps are central banks' treatments, capital requirements, sukuk seen as Islamic bonds or fixed income instruments, the split between monetary policy and IFS and shyness in using moral values.

When it comes to the effects of Islamic finance, economic growth comes to the fore. Unlike IFS's effects on exports or foreign trade, economic growth has been studied more by researchers. Considering the effects of economic growth on foreign trade, it will be useful to include this issue as well.

Koçak (2018) investigated the relationship between Islamic finance and economic growth in between 2005 and 2015 for Turkey. According to his analytical studies, he found a long-term equilibrium relationship between Islamic finance, capital, labor and economic growth. According to that relationship, Islamic finance has a positive impact on economic growth, capital and labor. The author has reached the conclusion that within the scope of financial development and economic growth literature, the supply-side hypothesis is valid in Turkey.

Manap et al. (2012) studied the relationship between Islamic financial development and economic growth in Malaysia between 1998 and 2012. The study has shown that the development of Islamic finance in Malaysia will increase the countries' economic growth. However, the authors warn that for IFS, the data samples are small, so it is very likely to cause bias in test results. Nevertheless, the authors, who found the results of the study very encouraging, state that the continuous effort made to further develop the IFS will contribute to Malaysia's economic growth.

A comparative study between Islamic finance and the financial development and economic growth in GCC countries are investigated by Grassa &Gazdar (2014). They compared Islamic and conventional finance in terms of growth. The research results strongly support the hypothesis that IFS leads to growth in the five GCC countries, but no significant correlation was observed between traditional financial growth and development.

Echcabi & Azouzi (2015) couldn't reach a positive relationship between IFS and economic growth in their study concerning United Arab Emirates. They investigated the years between 2004 and 2011. According to the authors, there is no relationship between IFS and economic growth and the reason is due to the small share of Islamic banking in comparison with the global banking sector and the decreasing profitability rate of IFS in the period examined.

In the literature, there are plenty of studies including different approaches to differences between conventional finance and Islamic finance.

According to Yanpar (2014: 63), one of the most important issues where Islamic finance differs from the conventional system is business ethics and norms. There is no serious punishment or control mechanism for unethical behaviors in the interest-based system.

In comparison with the conventional banking, financial product development is an important issue and discussed in the literature many times. Khan (2010) asked in his study the question of: “to what extent are the Islamic banking elements currently applied in line with the ideal model and to what extent do they differ from conventional banking?” The author stated that the current practices are actually similar to conventional financial transactions.

According to Gündoğdu (2012), there is a long lasting tendency to imitate conventional financial tools especially in product development. Most of the employees in the Islamic finance industry are transferred from conventional financial industries and they tend to maintain their old working habits such as risk management attitudes and high performance expectations.

Following Khan (2010), Asutay (2007) states that IFS is not compatible with the Islamic economy that aims to create a moral economy. The author also argues that the IFS’s current situation cannot reach its ideal aim. IFS should essentially be a tool to achieve a broader vision of Maqasid Al Sharia.

2.2. CONVENTIONAL AND INTEREST FREE FINANCE

2.2.1. Finance and Types

Export activity is carried out by manufacturers or traders specializing in export. Generally, both groups require both pre-shipment and post-shipment financing to fulfill export orders. Producers / manufacturers need more financing than traders / exporters.

The reason for this;

- If the types of goods produced for domestic and foreign markets differ, the changes in the production for foreign markets will bring additional costs to the firm,

- A company that manufactures with a certain working capacity only for the domestic market with an existing working capital, will need additional financing when it wants to meet the export order,
- If the contract includes it, the exporter may be charged shipping, insurance, tax, etc. costs other than production costs (Onursal, 1997: 3).

Financing of exports can be classified in different ways according to the maturity of the financing (short, medium and long), according to the stage of export (pre-shipment and post-shipment), and according to the party from which the risk is taken (buyer and seller credits). In practice, the basic distinction is usually made on a maturity basis.

2.2.1.1. Financing of Short-Term Exports

Short-term financing is particularly important for developing countries. Because these countries, mostly within the foreign exchange bottleneck, prefer to export their raw materials on the basis of short-term payment or they can only make short-term sales due to exchange regulations. The financing of short-term exports is examined in two stages, before and after shipment:

a) Pre-Shipment Financing

Before the shipment, defined as the working capital required by the exporter other than his own capital in order to manufacture the goods or to buy and forward the goods, this financing is carried out in the form of various letter of credit applications and / or the granting of loans and / or advances by the private financial institutions of the banks to the exporter.

Red Conditional Letter of Credit and Green Conditional Letter of Credit

This payment method, in which the exporter is able to receive the fund/payment in whole or in part before sending the goods and thus finances the exportation, is also an external credit feature (Onursal, 1997: 5).

a) Red conditional letter of credit; This method is used when there is a need for a pre-financing for the preparation of goods. For this type of credit, partial or total amount of the letter of credit is paid in advance to the seller before the shipment of goods *(b) Green conditional letter of credit;* it is similar to red conditional letter of credit. It allows cash payment to the seller. But this advance payment is made against a warehouse receipt showing that the goods are stored.

Bank Loans (Advances)

The exporter applies to the bank for fixed credit, current account credit or open credit for financing purposes. The main features of these bank loan types are given below.

Fixed Credit: The loan to be given by the Bank is paid in advance or transferred to the customer's current account. In the case of repayment in installments, the full amount of the debt is payable if no installment is paid. The collateral may be in the form of stocks, bonds, government bonds, mortgages and pledges as well as being personal, and is the preferred "fixed credit" system in developing countries.

Running Account Loan: In the bank, a customer who is sometimes the borrower, sometimes the creditor, has a moving current account. Within this limit, customers can benefit from credit facilities through this account. Collateral is exactly the same as fixed credit.

Open Credit: Generally, they are used against pledges and personal guarantees and the main reason why firms apply for bank loans in financing their export-oriented activities is that banks give loans to exporters at low cost. The reason why banks establish funds for the use of exporters is the desire to benefit from the facilities and incentives provided by the Central Bank.

Transferable Letter of Credit: The letter of credit that is transferable to a third party by the beneficiary is called the letter of transferable letter. Sometimes, intermediary-exporters do not want to use their own funds or the funds that can be given to finance their export transactions. In such cases, they prefer the transferable letter of credit application (Yıldırım, 2016:39).

Mutual Letters of Credit: A mutual letter of credit, which is used in international trade, can be defined as a transaction consisting of two separate letter of credit transactions, the beneficiary of the first letter of credit being the supervisor of the second letter of credit. In this system, the intermediary company opens a letter of credit in favor of the company from which it will receive goods by showing the letter of guarantee which has been opened in its favor by the company to which it is going to sell. The mutual letter of credit consists of two letters of credit: export and import. The first letter of credit, called *master letter of credit*, is the export letter of credit issued by the importer in favor of the intermediary exporter. The second letter, called *slave letter of credit*, is the letter issued by the intermediary exporter to the main supplier of the goods (Özkan, Tunahan, & Demir, 2005: 7).

b) Post Shipment Financing:

Exporters who are in fierce competition in international trade are forced to sell futures due to this competition. In this case, after the goods are shipped, the importer needs financing until the time he sends the goods. A loan to meet this need is called post-shipment financing.

Post-shipment financing is the financing of exports by the banks' activation when exporters extend credit to their buyers. The common types of this financing method are explained below:

Letter of Credit: Letter of Credit is basically a form of payment opened in foreign trade transactions upon the request of the importing party. However, since the bank that opened the letter of credit in this transaction is under the obligation to pay against the exporter on behalf of the importer, the application becomes a non-cash loan for the importer. The bank measures the credibility of the applicant, examines the developments in the economy, changes in exchange rates and evaluates the effects of these developments on the applicant. Then, factors such as solvency, liquidity and equity adequacy and profitability of the firm are examined. Finally, the quality, type, durability, price, delivery method, type of currency to be transferred of the product to be imported is emphasized. In this transaction, the buyer authorizes the bank to pay on its own account and to the seller to withdraw money, provided that certain documents are submitted and certain conditions are fulfilled. The exporter may collect the cost of the goods by the bank issuing the letter of credit after delivering the goods in a complete and specified manner. Then, the bank collects the fee of the goods from the importer together with its commission and expenses in return for brokerage services (Akgüç, 2013: 346).

Discount credit: It is a type of short-term cash loan that allows the remaining balance to be paid before the maturity of the bill after deducting interest and expense from the amount of a commercial note. Generally, the securities that are three months to the due date are subject to discount or participation (Karan, Doğukanlı, Aras, & Korkmaz, 2012: 36).

Export Against Document Credit: The exporter naturally tries to finance subsequent shipments after the shipment of the goods according to the contract made with the importer. In this context, the shipment documents or policies in the hands of the export of the intermediary of the bank leaving the hostage, the buyer makes the payment for the time until the date of payment. This type of financing is called export credit against documentary documents. In export credit against documents, the bank pays the seller all or part of the price of the goods considering the financial condition of the seller such as repayment power, the conditions of the buyer and his country and whether the document carries a reserve record. The Bank accrues interest or commission for advances provided (Temizel et al., 2013: 25).

Financing through Factoring: Factoring is provided by the sale of the right regarding receivables. It can be explained as a short term financing method. It is a method of financing in which short-term receivables of companies selling futures are paid in cash and purchased by a factoring company (Tekbaş et al., 2015: 189). With the introduction of factoring in foreign trade financing at a global level, new types and different practices of factoring have also emerged throughout the years. Some factoring examples are open-hidden factoring, national-international factoring, wholesale factoring, export factoring, dual factoring etc.

Factoring is a financing technique that has a direct positive impact on the cash flow of enterprises. It is generally a financing instrument for companies selling or exporting consumer goods and light equipment. According to Ceylan (2002:20), either seller or buyer can benefit from applying factoring instrument. In factoring;

- The company utilizing factoring services does not concern whether the credit sales will be paid at maturity.
- There is no problem such as monitoring of overdue receivables and inability of daily cash inflow to meet cash outflow.
- It is easier for companies to deal with issues such as increasing production and researching new markets.
- The factoring company can advise exporters on new market opportunities through extensive external links.
- Factoring prevents companies from facing the risk of not collecting their receivables.

2.2.1.2. Financing of Medium and Long Term Exports

The maximum term of medium-term export credits is 5 years. The products subject to this type of credit are durable consumer goods, machinery and equipment. Long-term export credits cover activities between 5 and 10 years. The subject of these loans generally covers activities such as the establishment of industrial complexes, turnkey projects, machinery-equipment export financing, contracting works financing, specialized export credit and overseas stores investment credit.

a) Pre-Shipment Financing:

Financing of Turnkey Projects and Machinery-Equipment Exports

These types of loans are realized in cooperation with national and international trade banks, drawing, construction, installation and operation of the facility. According to Yalçın (2013: 242), on this type of credit, collateral is generally the assignment of the mortgage or cash flow rights established on the project's tangible assets.

Contracting works financing

Contracting business finance plays a role in ensuring the permanence of the companies operating in the contracting sector in the existing markets. In addition, the projects undertaken abroad due to their penetration to new markets are supported by this letter through collateral letters in exchange for counterparty guarantees of local banks to Eximbank (Sakar, 2009: 180).

For Turkey, in the projects to be financed with this method, contractor companies must have a Foreign Contractor Certificate or a Temporary Contractor Certificate issued by the Republic of Turkey Ministry of Environment and Urbanization. Firms can request the credit from Eximbank directly or through a commercial bank.

Foreign Stores Investment Loan

With the Foreign Stores Investment Loan, the investment expenditures of the stores they are about to open abroad with their own brands are financed in order to support Turkish companies' brand promotion activities abroad.

According to Temizel et al. (2013: 48), to ensure permanent export markets and increase net foreign Exchange inflow though this loan program for;

- Investment expenditures of the stores opened abroad with their own brands in order to support the brand promotion activities of Turkish companies abroad are financed.
- In different markets, investment expenditures are financed for the sales stores that contain various sections where different product groups are displayed for the purpose of direct marketing of all types of consumer goods of Turkish origin.

b) **Post Shipment Financing:**

Seller Credit

A significant share of export credits consist of vendor loans. Here, when the seller shipped the goods, he presented the related documents to the bank and financed himself with the credit after the shipment, while the bank collected the cost of the goods from the buyer / importer. If the aforementioned costs cannot be collected, they are recourse to the exporter. If there is export credit insurance, the exporter transfers this risk to the insurance institution.

Buyer Credit

Buyer credit is; lending to a foreign buyer (importer). In practice, there is no transfer of funds from one country to another. Generally, the importer pays 20% to 30% of the price of the goods in advance to the seller (exporter) and the balance is paid to the buyer under the guarantee of the buyer's bank. Buyer loans are mostly opened for large scale export transactions (Onursal, 1997: 10).

Financing Through Forfeiting

Forfeiting is a method of trade finance that allows exporters to obtain cash by selling their medium and long-term foreign accounts receivable at a discount on a "without recourse" basis. According to ITA (2016), *"Forfeiting is a method of trade finance that allows exporters to obtain cash by selling their medium and long-term foreign accounts receivable at a discount on a "without recourse" basis. A forfeiter is a specialized finance firm or a department in a bank that performs non-recourse export financing through the purchase of medium and long-term trade receivables. "Without recourse" or "non-recourse" means that the forfeiter assumes and accepts the risk of non-payment. Similar to factoring, forfeiting virtually eliminates the risk of non-payment, once the goods have been delivered to the foreign buyer in accordance with the terms of sale."*

There are four parties involved in the forfeiting process;

- Exporting company
- Importer company

- The guarantor bank
- Forfeiter

2.2.2. Interest Free Finance in the World

Interest-free finance has become one of the remarkable areas of activity of the global financial sector recently. The 1970s is the period when interest-free finance has truly taken its shape and harvested its permanent fruits. The biggest players of Islamic banking such as Islamic Development Bank (IDB), Dubai Islamic Bank, and Kuwait Finance House were established in this period. 1980s is the period when interest-free finance started to spread from the Gulf Region to other Muslim countries, even to western countries within the framework of *Islamic window* (institutions serving both conventional and Islamic finance). The 1990s is the decade when the gravitational center of interest-free finance has shifted from the Gulf to Malaysia and Southeast Asia. Many new products and services in accordance with Islamic law have been developed in this period.

Interest-free financial institutions spread rapidly in Islamic countries after the 1970s and were implemented in different forms and contents. Although these organizations operate within the framework of common legal rules, different models have emerged as a result of cultural, environmental and sectarian factors. For example, the Malaysian interest-free finance model is supported by state patronage, promotion and positive discrimination, while in the Gulf model the state is merely a regulator and observer. While the environmental interest-free finance model in Indonesia is positioned to provide micro-credit support to small investors, the central model is more elitist.

In Turkey, investors and financiers individually entered the Islamic finance industry. Besides, the state has established two participation banks. There were no interest-free financial institutions in other countries whose capital is fully owned by the government.

At the point we have reached today, interest-free financing manages an asset of 3 trillion US Dollars (USD) and provides banking, takaful, sukuk and Islamic fund management services with more than 1.000 institutions in almost 100 countries.

Interest-free finance is applied in a very wide geography from Southeast Asia to the United States.

The Global Interest-Free Finance Report (S&P) emphasizes that the main area of the country's progress in the Islamic finance sector is the Muslim countries, based on the data from the 2017 interest-free finance country index. The main starting point here is the fact that interest-free finance is still far from saturation point in Muslim countries and the existence of a great potential remains untouched.

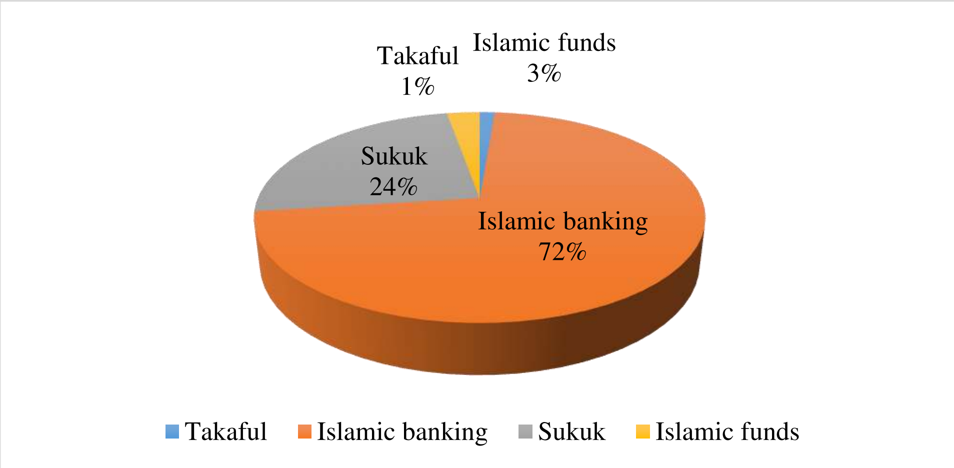
Table 1- Breakdown of the Global Islamic Financial Services Industry (IFSI) by Sector and Region (USD billion, 2018)

Region	Banking Assets	Sukuk Outstanding	Islamic Funds Assets	Takaful Contributions	Total	Share %
Asia	266,1	323,2	24,2	4,1	617.6	28.2%
GCC	704,8	187,9	22,7	11,7	927.1	42.3%
MENA (ex-GCC)	540,2	0.3	0,1	10,3	550.9	25.1%
Africa (ex-North)	13,2	2,5	1,5	0,01	17,2	0,80%
Others	47,1	16,5	13,1	-	76,7	3,50%
Total	1.571,30	530,4	61,5	27,7	2.190	100%

Source: Islamic Financial Services Industry Stability Report 2019 (https://www.ifsb.org/index.php)

The GCC countries account for 42 percent of the global share of Islamic finance, followed by Asia with 28 percent. As can be seen in Table-1, the countries with the least share are the African countries. In this table, Turkey is considered in the "others" section.

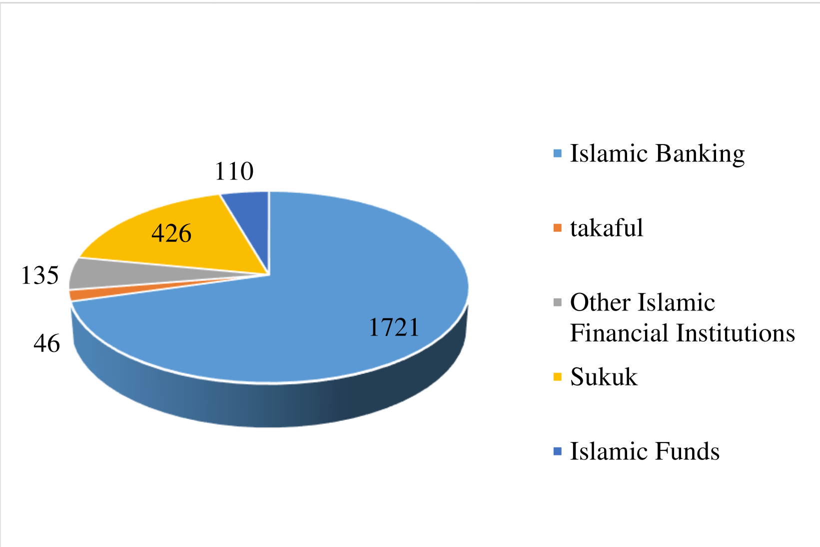
Graph 1- Sectoral Composition of the Global IFSI (2018)



Source: Islamic Financial Services Industry Stability Report 2019 (https://www.ifsb.org/index.php)

As it is shown in Graph 1, Islamic banking is 72% of the Islamic finance industry. With the ratio of 24%, sukuk is the second largest element in the industry. Takaful and Islamic funds consist only 5% of the industry.

Graph 2- Global Islamic Finance Assets Distribution 2017(Billion $) *



*Regulations covering Islamic banking, takaful, sukuk, Islamic funds, Sharia governance and accounting

Source: Thomson Reuters

The Islamic financial industry consists of about 1,400 full-fledged Islamic financial institutions and windows. As can be understood from the Graph 2 above, Islamic banking accounted for 71% of the total assets of the Islamic finance industry in

2017. Expressing $ 1.7 trillion, this value corresponds to a 5% Compound Annual Growth Rate (CAGR). Purchasing and merging trend continues in the Islamic banking sector and some major mergers and acquisitions took place in major markets such as Malaysia. Total Islamic finance assets are 2.4 trillion dollars in 2017.

According to Islamic Finance Development Report (2018), there are 505 Islamic Banks in 69 countries as of 2018.

Interest-free finance operates with traditional interest-based financial institutions. The two countries in the world which are claimed to operate according to Islamic principles completely are Iran and Sudan. In other countries, interest-free finance constitutes a certain share of the finance industry such as following; 51 percent for Saudi Arabia, Brunei for 59 percent, 5 percent for Turkey (Dereci, 2018).

2.3. HISTORICAL BACKGROUND AND CURRENT SITUATION IN TURKEY

Interest-free financing policies that are configured in accordance with Islamic law is not a new phenomenon in Turkey. Participation banking with interest-free finance and practices goes back to the 1980s. In 1983, special finance institutions were allowed to be established to attract foreign direct investment from gulf countries, bring mattress savings to the market and provide financing to SME's avoiding interest. Although the participation finance industry is gaining importance in Turkey, it still has a limited depth and scope. Having %83 of the financial participation assets, participation banking amounted to $ 41.2 billion in 2015 from 3.7 billion dollars in 2004. According to the International Monetary Fund., while in that period participation banking has proceeded average %24,5 growth in every year, conventional banking stayed at 20,1%. However, despite this growth, participation banking accounts for only 5.2 percent of Turkey's banking industry and 3 percent of the global Islamic banking assets (IMF, 2017:83) in spite of its very high Muslim population.

The contribution to the industry of the Gulf capital to purchase the participation banks in Turkey is becoming important day by day. Recently, "*sukuk*", which is called as the lease certificates, issued by the Hazine ve Maliye Bakanlığı (Ministry of Treasury and Finance) allowed Turkey to attract an important amount of capital from the Gulf region. It has a vital role for Turkey considering insufficient international resources.

Almost 90% of participation banking activities are carried out through murabaha tool. Although ijarah has gained importance in recent years, according to World Bank data, it still has a share of 5.2 %.

As of the end of 2019, 6 Participation Banks are operating in Turkey: Albaraka Turk Participation Bank, Turkiye Emlak Participation Bank, Kuveyt Turk Participation Bank, Turkiye Finans Participation Bank, Vakif Participation Bank, Ziraat Participation Bank. Emlak Participation Bank joined these banks in 2019.

Table- 2 Development in the Number of Branch and Personnel in Participation Banks (2009-2018)

Years	Number Of branches	Growth (%)	Number of Personnel	Growth (%)
2009	569	7%	11.802	7%
2010	607	7%	12.677	7%
2011	685	13%	13.851	9%
2012	828	21%	15.356	11%
2013	966	17%	16.763	9%
2014	990	2%	16.270	-3%
2015	1.080	9%	16.554	2%
2016	959	-11%	14.467	-13%
2017	1.032	8%	15.029	4%
2018	1.122	9%	15.654	4%

Source: The BRSA (https://www.tkbb.org.tr/Documents/Yonetmelikler/Participation-Banks-2018-Sector-Report.pdf (access date: 18.8.2020)

As shown in Table 2, the total branch number of five domestic and foreign participation banks operating in Turkey was realized as 1,122 by the end of 2018. The branches of participation banks -in the banking sector branches- constitute approximately 9.7% of total banking system.

According to the annual figures, total number of the employees in participation banks increased by 4.2% in 2018 compared to 2017 by reaching 15,654 employees.

Table 3- Key Indicators of Participation Banking Sector (TL, Million)

	2017	2018	Change (%)
Funds Collected	105.310	137.220	30%
Funds Collected TL	57.494	60.626	5%
Funds Collected FC	43.180	67.790	57%
Precious Metals FC	4.636	8.804	90%
Funds Allocated	106.733	124.531	17%
Total Assests	160.136	206.806	29%
Shareholders' Equity	13.645	16.796	23%
Net Profit	1.583	2.124	34%

Source: The BRSA (https://www.tkbb.org.tr/Documents/Yonetmelikler/Participation-Banks-2018-Sector-Report.pdf (access date: 18.8.2020)

Total fund collected in 2018 has increased about %30 percent compared to the previous year, as seen in Table 3. While total assets have increased by %29, net profit increased more than 34% impressively. There seems to be a significant improvement in the collected funds figure which has substantially increased with a 57% in terms of foreign currency denominated collected funds while TL denominated funds went up slightly by 5%.

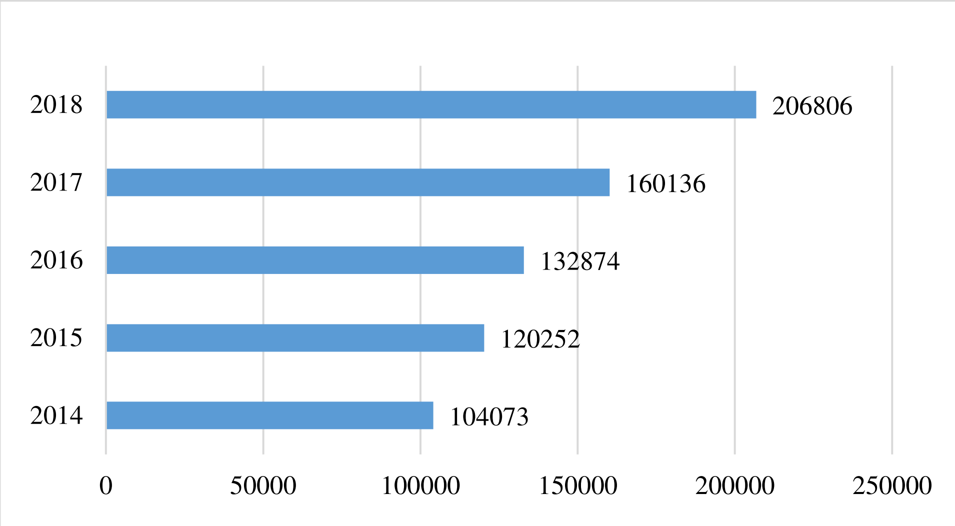
Table 4- Asset Development of Participation Banks and Sectoral Share (TL, Million, 2014-2018)

	Total Assets	Change (%)	Sector Share (%)
2014	104073	8	5,2
2015	120252	15	5,1
2016	132874	10	4,9
2017	160136	20	4,9
2018	206806	29	5,3

Source: The BRSA (https://www.tkbb.org.tr/Documents/Yonetmelikler/Participation-Banks-2018-Sector-Report.pdf (access date: 18.8.2020)

A steady increase has been observed in asset development of participation banks in between 2014 and 2018, except 2016. As shown in Graph 3 and Table 4, there is an accelerating growth rate here. In 2018, assets growth rate reached up to 29.1% with a new record. Collected funds and asset figures confirms the improving outlook of the IFS activities which has a great potential to make a difference in the forthcoming future particularly for Middle Eastern and East European Countries.

Graph 3- Development in Total Assets (TL million)



Source: PBAT, BRSA

The total unconsolidated volume of participation banks assets operating in Turkey (Albaraka Turk, Kuveyt Turk, Turkiye Finans, Vakıf Participation and Ziraat Participation) increased by 29.1% in 2018 compared to the previous year, reaching TL 206.8 billion.

The net profit of the participation banks increased by 34.1% from TL 1,583 million in 2017 to TL 2,124 million in 2018. Total shareholders' equity increased by 23%, amounting to TL 16,796 million.

Concrete policy steps are taken by Turkish administration such as establishing public participation banks, opening non-bank interest-free financial institutions and increasing public and private sector sukuk issuances. In the forthcoming years, various legal regulations and reforms are expected to be implemented in order to increase the acknowledgement of the sector and to increase its awareness.

2.4. WHY INTEREST FREE FINANCE: CHRISTIAN AND MUSLIM ATTITUDE ON USURY

Usury is a prohibited or a condemned action in many ideologies and religions. From the Old Testament to the Bible and the Quran, and from Platon to Aristotle, usury is mentioned as an unwanted act. What usury means and how usury has evolved during the historical period in Christian and Muslim society differs from each other.

Restrictions on the taking of interest are among the oldest and most common forms of regulation in the economic domain. In the Pentateuch, 3 passages explicitly prohibit paying interest. Vedic law in India (in the same early period) controlled interest rates and denounced usury as a great sin. Aristotle saw money loans immoral. Dante placed the Cahors' usurers in the same hell as the inhabitants of Sodom (Glaeser &Scheinkman, 1998:1). Plato was opposed to usury, too. His ideal republic should be purified from all kinds of usury except loans taken by a friend or brother without any charge.

According to medieval Christians, the taking of interest which was called usury in those times was a sin and was strongly condemned. The root of the word usury comes from latin usura, which means denoting money paid for the use of it. (Lewis: 2007:64).

What does the Bible say; there are several statements about usury. It can be concluded that usury is prohibited due to social reasons caused by poverty and consumption. Secondly, not only any form of loan is prohibited, but also food given for profit.

The reason why Christians are opposed to the interest can be explained as follows.

- Usury contravenes to the teachings of Jesus (ra).
- Hebrew law prohibited usury.
- In some Scriptures, loan-related activities are also strictly restricted.
- Usury was contrary to Aristotle.
- Usury was thought to be an unearned income. Because, work was a favorable virtue and would be seen as the only source of economic gain
- It is related to natural justice.

2.4.1. The Islamic Wisdom of Prohibiting Interest

Interest is strictly prohibited in Islam, on the grounds of social concerns, moral values and economic welfares of human being. Al-Qaradawi (1989:134) tries to clarify why interest is prohibited in Islam by referring what Imam al-Razi says in his Tafsir of the Qur'ân:

"First: The taking of interest implies appropriating another person's property without giving him anything in exchange, because one who lends one dirham for two dirhams gets the extra dirham for nothing. Now, a man's property is for (the purpose of) fulfilling his needs and it has great sanctity, according to the hadith, 'A man's property is as sacred as his blood' (Transmitted by AbûNa'eem in Al-hilbah.) This means that taking it from him without giving him something in exchange is haram.

Second: Dependence on interest prevents people from working to earn money, since the person with dirhams can earn an extra dirham through interest, either in advance or at a later date, without working for it. The value of work will consequently be reduced in his estimation, and he will not bother to take the trouble of running a business or risking his money in trade or industry. This will lead to depriving people of benefits, and the business of the world cannot go on without industries, trade and commerce, building and construction, all of which need capital at risk. (This, from an economic point of view, is unquestionably a weighty argument.)

Third: Permitting the taking of interest discourages people from doing well to one another, as is required by Islam. If interest is prohibited in a society, people will lend to each other with good will, expecting back no more than what they have loaned, while if interest is made permissible the needy person will be required to pay back more on loans (than he has borrowed), weakening his feelings of good will and friendliness toward the lender. (This is the moral aspect of the prohibition of interest.)

Fourth: The lender is very likely to be wealthy and the borrower is poor. If interest is allowed, the rich will exploit the poor, and this is against the spirit of mercy and charity. (This is the social aspect of the prohibition of interest.) (Tafsir by al-Fakhr al-Deen al-Razi, vol. 7, p. 4.) "

Christianity and Islam have both similarities and differences. Both of them consider usury as an unwanted act and both religions regulate human's social and economic life. But Quran have certain boundaries about usury and forthright about prohibiting it, whereas Bible have some ambiguities about usury. In many chapters in the Quran, it can be easily seen that usury is strictly forbidden and seen as one of the most dangerous sins. It should be reminded that, although canon law has changed by people according to new religious thinking at that time, Quran remained unchanged even a word of it.

2.4.2. Sanctions in Islam

In Islam, sanctions are two dimensional: in the world of life before death, Sharia judge may punish them according to Islamic rules but these punishments are not specific. It depends on judge's opinion and Sharia. In the second dimension, in the eternal dimension of the after-life called ahirah, God punishes them in the fire. This punishment from God is told Muslims in the sura al Baqarah clearly:

> *"Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. So whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to [dealing in interest or usury] - those are the companions of the Fire; they will abide eternally therein (Quran 2/275)"*

2.4.3. The Necessity of Interest-Free Finance

The reasons that reveal the necessity of the interest-free banking / financial system can be grouped under three titles with general acceptance. These are religious, economic and social reasons.

Religious: As it was said before, interest, in other words "*riba*" is forbidden in Islam. Interest transfers money to a handful of rich people. It creates monopolies, causes selfishness and unequal economic environment. Interest-free financing helps to reach maximum moral ethics such as global brotherhood, equity in welfare sharing, social fairness. The riba ban in the thought of Islamic economy can be summarized as the cost of wealth distribution in a society. Interest is strictly haram and absolutely forbidden as well as every kind of interest sourced transactions.

Distribution of income is one of the prominent and quite controversial manners concerning the economic world of mankind. According to Usmani (2002:13), materialistic perspective of neoclassical economics supports the idea below:

> *"Livelihood is the fundamental problem of man and economic developments are the ultimate end of human life".*

But, according to prominent Islamic scholars and economists:

> *"Livelihood may be necessary and indispensable, but cannot be the true purpose of human life"*

Economic Reasons: Every interest based transaction takes the right of one of the parties. It is not possible to obtain long-term stability and peace in such a society as economic relations are not based on solid ground in a society where interest is dominant. That is why interest-based societies are identified with economic crises and instability.

Today, financing difficulties are the main problems faced by exporters such as manufacturers, entrepreneurs and industrialists. Banks' high interest rates and the sensitivity of individuals at this point make it necessary to develop interest-free financing models. 75% of companies in Turkey consist of SMEs financing problems. It is also known that other countries have similar SME rates. Financing is a very important element for SMEs.

Social Reasons: Capital owners are the ones who have the power in societies mostly. As the necessity degree of the money increases, sometimes this power could be abused. The capital inflow in interest transactions makes the rich richer because it is a transfer from poor to rich while the poor can further impoverish with the borrowed capital over the outcome of use. This situation causes the generation of a grudge against the rich from the poor people and social peace can be jeopardized.

The prophet (PBUH) said in this context

“'He is not a believer whose stomach is filled while his neighbor goes hungry” (al-sunan al-kubra 19049)

Thanks to the Islamic financial system, the aforementioned social and economic equality is achieved by sharing risk and profit fairly, not by the wealth holders adding wealth to their wealth.

Conversely, guaranteed interest in which loss of money is never possible cannot be acknowledged as a success. In a conventional system, entrepreneurs take all of the risk. In our case, Islamic Economics can be seen as an actor of the capital market which distributes risk and spreads it to the base. Capital owners benefit from premiums revealed by the borrower entrepreneur. At this point, the entrepreneur takes all the risk alone while the financier institution takes its interest in any case and does not share the risk with the entrepreneur. The only thing that capital owners have as a risk is whether the borrower may be able to pay its debt or not. However in all cases, banks secure themselves by putting mortgages on borrower’s assets.

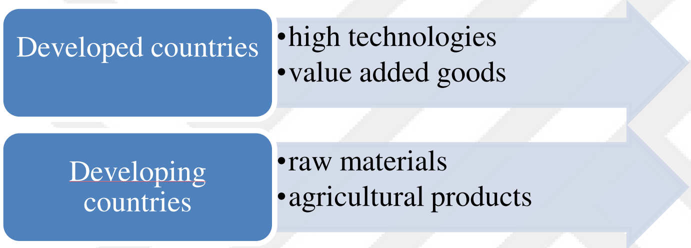
CHAPTER 3.

EXPORT

3.1. OVERVIEW OF GLOBAL AND TURKISH EXPORTS

It is widely known that there is an elaborate political and economic relationship between countries. Countries having a considerable effect on the World economy sometimes use economic power to dominate in addition to politics.

Graph 4- Foreign Trade Distinction Between Improved and Improving Countries



Developed countries mostly have high technologies, export value added goods and import raw materials or agricultural products (Graph 4). Therefore, while these countries as United Kingdom and Germany have chronic foreign trade surplus, developing countries such as Turkey mostly have a foreign trade deficit.

Establishing a healthy economy for especially underdeveloped and developing countries is essential. Foreign trade deficits should be reduced or need to become sustainable in a way so that developing countries encourage foreign exchange earning transactions. Foreign trade deficits need to be reduced in order to ensure the prosperity of the underdeveloped and developing countries and achieve a healthy economy. This is made possible by encouraging foreign currency earning transactions.

Exports are one of the most important elements of foreign currency earning transactions. Therefore, it is an apparent case that the countries which have foreign trade deficit must try to perform their best to achieve potential export figures. Afterall, exports have a vital role for increasing sales, profits, the share of the World markets, competitive capacities, employment opportunities and reducing domestic market addiction for companies.

Table-5 Turkish Foreign -Trade (2000-2019, Million $)

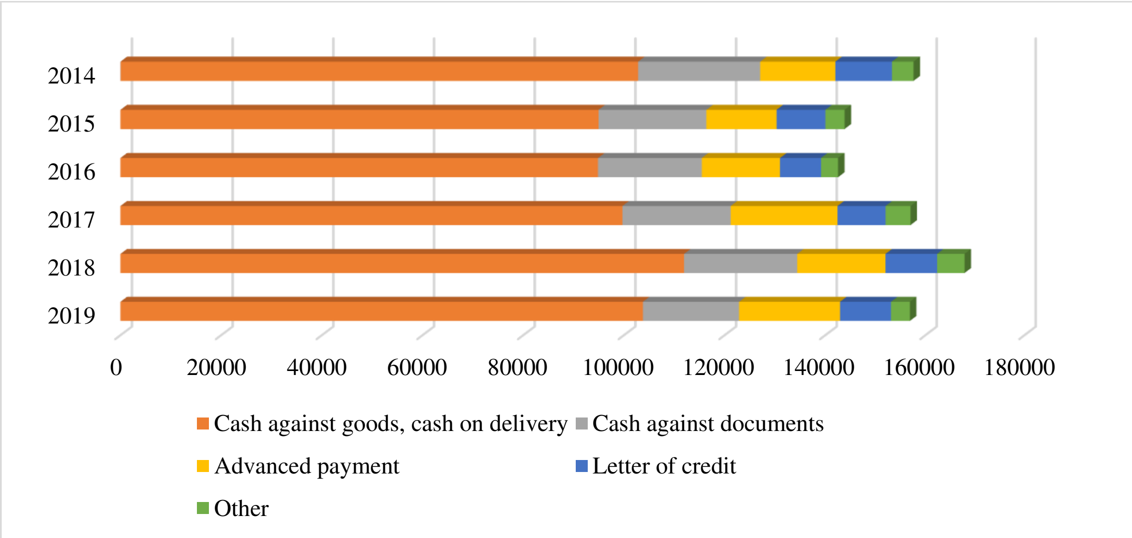
Years							Exp / Imp
	Export	Cha%	İmport	Cha.%	Balance	Volume	%
2000	27.775	4,5	54.503	34,0	-26.728	82.278	51,0
2001	31.334	12,8	41.399	-24,0	-10.065	72.733	75,7
2002	36.059	15,1	51.554	24,5	-15.495	87.613	69,9
2003	47.253	31,0	69.340	34,5	-22.087	116.593	68,1
2004	63.167	33,7	97.540	40,7	-34.373	160.707	64,8
2005	73.476	16,3	116.774	19,7	-43.298	190.251	62,9
2006	85.535	16,4	139.576	19,5	-54.041	225.111	61,3
2007	107.272	25,4	170.063	21,8	-62.791	277.334	63,1
2008	132.027	23,1	201.964	18,8	-69.936	333.991	65,4
2009	102.143	-22,6	140.928	-30,2	-38.786	243.071	72,5
2010	113.883	11,5	185.544	31,7	-71.661	299.428	61,4
2011	134.907	18,5	240.842	29,8	-105.935	375.749	56,0
2012	152.462	13,0	236.545	-1,8	-84.083	389.007	64,5
2013	151.803	-0,4	251.661	6,4	-99.859	403.464	60,3
2014	157.610	3,8	242.177	-3,8	-84.567	399.787	65,1
2015	143.839	-8,7	207.234	-14,4	-63.395	351.073	69,4
2016	142.530	-0,9	198.618	-4,2	-56.089	341.148	71,8
2017	156.993	10,1	233.800	17,7	-76.807	390.793	67,1
2018	167.934	7,0	223.047	-4,6	-55.113	390.981	75,3
2019	171.464	2,1	202.704	-9.1	-31.239	374169	84,6

Source: TURKSTAT

As it can be seen on Table 5, Turkish exports are not on a regular basis. In 2018, mostly affected by currency advantages and global economic growth, exports increased %7, while imports plunged %4. In 2019, exports increased by 2,1, while import decreased %9,1. Proportion of imports covered by exports are %75 in 2018, while %84 in 2019. Despite the chronic high foreign trade deficit, it can be said that it is betting better year by year on average. At this stage, the question should be how we can deal with foreign trade deficits by increasing, the most appropriate way, sustainable exports. Here, we answer this question by proposing Islamic finance.

Exporters, who want to succeed in the global trade and take the advantage against foreign competitors, should offer their clients attractive sales terms and conditions supported by appropriate payment methods. Due to getting paid on time is essential for all exporters, a suitable payment method should be chosen conscientiously to minimize the payment risk. In Turkish economy, there are many payment methods used in foreign trade financing.

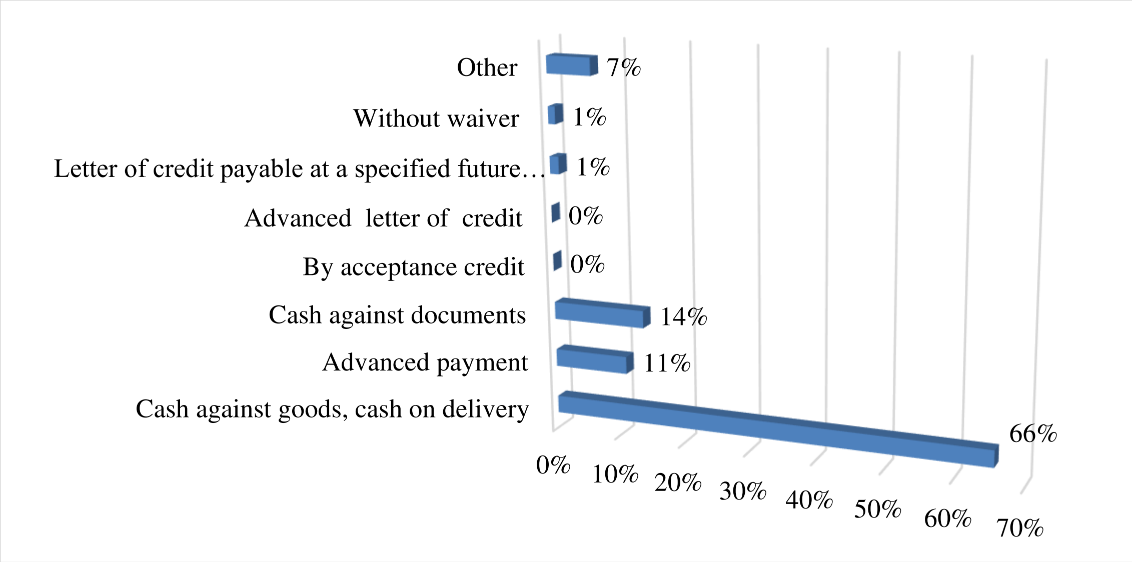
Graph 5- Exports by Type of Payment (2014-2019)



Source: TURKSTAT

As it can be understood from the Graph 5 above, there is no striking change in the last 5 years in terms of type of payments on exports. Excluding 2019, in which the data between 1-11 months are included, “cash against goods, cash on delivery” type of payment is getting more popular in the export payments. While “cash against documents” remained constant in this period, advance payments began to become more widespread as of 2017.

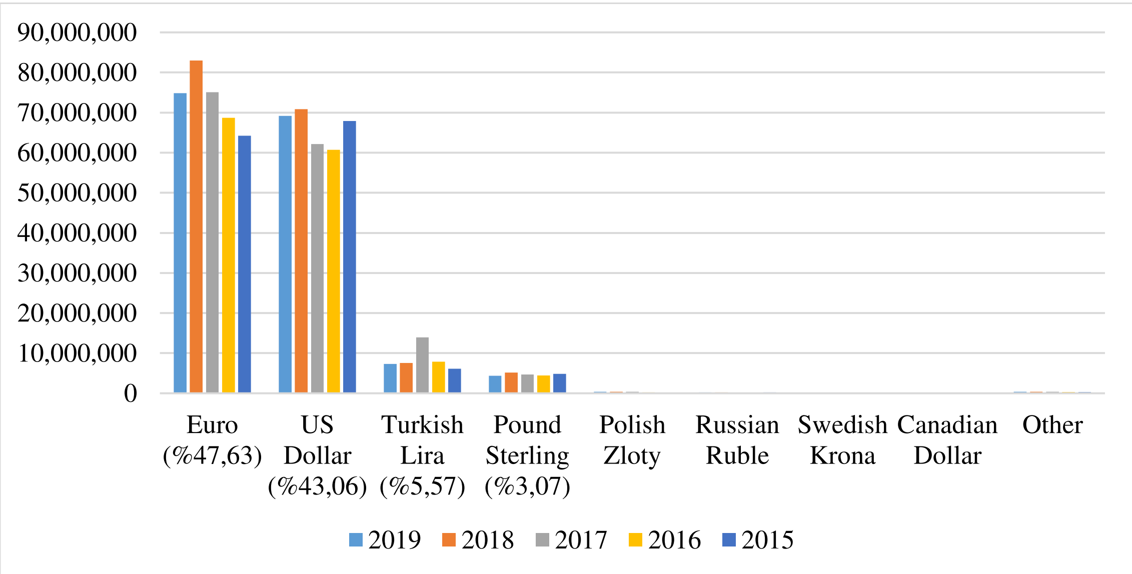
Graph 6- Turkish Exports by type of payment (2015-2019



Source: TURKSTAT

When it comes to look at total statistics, the dominance of "cash against good, cash on delivery" shows itself at first sight like in Graph 6. With the total value of 608 billion $, %66 of the export payments are paid this way. On the other hand, with the 103 billion $ and about %11 percent in total export payments, "cash against documents" comes second and followed by "advance payment", the third most common payment type with the rate of %11.

Graph 7- Turkish Exports by Currencies (2015-2019)



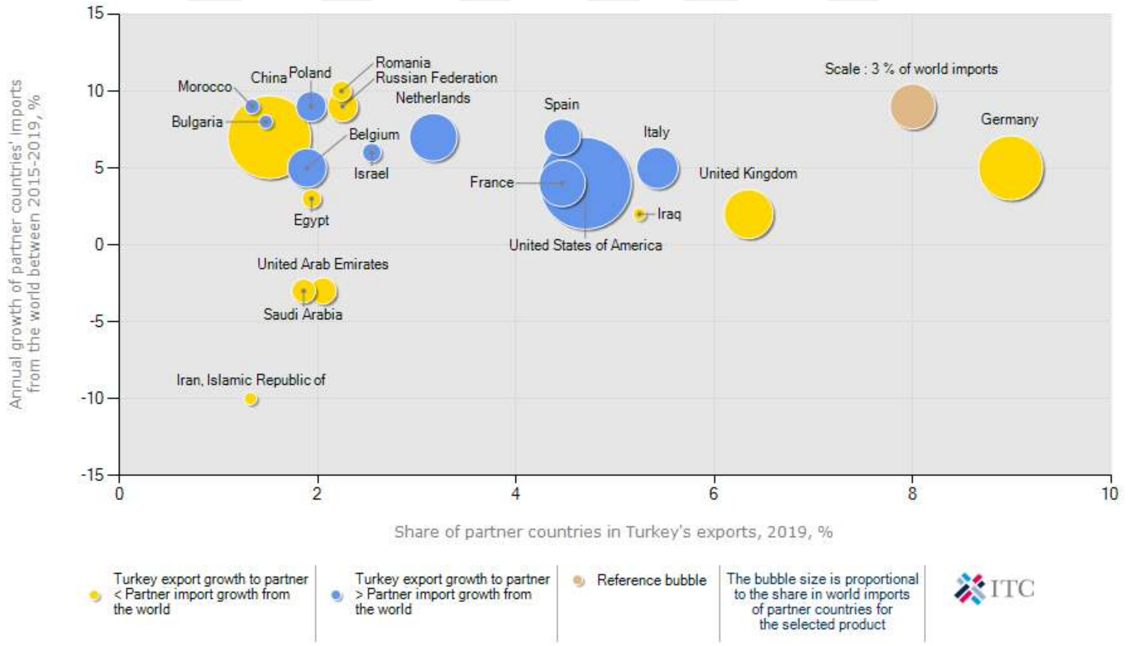
Source: TURKSTAT

Turkey mainly exports to European countries. For this reason, almost 48% of exports are paid in Euro (graph 7). On the other hand, 43% of the exports are dominated by the USD. It is quite surprising that, although lots of efforts to finance foreign trade with Turkish Lira, TL remained only %5.5 in the Turkish exports in the last 5 years. Considering corporate publications, The Ministry of Trade continues its efforts to expand the use of local currencies in foreign trade.

3.2. TURKEY'S EXPORT ANALYSES AND ORGANIZATION OF ISLAMIC COUNTRIES

Turkey is one of the best performing countries in the world in terms of export performance due to mostly recent currency depreciation.

Graph 8- Prospects for Market Diversification for a product Exported by Turkey in 2019 (All Products)



Sources: ITC calculations based on Turkish Statistical Institute (TURKSTAT) statistics.[1]

According to the data released by the International Trade Center (ITC) based of the Turkish Statistical Institute (TURKSTAT) (Graph 8), Germany comes first in the

[1] Raw data facilitated in this graphic obtained by www.trademap.org is attached in Appendices-2

most exported countries, followed by the United Kingdom, Italy, Iraq and the United States of America. Among the top five exporting countries, the only country with a shrinking economy is the UK. In spite of Germany's key position on our export market, Germany's global import growth outperforms Turkey's export growth to Germany.

Graph 9- List of top 20 Products Group Exported by Turkey (Based on 2-digit EU article)(thousand US Dollar)

Product label	Exported value in 2015	Exported value in 2016	Exported value in 2017	Exported value in 2018	Exported value in 2019
All products	143,844,066	142,606,247	156,992,940	167,923,862	171,098,411
Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	17,462,623	19,804,384	23,940,852	26,758,524	26,175,170
Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	12,333,493	12,405,009	13,825,494	15,827,680	16,453,863
Iron and steel	6,556,742	6,187,046	8,230,403	11,546,435	9,939,444
Articles of apparel and clothing accessories, knitted or crocheted	8,927,259	8,855,609	8,840,031	9,043,113	9,089,251
Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television . . .	8,278,952	7,778,954	8,089,893	8,722,854	8,729,310
Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad . . .	11,263,502	12,176,573	10,879,244	7,172,319	7,327,231
Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral . . .	4,518,438	3,207,084	4,327,175	4,411,992	7,315,812
Articles of iron or steel	5,465,543	4,967,680	5,598,990	6,533,980	6,485,649
Articles of apparel and clothing accessories, not knitted or crocheted	5,916,617	5,928,894	5,947,844	6,262,454	6,450,945
Plastics and articles thereof	5,358,692	5,027,828	5,474,292	6,042,982	6,287,017
Edible fruit and nuts; peel of citrus fruit or melons	4,355,444	3,873,872	3,940,007	3,960,605	4,178,054
Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; . . .	2,753,346	2,658,941	2,760,343	3,130,600	3,489,376
Aluminium and articles thereof	2,370,075	2,238,041	2,512,216	2,995,017	3,107,725
Rubber and articles thereof	2,165,526	2,203,163	2,494,294	2,822,288	2,826,406
Salt; sulphur; earths and stone; plastering materials, lime and cement	2,252,817	2,191,663	2,572,445	2,616,458	2,736,447
Carpets and other textile floor coverings	2,009,356	1,913,135	2,161,753	2,264,274	2,531,118
Other made-up textile articles; sets; worn clothing and worn textile articles; rags	1,899,404	1,954,767	2,016,726	2,052,497	2,018,246
Preparations of cereals, flour, starch or milk; pastrycooks' products	1,505,559	1,500,914	1,618,271	1,740,265	1,877,492
Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, . . .	1,248,975	1,087,267	1,316,750	1,847,525	1,822,636

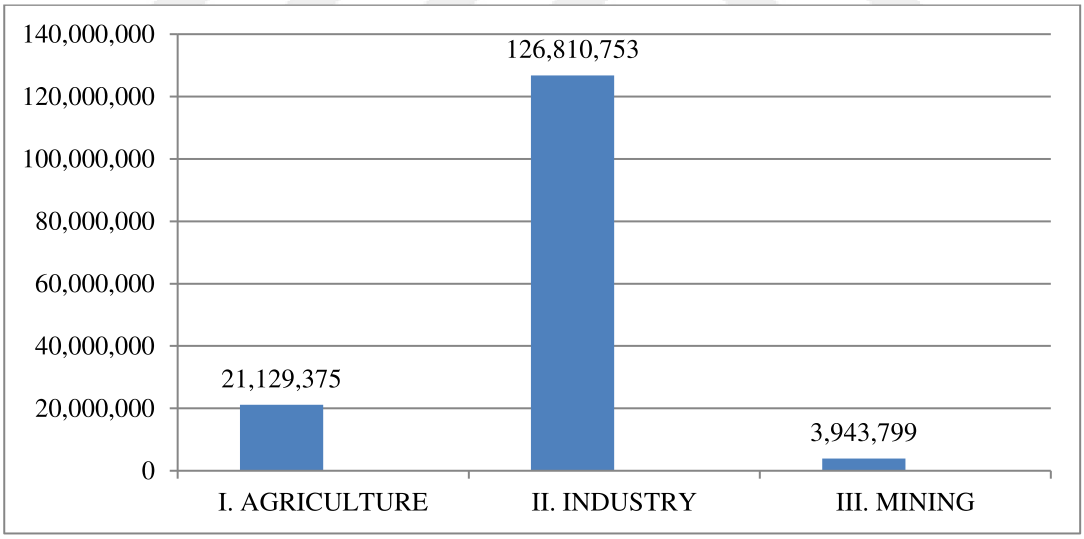
Paper and paperboard; articles of paper pulp, of paper or of paperboard	1,185,514	1,354,573	1,520,374	1,715,786	1,796,338

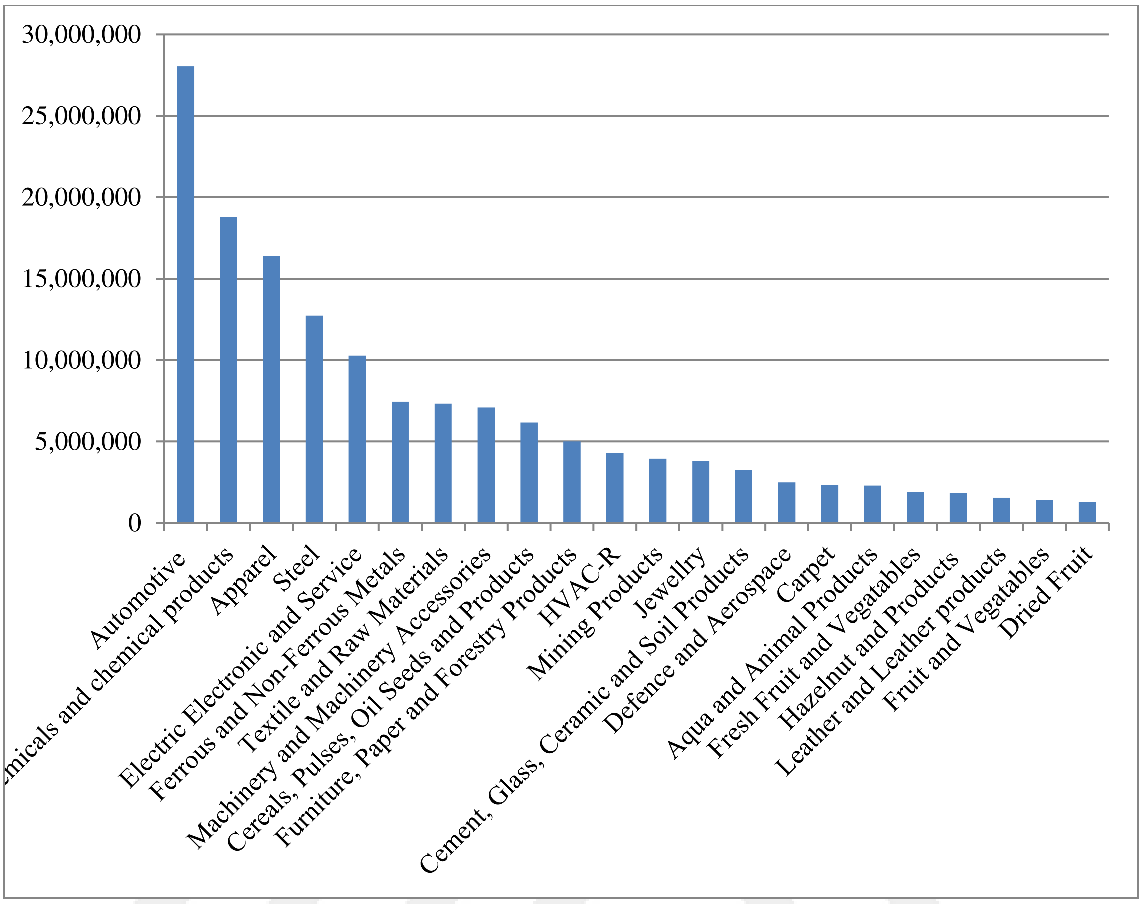
Source: www.trdemap.org (TRADEMAP, 2020)

Graph 9 clarifies the list of top-20 product groups exported by Turkey based of the 2 digit EU articles. According to the data revealed by statistics, in 2019, the highest exports are made in the "raw materials (intermediate goods)" group with 80 billion 202 million dollars. This group is followed by "consumer goods" with 69 billion 794 million dollars and "investment (capital) goods" with 20 billion 439 million dollars according to Ministry of Trade data.

The most exported articles in 2019 are "motor vehicles, tractors, bicycles, motorcycles, other land vehicles" with $ 26 billion 176 million, "boilers, machinery, mechanical devices and tools, nuclear reactors" with $ 16 billion 457 million, "electrical machinery and devices, television video-sound recording devices" 8 billion 730 million dollars.

Graph 10- Export Figures of Turkey in 2019 (based of TIM data's in product and sectoral level)(thousand US Dollar)





Source: TIM database (TIM, 2018)[2]

Turkish Exporters Assembly (TIM) is the only umbrella organization of Turkish exports, representing more than 95,000 exporters with 27 sectors, 61 Exporters Association. Graph 10 reveals the export composition of Turkey in product and sectoral level. According to data, industrial exports are much bigger than other sectors.

As shown in Graph 10, leading sectors in Turkey's exports in 2019 are automotive industry, chemicals and products, ready-to-wear and apparel sectors. These sectors are followed by the steel, electrical and electronics sectors. Among these sectors, the chemical materials and products sector increased by approximately 19 percent compared to 2018, exceeding $ 20 billion.

To make some inferences from the export composition of Turkey, contrary to the popular belief, there is no significant weight of agriculture in exports. However, the agricultural sector has an important place in terms of Islamic finance. The number of

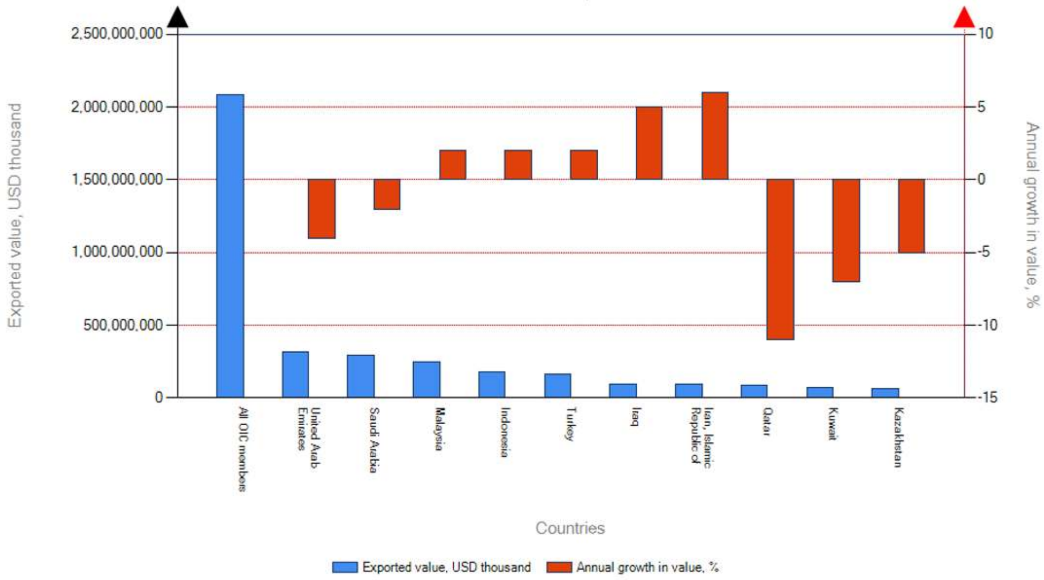
[2] Total export volume is about 171 billion $. But almost 20 billion $ worth products are exempted from Exporters Union Records

people dealing with the agricultural sector is quite high. Besides, farmers are more vulnerable in terms of trade because they are relatively economically weak.

The most prominent sector in Turkey's export is the automotive industry. If it is strengthened by Islamic finance and takaful insurance, the automotive industry will tend to develop itself and export more.

Apparel is an important and third biggest sector (graph 10) in which our country has a comparative advantage. Sometimes, manufacturers export raw fabric due to lack of capital and have difficulty in reaching the capital to process them. At this point, it would be beneficial for manufacturers to use Islamic financing tools to export more value-added clothing products.

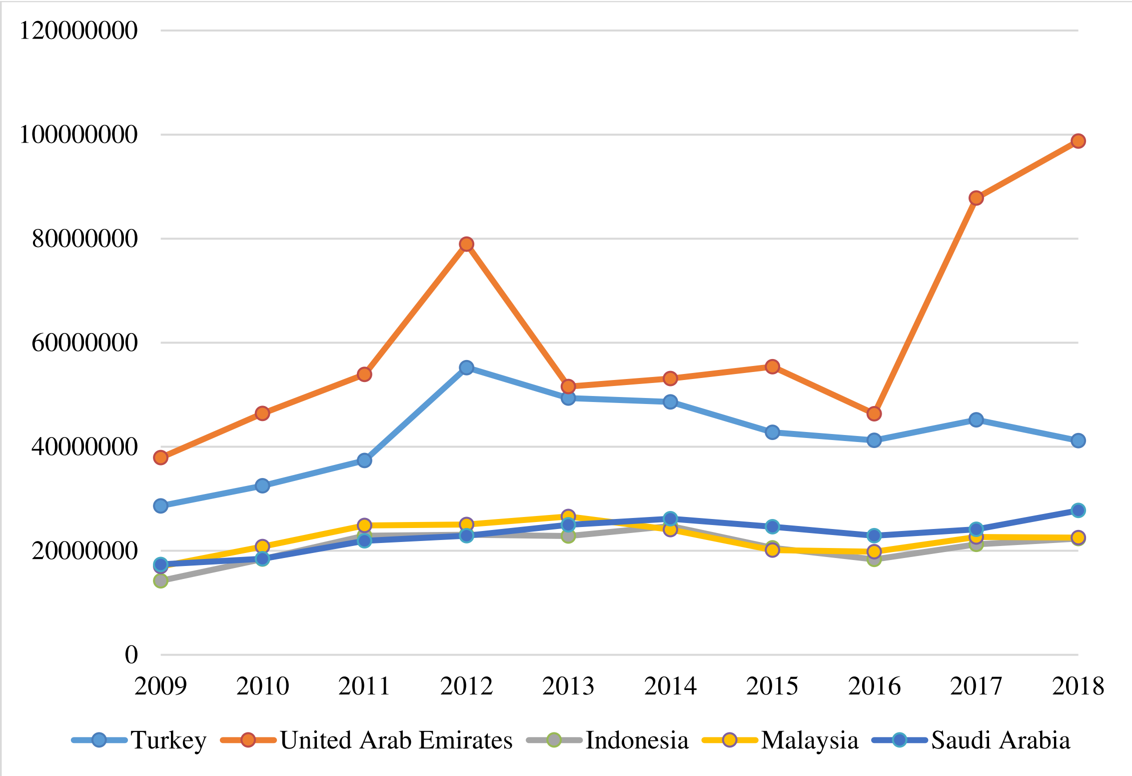
Graph 11- List of Exporters for the Selected Products in 2018 (All Products)



Sources: ITC calculations based on UN COMTRADE and ITC statistics.

When it comes to Islamic countries, Turkey is a little more prominent. The fifth leading exporter country in the Organization of Islamic Cooperation (OIC) is Turkey in 2018. As it can be seen in Graph 11, while 5 countries of the top 10 exporter members of the OIC have negative growth, Turkey is one of the growing countries in the region. In this table, it should be taken into account that some countries are exporting natural resources highly.

Graph 12- List of Supplying Markets from All OIC Members for a Product Exported by OIC (All Products)



Sources: OIC Trade Map - by ITC Trade Map

The export performance of OIC countries has been showed in the Graph 12. While the United Arab Emirates comes first at the list of supplying markets from All OIC members exported by OIC, Turkey comes second in the graph. The other three of the best exporter countries of the OIC have low performance compared to the first two countries.

3.3. EXPORT CREDIT AGENCIES (ECA)

In addition to conventional banks acting with a profit motive, incentive support can be provided at the point of financing exports with a non-profit institution. These incentives applied by countries around the world are generally carried out by organizations called Export Credit Agencies (ECA).

ECA's are very effective in financing exports. According to The Standing Committee for Economic and Commercial Cooperation of the Organization of the

Islamic Cooperation (COMCEC) (2015:7), there are essentially 2 motivations for the existence of ECA’s: proactive and reactive. Proactive policy is about a government's desire to promote the growth and / or expansion of the export sector or specific exports. This is possible by strengthening an economy and improving growth prospects by improving trade capabilities. Reactive driving forces include a policy desire to address deficiencies or failures in the market. These can be presented as below:

I. **Diversifying a country's export spectrum and export markets:** The necessity of the export diversification for a country, which can be limited to only one sector or a couple of products, is a crucial issue for enabling export spectrum for a wider export area to increase exports. For example, in oil exporting countries, the export spectrum is very limited and mostly held by governments. Here, while the main purposes of ECA’s are increasing exports and diversifying the export base, another turning point is to support small-medium sized enterprise called SME. The reason is that SME’s are mostly facilitated from these ECA credits. SME’s, rather than governments, has a leading role as the main opponent in the diversifying export products and destinations.

A state may establish and support ECA’s in expanding their exports and growing their businesses. With credit and loan guarantees, these ECA’s can ensure insurance coverage to its customers against commercial and non-commercial risk called solvency risk.

II. **Filling market gaps and eliminating market failures:** The existence of market failures is an undeniable fact. ECA’s can well eliminate the information asymmetry among counterparts as well as providing cheaper loans for SMEs who are struggling to access the realistically reflecting their sound business structure. Besides, while ECA’s may help market failures, they can also address the unmet needs of exporters. Even though ECA’s cannot solve all problems and address all needs, these institutions may play a significant role in filling some gaps and behaving as a catalyst to the non-public sector.

The market gap can be defined as the part of the market that is not effectively presented. As a result of market failures, support served by ECA’s generally depends on other financial institutions' conditions, providings and the areas with market gaps. In case of insufficient return rates or excessive risk to attract private sector market gaps emerges. But principally, government backed ECA's have a different point of view in terms of export financing rather than private financing institutions because they can bring a longer-term perspective to the risk profile and generally have a superior ability to absorb debts due to their sovereign position.

It is striking to see in the data that, according to the COMCEC (2015:2) only four ECA (total 26 ECA) have Islamic finance and insurance instruments between the OIC member countries. There are 26 facilities / institutions within the OIC that provide export credit and / or export finance in 23 countries.

3.3.1. Prominent ECA's in OIC Countries Serving in Islamic Finance

Indonesia: In 1985, Asuransi Ekspor Indonesia called as PT ASEI was established to provide export credit guarantees and export insurance. ASEI offers some general insurance products, as well as typical export credit products, such as both conventional and Islamic insurance.

Indonesia Eximbank, which started operations in 2009, offers interest-free banking and takaful products as well as conventional banking and insurance products.. In addition to export credit transactions, there are also guarantee and export insurance instruments. Among the products in accordance with Islamic principles, there are products such as murabaha, musharakah, salam, istisna, qard-hasan, ijarah, and wakalah (Eximbank, 2020).

Malaysia: Eximbank of Malaysia (MEXIM) was established in 1995. MEXIM is a state-owned development financial institution and a subsidiary of the Ministry of Finance. Basically, it is aimed to facilitate the Malaysian firms' penetration of new markets especially non-traditional ones.

Malaysian Eximbank presents a wide range of products serving both Non-Islamic and Islamic finance. MEXİM provides financial services in the fields of energy production and distribution, tourism, oil, natural gas, agriculture, construction, maritime, housing developments, telecommunications and infrastructure. It is an important example by serving both conventional and Islamic finance as a full-fledged ECA.

It is stated in the activity report of the institution that 58% of its assets consist of products provided according to traditional principles and 42% according to Islamic principles. Sukuk issuances are among the products that conform to Islamic principles. The bank has an advisory board overseeing transactions in the area of Islamic banking and takaful. In line with the desire of the Malaysian government to become the center of Islamic finance, it is also stated that Malaysia Eximbank has a plan to turn into a full-fledged (completely Islamic) Islamic bank in 2025 (MEXİM Annual Report, 2017: 19).

Qatar Development Bank

Qatar Development Bank (QDB), which is the state bank of Qatar, launched the Tasdeer program in 2011 in order to encourage the export of Qatari-origin goods and services in international markets and to provide credit guarantees in the export activities and financial practices in order to reduce the risks applied to local exporters. The program, which focuses on export products other than crude oil, offers the pre and post-shipment credit programs as well as Islamic insurance products, takaful, to exporters. (www.qdb.qa, 2019)

When QDB 2018 annual report is analyzed, it is seen that the bank's financial activities include murabaha, istisna and ijarah products under Islamic finance umbrella. (QDB Annual Report, 2018)

Saudi Arabia

Saudi export institution was established in 1999 as the Saudi Export Program (SEP) under the Saudi Fund for Development (SFD) The aim of SEP was to promote the export sector and diversify the national economy away from fossil fuels. For this purpose, SEP offers insurance and financing tools to support competitiveness and reduce risks associated with international trade.

3.3.2. Multilateral ECAs serving OIC Member Countries

In the OIC region, only two multilateral ECA's serving member states in Islamic finance are Aman Union and Islamic Cooperation for the Insurance of Investment and Export Credit.

Aman Union

Aman Union was established in 2009 as a result of the cooperation between ICIEC and DHAMAN (the Arab Investment and Export Credit Guarantee Institution), which is a member of the Arab countries export support organizations, and the member states of the OIC.

The purpose of the organization is listed on the official website (Aman Union, 2020) as follows;

- Encouraging the national development of the members and supporting the establishment of these institutions in the member countries of the Islamic Cooperation Organization, which does not have an export credit support institution. Having an export credit institution is one of the important steps taken by governments.
- Carrying out foreign direct investment insurance activities in the members. Takaful compensates for any damage and reduces risks. Thus, foreign investors can operate in a risk-free environment.
- Contributing to the development of commercial and non-commercial insurance and reinsurance sectors.
- Establishing cooperation between members and providing technical knowledge and expertise transfers. When Islamic countries' principles are concerned, increased cooperation between member countries can be a major step for triggering larger amount of exports
- Organizing research and reports on exports and demands of the members and sharing them with the members. Surely, to achieve this, research in interest free foreign trade financing should also be supported.
- Contributing to increase export market shares of member organizations by collaborating with other international institutions and organizations.

As it is said before, the effect of international institutions in interest-free export financing is an undeniable fact.

Islamic Cooperation for the Insurance of Investment and Export Credit (ICIEC)

ICIEC is an international organization established in 1994 by members of the Organization of Islamic Cooperation (OIC) as a member of the Islamic Development Bank (IDB) Group. The main purpose of the ICIEC is to provide investment and export credit insurance based on Sharia rules, also known as takaful. ICIEC's activities are expected to increase exports in each member state and contribute to strengthening economic relations between the OIC countries by supporting foreign direct investment.

ICIEC offers a variety of products for many customers, including companies, investors, banks and financial institutions, and ECAs. These products can be summarized with four different programs (COMCEC, 2015:56):

I. *"Trade Credit Insurance Program: Through this program, export credit insurance and reinsurance for OIC exports is provided, covering against non-payment due to commercial (buyer insolvency and refusal to pay) and non-commercial (currency transfer restriction and expropriation) risks. Products have tenors ranging from 1 –7 years and include comprehensive short-term policy, specific transaction policy, documentary credit insurance policy and bank master policy.*

II. *Foreign Investment Insurance Program: Through this program investment insurance is provided for foreign investment into OIC countries against risks of exchange transfer restriction, expropriation, war and civil disturbance and breach of contract by governments. Products have tenors of up to 20 years and include policies on equity investment, financing facility, guarantees and non-honoring of sovereign obligations*

III. *Reinsurance Program: Through this program, two types of reinsurance products are provided to ECAs. Quota Share Treaty covers risks in trade credit insurance and has a tenor of either less than 360 days, or between 360 – 720 days while Reinsurance Facility Agreement covers risks of all products insured by ECAs that are compliant with ICIEC principles and has varying tenors.*

IV. *Other Services: ICIEC also provides technical assistance on investment promotion, credit information and advisory services in collaboration with its partners"*

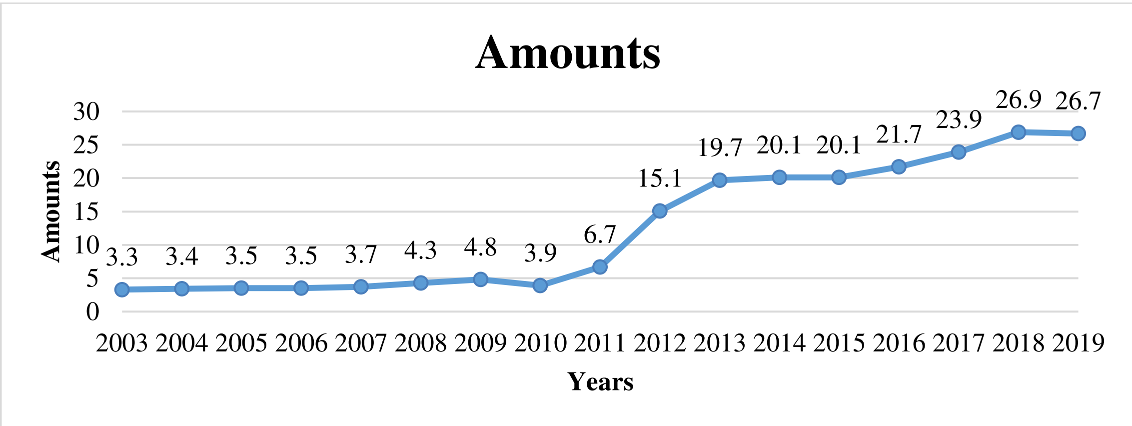
Among the ICIEC products, there is also a letter of credit insurance product. With the letter of credit insurance, the ICIEC pays compensation to the exporter bank under certain conditions in the case of the importer bank failing to pay the letter of credit against the risk of the bank failing to fulfill its obligations. In addition, ICIEC provides support to export support organizations in member countries in the fields of capacity building, co-marketing and project, as well as reinsurance activities.

3.3.3. Turk Eximbank

In Turkey, the official export support agency is Turk Eximbank. Among the activities carried out in general; export-oriented insurance, guarantee and credit functions are included. In recent years, short term export credits are effectively provided by Turk Eximbank loans. Turk Eximbank, which carries out this lending transaction on a guarantee basis, finances the companies by basing on non-cash collaterals obtained from commercial banks, export insurance or it creates within its own body.

Turk Eximbank has a special significance as an organization in promotion of exports in Turkey. The purpose of Turk Eximbank is as the following; increasing exports, helping to penetrate new markets, increasing the export share in international trade, diversification of exported goods and services, providing competitive power and security in international markets for exporters, contractors and investors operating abroad, providing necessary support in their initiatives.

Graph 13- Loan Disbursement Amount (Billion $)(2003 - 2019)



Source: Turk Eximbank (https://www.eximbank.gov.tr/tr/rakamlarla-biz#krediler)

Turk Eximbank provides %52 of the all export credits in the Turkish banking sector itself. As shown on graph 13, in recent years, credit amounts increased significantly except 2019.

Although Turk Eximbank is obliged to comply with country-wide banking regulations, financing costs are much lower than the sector average in line with its vision. Due to the low loan costs in favor of exporter companies, short-term Turkish Lira and foreign currency loans demand by SMEs are quite high.

Within the scope of Short-Term Export Loans; Rediscount Credit, Post-Rediscount Credit, SME Export Prep Credit, Export Prep Credit, Foreign Trade Companies Export Credit and Pre-Shipment Export Credit Programs are available for use.

CHAPTER 4.

INTEREST FREE FINANCE ON EXPORTS

4.1 INTEREST FREE FINANCING METHODS: WHICH INSTRUMENTS OF ISLAMIC FINANCE CAN BE BEST APPLIED TO EXPORTS?

Islamic finance is basically not an exact financial activity. The distinction comes from non-financial thoughts and the main purpose is not to make excessive profits. In the globalizing world, global value chains have emerged and that changed commercial activities worldwide. Increasing competition caused profit margins reduction and surviving in the competitive market became harder than ever. But, Muslim society stays behind for a long time from banking and financing mainly because of undercapitalization.

This section aims to make an overview for some main forms of the Islamic financing instruments which can be used in export activities. To make a distinction between Islamic finance methods, it can be divided into two types: Direct finance by partnership and indirect partnership by sale contract/ rent. In this study, not all but some prominent methods of the Islamic finance that can be used at the export stage are discussed.

4.1.1. Murabaha

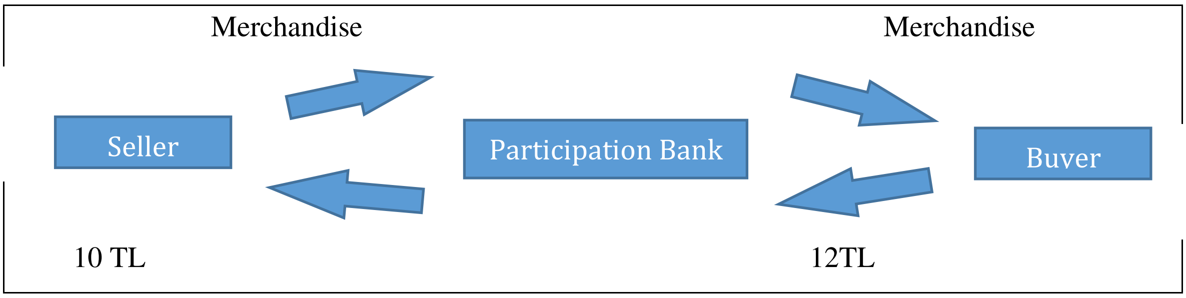
Murabaha is one of the most common interest-free financing instruments. In murabaha, which is a spot sales contract as stipulated by the Islamic law (*Sharia*), the price is calculated with the formula "cost plus profit margin". In this method, the machine, raw materials or goods that the customer needs are purchased in advance by Islamic banks from the domestic or foreign markets and sold to the customer with installments. Some profits are added to the merchandise and sold to the customer.

According to Ustaoğlu (2014:49), it is the most preferred application of Islamic banking due to its ease of explaining and applying to the customer.

Murabaha method can be examined in two ways: classical and contemporary. Classical murabaha means the situation that the buyer can pay the price of the goods in cash or in installments if the seller sells it by adding a certain dividend to the cost. On the other hand, contemporary murabaha refers to the situation that occurs when the customer applies to the bank and purchases from the seller on behalf of the bank. Then, the customer asks it to be sold again with a certain profit (Konday, 2006: 19). In the contemporary murabaha, there is another third party to trade: banks / financial institutions. The profit added by the bank is included in the agreement between the bank and the buyer.

According to Ebrahim & Sultan (2011) classical murabaha involves a simple sale transaction, whereby the seller declares his cost and his profit. It is a sale transaction and not a financing tool. However, the payment in a murabaha sale transaction may be on spot and can also be on deferred payment basis. This feature of murabaha sales gave this kind of transaction the ability to resemble debt. In other words, if one can sell a particular good or commodity on a deferred payment basis with a markup, then the money owed out of this sale is a debt created by sale rather than by loan. This particular characteristic enabled modern day banks and financial institutions to utilize the contract of murabaha to facilitate financing transactions.

Graph 14- Seller- Buyer Relationship



As can be seen in Graph 14, the buyer (customer) applies to the broker, the Islamic bank, for the goods he wants to buy, and the intermediary buys the goods that the buyer wants from the seller for 10 TL and sells them to the buyer with the "principal profit margin". In other words, murabaha is a sales transaction made by putting some profit margin on the cost of the good to be sold.

In such a process; there are three parties: the Islamic bank, the entrepreneur and the enterprise by which the goods will be procured. First of all, a preliminary agreement is made between the operator and the enterprise, which is the supplier of the goods, on the subject, price and delivery conditions of the goods and other features of the goods. After the preliminary agreement, the operator applies to the Islamic bank. If there is a certain credit limit in the Islamic bank, the Islamic bank will order the goods after receiving the collaterals together with the purchase request, and the bank makes the advance payment to the seller. The Islamic bank then adds the profit margin and sends the invoice for this property to the entrepreneur (Polat, 2015: 26).

According to Çürük (2013: 49), special conditions to be taken into consideration in the murabaha method for people with little commercial experience and commercial knowledge are as follows:

- Despite being not necessarily a tangible good, the traded good must be a real good. Even if it is intangible, it must be subject to rights or royalties.
- Gold, silver or money types cannot be subject to murabaha.
- In Islamic finance, debt cannot be bought and sold. Therefore, credit documents stating that someone is indebted cannot be subject to murabaha.
- The actual cost and dividend of the good should be clearly stated.
- The defects and other characteristics of the goods in question should be clearly stated.
- A profit margin for the buyer and seller has to be determined.
- If the real price of the good does not explained by the seller but this situation is understood by the buyer, the buyer has the right not to buy. In the event of such a situation, the sale will be valid if the buyer does not stop buying.
- It should be free of "*gharar"* (uncertainty) in the realized sales.
- It is not appropriate for a product previously sold by murabaha method to be involved in murabaha again.

One of the main problems in murabaha is that the determinants of the profit rate calculated by Islamic banks include some elements of riba and "*gharar*" (uncertainty) as in traditional banking. It is similar to riba in terms of predetermined return and the financier is assured of the specified profit without being willing to take the risks of trade

While there are opinions in the literature that inflation and interest rates are taken as the basis in determining the rate of profit, there are studies on the determination of London Inter Bank Offered Rate (LIBOR) that allegedly contain interest.

According to Isa et al. (2012: 1923), murabaha transaction is considered as halal since the bank making risky investments receives a certain profit margin. Considering that the bank is unable to change the agreed sales price, the large risk that it takes compared to the traditional system appears here. In their studies, Zandi &Ariffin (2012: 13-14) express that if the market interest rate is low, the amount financed by murabaha will be more expensive than the traditional loan. This situation causes problems in product pricing and marketing in murabaha method. Therefore, customers can withdraw from the Islamic bank and turn to traditional banking. If the market interest rates are higher than the profit share in murabaha, Islamic banks will lose as the sales price adjusted according to the murabaha agreement cannot be changed.

Most of the financing techniques used in the Islamic financial markets are based on murabaha.

It is not enough to change the word riba with terms such as profit margin, price increase or late charge that lies at the basis of murabaha. Therefore, a definite distinction must be made between interest loans and murabaha within the rules of the Islam. These distinctions are:

- Murabaha is the transaction of the payment of the price formed by a certain profit margin added to the price of a commodity agreed between the buyer and the seller directly to the seller.
- The commodity that will be traded in the murabaha transaction must be a real commodity.
- In a murabaha transaction, it is not possible to finance goods such as alcohol and tobacco that are against the Islamic rules.
- The property is in the institution that provides financing until the property is sold to its final buyer.

- Indirect relationship between buyer and seller is unacceptable. In other words, the goods must be purchased from third parties.
- The seller may ask the customer for collateral such as mortgages, pledges, promissory notes, bonds or export documents that they will pay the cost of the goods in the term.
- If the buyer pays the price of the goods before promising, the price cannot be reduced. At the same time, the price of the goods cannot be increased if the buyer does not pay the goods in the term.
- In the murabaha transaction, it is the most important item that the buyer cannot be paid in cash. With this method, Islamic banks have to pay directly to the seller (Bilir, 2010: 36-37).

International Murabaha

According to Sharjah Islamic Bank (SIB, 2019); *"International murabaha is one of the very key products for the bank's liquidity management. This product is widely used in Islamic banking for liquidity management. The product involves the metal transaction murabaha which is done through the London Metal Exchange. The Treasury arranges the purchase of metal through brokers in London for value spots and sells the same with profit to another counter party on deferred payment basis."*

To some scholars such as Al-Jarhi (2017), international murabaha is a sort of tawarruq. The person, who wants to lend money in return for a premium, uses funds to buy commodities and sells the same commodities against future payment, which would exceed the present value. None of the sellers or buyers takes deliver of the goods involved in this trade. With this point of view, Al-Jarhi associate's international murabaha with interest based loans.

In addition to its wide range usage in domestic trade, murabaha method is also used in export financing. IDB and other financial institutions have made many agreements with domestic eximbanks and other financial institutions. For example, a deal has recently been signed between Turk Eximbank and IDB, involving $ 100 million in murabaha financing.

4.1.2 Mudaraba

In the concept of interest free financial system, mudaraba can be defined as a financial method enabling the realization of both the capital of interest-free banking and the labor of the entrepreneur, in order to make money.

In his paper, Özsoy (2012:174) states that the entrepreneur could be both natural and legal person. Before undertaking the allocation of its capital to the entrepreneur, the bank makes all research related to the entrepreneur and the project. Then, if the project is approved, the bank makes a contract with the entrepreneur. In which proportion of the profit will be distributed should be written on the contract. This distribution is usually 20-25% for the entrepreneur and rest for the bank. In case of any damage after the implementation of the project, the loss belongs to the bank. The losses of the entrepreneur are only the waste of labor and time. But, if there is any negligence or intentional mistake made by the entrepreneur, the bank can request this loss from the entrepreneur.

In mudaraba method, the person or the institution that finances the project and supports only with its capital is called "*rabbul-mal*", while the manager whose project is approved and financed by the bank (may also be a legal person) is called "*mudarib*" (Ozgur, 2007: 59). *Rabbul-mal* (Islamic bank) has to keep the subject capital of the contract at the request of the contractor after the contract with the contractor is signed. Apart from the conditions specified in the contract, it is not possible for the bank to intervene in the transactions initiated by the project owner, but if the project owner is likely to appear as a result of unplanned and irregular operation, the bank may take some preventive attempts. It can normally check accounts and request all formal and informal records. A fixed amount is not assigned to either the governor "*mudarib*" or the *rabbul-mal*. If any damage has been caused, the damage will be borne by the *rabbul-mal*, considering that the *mudarib* has no negligence or does not violate the terms of the agreement (Polat, 2015: 28).

The profit obtained as a result of this financing method is shared in advance between the contractor using the financing and the *rabbul-mal* providing financing according to the rate (as a percentage) determined in the contract.

Mudaraba method is a convenient way to obtain short or long term loans. Many people who have knowledge, ability, and high potential for success in trade cannot be thrown into the trade because of the insufficiency of capital. Many people who have much money in their hands and who want to operate it and use it in commercial affairs cannot be put into the trade because they do not have the knowledge, experience or health. At this point, the effectiveness of the mudaraba company emerges. By combining these two elements, which are in need of each other, by the mudaraba method, it is ensured that both parties benefit from this business. In addition to evaluating the abilities that cannot find a job in the society, the remaining capital is provided to the economy (Öztop, 2006: 31).

In terms of sunnah regarding the permit of the mudaraba contract, we can give the following examples:

The partnership between the Prophet Muhammad (PBUH) and his mudaraba agreement with his future wife Kadija (ra) is the best example of this. When the Prophet Muhammad (PBUH) reached the age of 25 with the help of his uncle Abu Talip, He made a proposal with Kadija (ra). According to partnership established between. Kadija (ra) and Prophet Muhammed (PBUH), the capital was from Kadija (ra), and the entrepreneur was Prophet Muhammad (PBUH). With this partnership, Prophet Muhammad (PBUH) was taking away and selling leather, wool and dates (supplied from Mecca) to buy ready-to-wear and fabric on his commercial trips to Damascus, Yemen and Jordan (Bayındır, 2001: 183).

There are a number of issues that must be present in order for Mudaraba to be made. These are as the following:

- It is imperative that *mudarib* must be competent to be *wakil* (power of attorney) and the *rabbul-mal* must be competent for establishing such relationship.
- The capital to be invested must have the characteristics that can be the capital of the company like money, gold, etc. Receivable, rent etc. assets cannot be capitalized.
- The amount of principal should be clearly stated.

- The shares must be determined before starting work, that is, the dividend must be determined as a percentage.
- It is mandatory to give a share of the profit of the partner (Konday, 2006: 22).

The comparative advantages of the mudaraba model over conventional financial instruments can be summarized as follows:

- With mudaraba model, funds are transferred to projects needed by the society where productivity is ensured, while conventional funds are transferred to loan claims with a certain return rather than implementing productive projects.
- Money vs. Real Market: While it is crucial to use money in real investments in order to generate income in murabaha model, there is no such requirement in conventional structure. The conventional structure based on the debt-receivable relationship leads to the opening of the gap between money supply and production increase as a result of the notion of making money from money.
- Since the real investments that can be liquefied exist in the financing models based on Islamic assets, they do not constitute debt burden for the next generation. In the conventional structure, it is not compulsory to transfer funds to real investments, which might create a debt burden for the next generation.
- Economic stability: While mudaraba model has a functioning that provides balance between different social environments, conventional structure causes difference between social environments. Moreover, in the mudaraba model, by providing the balance of money supply, production increases with real investments. It does not cause speculative increases in the economy named as a balloon.
- While inflation is minimal in the Islamic financial system, due to the instability of interest rates which may affect purchasing parity, a conventional system can have a triggering impact on inflation.

- While the relationship between the individual and the society in the mudaraba model are based on responsibility, integration and collaboration, conventional structure adopts an individual approach (Çürük, 2013: 66-67).
- In the mudaraba model, total costs are lower than conventional instruments due to lack of cost of borrowing capital.

In spite of its attractiveness in theory, mudaraba is not as common as it deserves in Turkey. Mudaraba is mostly a long term project, while conventional funds are short term project. Legal, technical, subterranean economy based problems and especially risk potential make mudaraba a method that is almost never used by interest-free banks.

The participation bank provides venture capital to the entrepreneur who produces goods or services intended for export. Performance production is important here. But the conventional banks often give capital to the borrower and do not seek for produce or something like that after putting mortgages on assets.

Mudaraba can be a useful method in export financing. Regarding the agriculture sector having many small producers and having trouble to reach capital, farmer cooperatives could be a solution for this. In that proposal, farmers establish a cooperative to collect capital. With the help of cooperatives having capitals, farmers can have a coordinating role to medium-large scale investment activities.

Entrepreneurial exporters make connections, seeking international markets to export agricultural products. Farmer cooperatives fund the most favorable offers made by entrepreneurs. In this system, farmers can benefit from both the production and export of agricultural products.

4.1.3 Musharaka

It is a kind of financing where the interest-free bank provides the capital and the entrepreneur provides both capital and labor. It can be defined as a financing method that allows the implementation of a project on a partnership basis where both parties are entitled to management.

This partnership takes place as follows (Tunç, 2010:146-147):

- A partnership agreement is signed between the participation bank and the customer.
- According to this contract, the bank and the customer agree to complete a project that is still in progress.
- Both the bank and the customer participate in the required amounts of capital in the management of the house.
- The bank and the customer can participate in the capital required for the project equally, or they can participate in different rates based on the agreement between them.
- The profit that arises after the realization of the investment subject to the project is shared between the parties at the rates specified at the beginning. The entrepreneur will demand both the value of labor and the profit corresponding to the capital he has placed.
- If the project resulted in profit before the profit distribution, the cost of the project is deducted from the gross profit.
- As a result, if a loss has been accrued, this loss is undertaken by the parties at the rate of participation in the capital.

In case of the profit as a result of the implementation of the project, the profit is distributed among the parties at the rates determined in the contract. In the case of loss, the distribution of the loss between the parties shall be based on the rates in the capital.

Differences between musharaka and mudaraba;

- Entrepreneur also puts capital into the project.
- Dividend rate is higher than the bank's because the entrepreneur puts both labor and capital into the project.
- In mudaraba, only the entrepreneur is entitled to management of the project while in musharaka, both sides are entitled to management.

Both musharaka and mudaraba can be used in export financing. In case of the entrepreneur/exporter takes an order from another country, the price of the ordered goods which is well known before anybody else, the financier institute can easily calculate the foreseen profit margin with the help of the exporter company. The financier may finance the exporter with the method of musharaka or mudaraba. If it is agreed, both of them may share the amount of money to be paid by the importer.

It is also possible that the financier may declare that, in case of any problem caused by the firm, the exporter will be responsible from its mistake. But, the financier, which is a partner of the exporter, has to share any loss coming from other reasons other than the mistake of the exporter.

Diminishing Musharaka: Diminishing musharaka is the form in which the entrepreneur can acquire the asset completely by purchasing bank shares in the project (for example, a website). Thus, the entrepreneur can be fully owner of the asset by purchasing bank shares completely after some time.

Cooperative proposition can be useful in this method, too. Not only the agricultural sector, but all sectors can benefit from the musharaka method. Entrepreneurs who have capital but do not have sufficient resources for export can apply to a cooperative to seek funding.

The reason why cooperatives are recommended in this method is that both cooperatives and entrepreneurs are engaged in commercial activities.

4.1.4. Salam

Salam is an economic transaction which takes place in the form of prepayment and term purchase. In the classical sense for example; by an economic unit (eg, trader), a farmer is ordered for a product that has not yet been produced (eg. potatoes) and the price of the goods is paid in advance. The farmer, on the other hand, makes the production and delivers the goods to the economic unit that pays the price. This way, the farmer has realized both his production and his profit by selling his goods at a price above the cost. In the same way, the buyer of the commodity makes a profit by selling it at a price above the cost of the goods.

It is a useful method for both the exporter who receives money for goods in advance and the importer who pays lower prices than market value. But trust is quite important in the usage of this method. To gain confidence in foreign trade, it is necessary to have a continuous foreign trade relationship. Hereby, salam is one of the ways to reach a sustainable export by enhancing interest-free capital to exporters.

Turkey has a very rich agricultural sector thanks to its climate and the high population in the agriculture sector. Salam is used generally for agricultural sales. Thus, Turkey may benefit more from that pre-paid forward system in agricultural exports all over the world.

4.1.5. Istisna

Istisna is used in financing of goods that are not yet ready to be sold. In this method, export goods must be manufactured according to the agreed criteria and conditions, provided that payment is made under agreed conditions. It is used in fields such as tailoring, architect and construction projects, industrial equipment, facilities and machinery, ships and aircraft, contract or asset financing, export financing before shipment (Usmani, 2002:71).

In the istisna, the delivery time does not have to be fixed. However, the buyer can set a maximum time for delivery, that is, if the manufacturer delays delivery after the specified time, he will not have to accept the goods and pay the price. But, it can be said that, the istisna makes export easier by lifting strict time limits. Export financing with istisna is one of the most advantageous ways for exporters who don’t have enough capital to starting a produce activity.

4.1.6. A Secure Way for Export: Takaful

Takaful is not a financing method, but it is a very useful and functional element in financing exports. Takaful can also be called Islamic insurance.

According to AAOIFI, the Accounting and Auditing Organization for Islamic Financial Institutions, (Sharia Standard No: 26)

> “*Islamic Insurance is a process of agreement among a group of persons to handle the injuries resulting from specific risks to which all of them are vulnerable. A process, thus initiated, involves payment of contributions as donations, and leads to the establishment of an insurance fund that enjoys the status of a legal entity and has independent financial liability.*”

The resources of this fund are used to fund participants who are exposed to negative things, such as unexpected harm, damage, or health problems, subject to specific rules and a documentation process. This Fund is managed by a joint stock company. In that system, money coming from individuals is accumulated in a premium pool called the aid fund or risk fund and participants who are exposed to damage are compensated by that pool.

Every business action has some risks and Islamic financing based on solidarity and brotherhood has a secure way to trade. The takaful system is an important element in foreign trade as well as in domestic trade to minimize the risk. Export operations are at least as much riskier as other commercial transactions and can be prevented by the takaful system.

Graph 15- Takaful Components

By using takaful, exporters are able to sell their goods under better payment terms and importers can follow their business growth strategies.

4.2- INTEREST FREE FINANCE EXPERIMENTS ON THE WORLD

The desire for further development and improvement, one of the most important things for countries, has a key role in world history. Since centuries, there has been a struggle to survive and the economy has a key role to ensure this. After finance started to take a larger role in the economic activities, almost all trade activities became to be measured with interest.

On the other hand, as mentioned in the previous section, in almost all religions and beliefs, interest is considered as a prohibited or undesirable thing. To overcome these restrictions and stop interest based financial systems by boosting production and increasing investment by using money in the most effective and efficient investments rather than earning money from money itself without any effort, Islamic financial system has unique instruments.

In view of the importance of exports, It is essential for exporters to use Islamic financial tools to get out of the interest-based exploitation system.

In this section, some Islamic export financing experiences of countries / institutions are studied.

4.2.1. International Islamic Trade Finance Corporation

ITFC is a member of the Islamic Development Bank (IDB) Group. It was established with the primary objective of advancing trade among OIC Member Countries, which would ultimately contribute to the overarching goal of improving socioeconomic conditions of the people across the world.

According to ITFC Annual Report (2019), Its mission is become a catalyst for trade development for OIC Member Countries and beyond, the Corporation helps entities in Member Countries gain better access to trade finance and provides them with the necessary trade-related capacity building tools, which would enable them to successfully compete in the global market. It can be said that ITFC is one of the most leading institutions in export financing.

4.2.1.1. A Pre-Export Financing for the Indonesian Coffee Sector

ITFC has several export finance programs like Gambian groundnuts, Kazakhstan wheats, crude oil in Morocco. Indonesian coffee sector is one of these programs. ITFC (2011) has designed $ 100 million in murabaha trade financing in Indonesia to meet the pre-export financing requirements in the coffee industry. First, the ITFC directly financed the exporter's working capital requirements before the export. Secondly, by paying to the cooperative suppliers, 6,000 farmers in all 5 cooperatives were able to receive their money from funds without waiting for the payment from the final buyers.

This funding capability of ITFC helped local people engaged in farming to get a more advantaged price for their coffee, because the interest expenditures that the exporter farmer is exposed to are lower than before. Moreover, it has helped growers and cooperatives to grow. Thanks to the possibility of cash payment at the pre-export stage, it facilitated the participation of new cooperatives and members to their organizations and the realization of fair trade. According to ITFC sources, this operation, which aims to provide financing to exporters, has created 15 new buyers and allowed coffee exporters to expand their commercial activities. Before any funding advance is provided, export contracts are pledged and receivables are transferred to ITFC's account.

Importance of the Deal

In an area that has just emerged from the civil war, ITFC tries to build the lives of farmers in the best possible way by financing their trade.

13 cooperatives in Aceh have Fair Trade Certificates. This means they are part of a system where a fair price is paid to ensure sustainability for coffee farmers.

ITFC has developed an innovative structure to finance coffee, the only production of farmers. After the coffee is delivered to the warehouse, farmers are paid a percentage of the total contract. Thus, farmers do not need to wait 45 days for payment from the buyer.

Farmers receive payments in cash on delivery, which increases their livelihoods significantly. Although the amount of financing is relatively low, many farmers are benefiting from this financing opportunity offered by ITFC. In an area that has just emerged from natural disasters and civil wars, ITFC helps finance farmers to build their lives in the best possible way.

4.2.1.2. Recent Agreements of ITFC

ITFC made an agreement with the Saudi Export Development Authority to support the implementation of the Export Finance Promotion Initiative within the scope of the Kingdom’s Private Sector Stimulus Program (PSS). The agreement is a result of a

Royal Decree to create the Saudi Eximbank called as Saudi Export Import Bank, planning to come into operation at the beginning of October, 2019. Saudi Arabia plans to enhance the competitiveness of non-oil sectors in the domestic economy. According to the agreement, ITFC will support Saudi companies with attractive financing solutions, enabling non-oil exports to grow through Sharia-compliant financing.

In 2017, a financing agreement was signed between Turk Eximbank and the ITFC to provide a two-stage murabaha syndicated loan of approximately 450 million USD from a consortium of ITFC-coordinated banks (Eximbank, 2017). And more recently, a similar agreement worth $380.5 million agreement was signed between Turk Eximbank and ITFC (Pekcan, 2019).

Between ITFC and Burkina Faso, a $ 1.5 billion Framework Agreement was signed. Under the agreement, ITFC aims to finance the export of many agricultural products like cotton, in addition to energy products like processed and crude petroleum products. The agreement will also finance the expansion of funding channels to local financial institutions and to promote local SME for the pillar sectors of the Burkina Faso's economy (ITFC, 2018).

4.2.2. Malayan Experience

Malaysia has a program named "Export Credit Refinancing (ECR)" to provide financing at the export stage. This program constitutes an alternative in short term pre & post shipment finance to the entrepreneurs who need capital to produce or sell their products. To take advantage of this program, there are some requirements, too. All of the products including primary commodities, manufactured products, agricultural products etc. which are subjected to finance should be halal/ Sharia compliant.

One of the two types of ECR, *the pre-shipment financing* is eligible for goods for export before shipment and promotes networks between exporters and its local suppliers. Pre-shipment financing is provided through tawarruq, which is the sale of the product received in installments in advance to the importer.

Another type of ECR is *the post- shipment financing*. It functions to fund exporter until receipt of payment of the export bill. These transactions take place in the triangle of the exporter, ECR Banks and Eximbank under the concept of tawarruq. In this concept, the owner of the export commodity, the exporter, appoints ECR bank as collector agent to collect payment from importers bank.

Companies in Malaysia directly or indirectly engaged in export or international trade may benefit from the program provided that the following requirements are met:

- products should be halal
- products should not be on the list of prohibited export products.

Margin of financing can range from 80% to 100% depending on direct exporter, indirect exporter, order based trade and pre-post shipment transactions. Profit rates fluctuate time to time by Eximbank Malaysia.

4.2.3. Islam Development BANK (IDB) - Export Financing Scheme (EFS) and Longer Term Trade Financing Scheme (LTTFS)

This mechanism was established within the Islamic Development Bank (IDB) in order to contribute to the financing of exportation of the Organization of Islamic Corporation (OIC) member countries with each other and to increase trade between the Islamic Countries.

In addition, the project is brought forward by Turkey and the First Session of the "trade-enhancing financial measures" is one of three projects that have been accepted.

After the completion of the project in less than three years, this project was established within the IDB under the tutelage of The Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation (COMCEC).

This mechanism, which works with the help of a special fund within the Bank, is open to all countries committed to the payment of 1.5 million Islamic dinars in accordance with the establishment document of the Islamic Development Bank.

Minimum budget for the fund targeted at the beginning is 600 million Islamic Dinars (ID). 150 million ID of this fund is covered by the commitments of the participating Member States who wish to benefit from the Mechanism and The Islamic Development Bank pledged a capital of 150 million ID. It is predicted that the remaining amount of 300 million ID is to be provided from the financing to be obtained from national and international markets and from the income that will be obtained through the operation of the mechanism.

The purpose of the Fund is; to increase the trade volume between the member countries of the OIC by around 10%. National agent of the fund in Turkey is Turkish Eximbank. The contract between the OIC and Turkish Eximbank is concluded on 1 August 1988 (Kalkınma Bakanlığı, Unknown Year).

As a result of the initiatives of Turk Eximbank, the mechanism limited to OIC Member countries has been expanded to include all Organization for Economic Co-operation and Development (OECD) countries as well as these countries.

Parallel to the purpose of the use of LTTFS effectively, Export Financing Credit Treaty was signed between Turk Eximbank and the OIC at 01.20.1993. With this agreement, Turkey could manage to obtain source allocation worth 20 million ID (about 28 million $). That amount was utilized to the firms to be exported to the OIC member countries with the condition of not exceeding the export limit for Turkey. And member countries have utilized that fund many times.

Latest Agreement of IDB: Participation Finance Investment Loan Service for Exporters (with Turkey)

Turk Eximbank has enabled a new service called "Participation Finance Investment Loan Service for Exporters" in the context of its agreement with IDB at 28.08.2020. According to this program, the mentioned investment loans will be made available with the participation finance principles.

Under the guarantee of the Ministry of Treasury and Finance, a resource of 100 million USD has been provided under the murabaha agreement with the Islamic Development Bank. It will be used directly by Turk Eximbank to meet the investment financing needs of Turkey's exporters from 4 to 10 years. This long term finance program will be available for financing capital goods expenditures on chemicals pharmaceuticals, medical equipment, machinery, electrical devices, automotive, electronics, rail vehicles, textile, food and agriculture, construction and furniture industries.

4.2.4. Pakistan Islamic Export Scheme

The Pakistan State Bank has adopted a scheme called Islamic Export Finance Scheme (IEFS) to meet credit requirements of the exporters. The usage of financial instruments is permitted against the procedures designed on the basis of the Islamic Finance models approved by the Sharia Board of the relevant Islamic Bank.

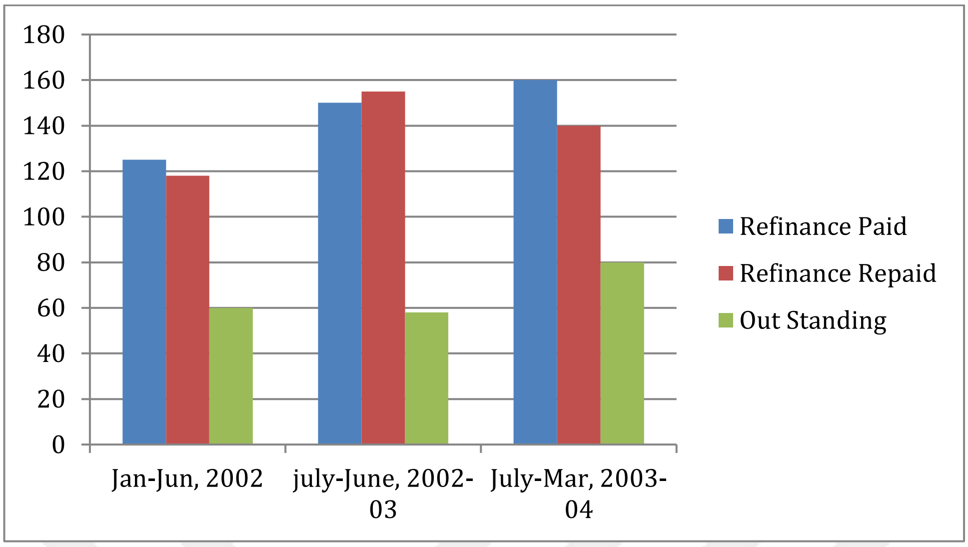
There are also some limits. An Islamic Bank could benefit from facilities equivalent up to 1.5 times of the companies' equity in the first year of companies' trade activities. Each Islamic Bank has to establish a musharaka pool for that fund. That pool must have the minimum of 10 companies in not only a couple of sectors but also different sectors to avoid concentration.

The Islamic Bank's investments in that musharaka pool should be at least equal or more to the amount of the fund taken from State Bank. The Islamic Bank is obliged to verify that the musharaka pool's operations are audited by external auditors, the terms and conditions of the Program are fully met and the annual earnings of the pool are calculated.

What if the company fails to meet the performance requirements? In that case, fines shall be implemented to the exporters. But, the money coming from fines should be given to a charity institution or something similar by the bank.

The Islamic Bank provides financing for a maximum of 180 days for direct Export and 120 days for indirect exports for certain products under Islamic methods approved by the Sharia Board. Exporter should provide a proof to its bank to shipment of the commodity in 30 days from the shipment.

Graph 16- Facility Provided Under Export Refinance Scheme



Source: State Bank of Pakistan (http://www.sbp.org.pk/sbp_bsc/apr/chap_11.pdf)

As it can be understood from Graph 16, this scheme is an old- fashioned scheme and there is no available data on this scheme up to date. But it is possible to say that, while the scheme facility couldn't manage to reach its potential, it is an advantage to try export financing by Sharia compliant financial instruments such an early date, beginning of the millennium.

4.2.5. Islamic Letter of Credit in Export

Letter of credit, which is obtained from banks, traded by banks and financed by banks, significantly, plays an important role in financing international trade in the banking sector worldwide.

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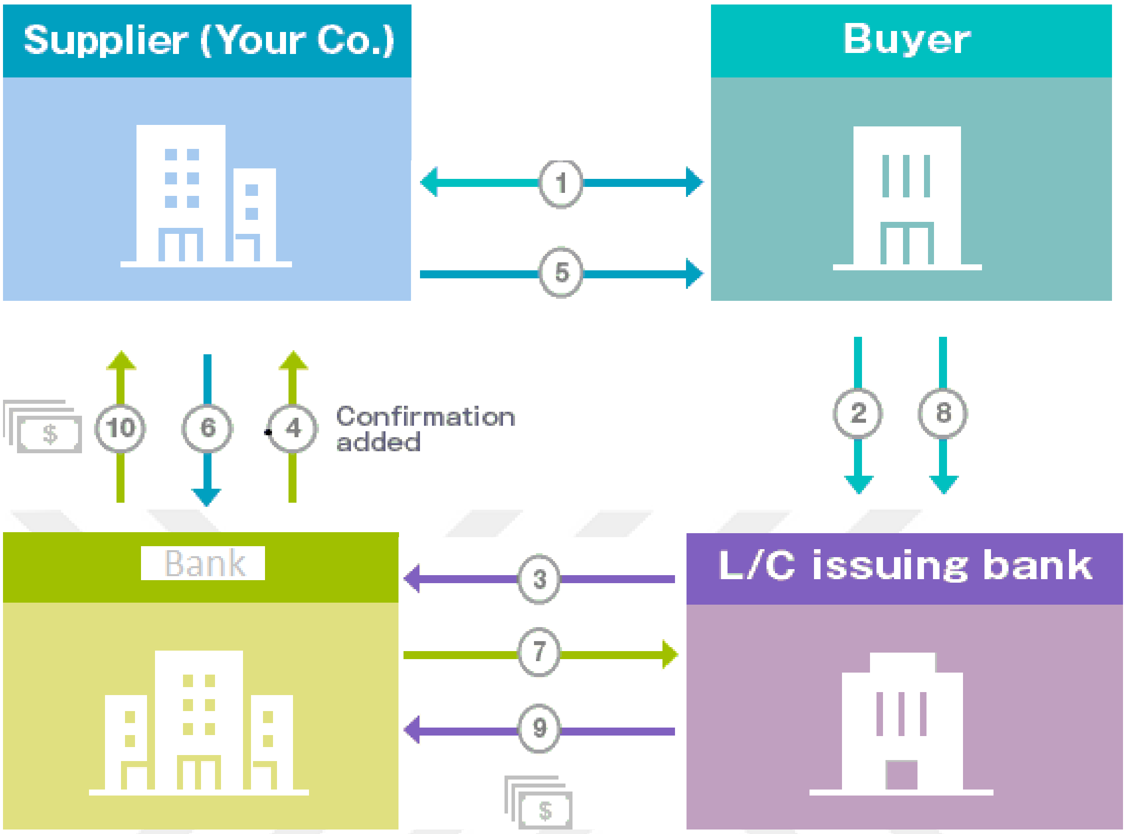
Graph 17- Application of Letter of Credit



Source: SMBC (https://www.smbc.co.jp/global/trade_finance/services/lc_confirmation.html)

Commercial letter of credit deals only with the documents and payment is made to the seller if the documents are appropriate. Hence, it is a document issued by a conventional or interest-free bank or a similar body that allows the bank to receive payments through the bank in accordance with the requirements of the letter of credit. It functions as a banking mechanism in international trade that enables actors to make secure transactions, as shown in Graph 17.

Islamic letter of credit (ILC) is similar to conventional letter of credit (LC). But it should be stressed that the purpose of ILC is not to completely replace LC. The main purpose here is implementing Sharia compliant international trade transactions. In that scenario, business should be based on Sharia and all the regulations must be based on Sharia (Islamic law).

Lahsasna (2007:19) offers to establish Creation of the Global Islamic Bank Network (GIBN) to ensure the issue of the ILC with an Islamic banking network in a global scale and the author thinks this is an inevitable process. Because it is required in the ILC activities that there should be an umbrella organization for transactions, issuing, proceeding, advising confirming, negotiating and reimbursing process.

The ILC helps to make a safer production planning and export by avoiding any capital problems coming from financial instability caused by the importer's non-repayment or late payment.

4.2.6. Islamic Corporation for the Insurance of the Investment and Export Credit (ICIEC)

ICIEC is a member of the Islamic Development Bank (IDB) Group. It was established in August 1994 as an international body with full legal personality. ICIEC provides investment and export credit insurance services for Islamic countries in order to ensure the promotion, protection and guarantee of investment among the Islamic Cooperation Organization (OIC) member countries.

To achieve its goals, ICIEC offers risk-reducing solutions to exporters of Member States. It offers its products and services to protect exporters from commercial and political risks. To promote sustainable development by increasing the export of Member States, ICIEC can also support international exporters selling capital goods or strategic goods to Member States - on a limited basis.

Unlike its essential function, ICIEC also provides technical assistance to the ECAs of the Member States. The aim of ICIEC is to make trading and investment safer between Member States and the world through a risk reduction tool in a Sharia-compliant manner. ICIEC is the first and only multilateral investment insurance and export credit company to offer reinsurance and insurance solutions that act within the framework of Sharia rules.

Graph 18- ICIEC's Development Results

USD 51.5 BILLION
- Total amount of trade and investment facilitated

USD 41,4 BILLION
- Total number of export transactions facilitated

USD 19 BILLION
- Intra- OIC export insured

USD 3,9 BILLION
- Intra- OIC investment insured

USD 82,7 MILLION
- Paid Claims

USD 291,5 MILLION
- Premium income

USD 2,5 BILLION
- Investments insured in LIC/LDC countries

USD 250 MILLION
- Exports insured from LIC/LDC member countries

Source: ICIEC

ICIEC promotes trade and investments in 45 member countries in Europe, Asia, the Middle East and Africa. Its target customers consist of three different groups: companies, financial institutions and Export Credit Agents and insurers. Since its establishment, as shown in Graph 18, it has contributed to increasing trade by facilitating over $ 41 billion of exports and over $ 9 billion of investment to OIC Member Countries.

By maintaining sales returns, takaful ensures business continuity for exporters participating in new and existing business relationships with foreign buyers. At the same time, exporters can take bolder steps to negotiate more extensive contracts and enter markets with higher potential risk. Takaful also provides convenience for the exporter's access to capital financing as it constitutes an insurance that provides movement space for banks where exporters work.

One of the important contributions of ICIEC to the development and strengthening of the export finance systems of the Member States is that it provides Sharia-compatible "reinsurance" to the national ECAs of the member states. Non-member countries can also benefit from this service, thus increasing the national insurance capacity of ECAs by increasing their financing capacity. Since its foundation, ICIEC has facilitated reinsurance services to national ECAs for exports worth around $ 5 billion.

ICIEC has prepared a Sharia-compliant insurance policy against the expropriation risk for the Eastern and Southern African Trade and Development Bank (TDB). This program consists of € 199.5 million of murabaha financing, which supports the Agricultural Bank of Sudan (ABS) for the export of sorghum and sesame seeds. The loans granted under this financing played an important role in Sudan in enhancing the productivity of agricultural goods by increasing the availability of fertilizers and seeds. One million people were expected to benefit from the program.

As of July 2009, ICIEC started supporting livestock exports of Sudan to Saudi Arabia. NAIFE, ICIEC's Shiekan Insurance and Reinsurance Company and the National Export Insurance and Financing Agency, enabled 1.2 million sheep to be exported. With this successful application, it has led to an increased export of animals from Sudan to different countries such as Qatar, Jordan and Egypt. Later in 2010, ICIEC's policy with NAIFE was accepted by the Central Bank of Sudan as a first order guarantee. With this situation, exporters' obligation to guarantee real estate to banks has disappeared. Thanks to this facility, it was easier for Sudan to increase its livestock exports to Saudi Arabia in 2011 and 2012 to over US $ 200 million (ICIEC: 43).

4.2.7. The Arab Africa Trade Finance Program (AATFP)

The Sub-Saharan African (SSA) and Arab countries which are OIC member countries, have long history of trading, social, and cultural history ties. But, trade relationships between these countries have either decreased year by year or not increased sufficiently over the past decades. International Trade Center (ITC) has revealed some studies showing that, between 2011-2015 17 countries in Arab region exported almost 1 trillion dollars to the world, while 22 OIC member SSA countries exported only 0.1 trillion dollars to the world. These results show that SSA OIC countries and Arab world have important untapped potentials of export with great possibilities to achieve better regional integration.

To bridge these inactive trade potentials, the main purpose of AATFP has been intended to strengthen new commercial partnerships and boost trade flows. In addition to this, AATFP shall promote investment between two regions through cooperation between investment and trade support institutions. AATFP is designed to support the countries of both regions within the framework of opportunities and challenges.

The implementation of the AATB Program has started in 2017 based on the findings of the study that has been commissioned from the International Trade Centre (ITC), to assess the existing and potential export opportunities for the Arab and Sub-Sharan Africa regions (members of the OIC), but also to identify the potential fields of improvement of trade flows between both regions.

The study has shown that Agro-food industries, health and pharmaceutical industries, building and construction materials and equipment, and the machinery and electrical equipment reserves have high potentials and there are opportunities for commercial & investment partnership between two regions (AATB Annual Report, 2017-2018).

Projects and programs within the scope of the implementation of the AATB Program are listed at Appendix 1.

CONCLUSION AND RECOMMENDATIONS

Trade activities are an important determinant not only in economic relations but also social and cultural relations. They are essential for countries seeking power or a more developed welfare state. As well as domestic trade, foreign trade activities, particularly exports, are a sign in the country's economic profile. While developed countries are good at exporting technological and value-added goods, developing or underdeveloped countries mostly export raw materials, agricultural products or simply lower value-added products. These commercial activities, which are not carried out in a balanced way, result in foreign trade surplus for developed countries, while it means foreign trade deficit for developing countries.

Islamic countries can be assessed as developing countries. Except for some oil exporters, all Islamic countries have a significant amount of foreign trade deficit. To overcome this deficit, concerning these countries are thought to be Islamic, this study offers the best instrument: Interest-free export financing.

Since interest is forbidden in Islam and other beliefs, it is essential to avoid interest based financial activities. Naturally, there are many reasons why entrepreneurs, companies or individuals should refrain from charging interest, but the main turning point here is how it is possible. We tried to clarify there is an alternative system Islam offers us and even though it is not widely used, there are some examples which could lead us to use interest free finance in export activities without paying additional money to the banks or other financial instruments.

Islamic finance is developing better than the conventional system. However, as shown in Appendix-3 with a detailed table, it is thought to be only 6.7 percent of the all banking activities in the Turkish financial market are Islamic. Therefore, instead of focusing on the increasing percentage of the IFS, we should concentrate intensely to find a way how Islamic finance could enhance the rate of its use compared to the conventional financing system.

First of all, we should understand how the interest based financial system works. Then we should ask for whom it works; for poor people or rich ones? What assumptions do the neo-classics make to provide the best for humanity in the current interest-based financial system? These questions are important because interest-free system is not only for Muslim people but also for other people for their interests. Another matter needs to be explained is why interest is forbidden or seen as an unwanted act by religions, scholars or philosophers since centuries? Then we should understand that we have a perfect solution, rather than being an alternative as the principally required system for the well-being of humanity and the globally balanced economic welfare system.

After raising such awareness, we should consider how we could apply the interest free system to the current system. In this study, we focused on export financing rather than domestic trade or import activities due to reasons explained before. As it is mentioned in chapter 5, there are several examples in terms of interest free export financing. In other words, there are only a couple of examples rather than a serious rate of export activities. Exactly on that point, we have a strong reason and motivation why interest based export financing is urgently needed.

Policy Recommendations

- This study aims to take a picture of how the situation in terms of interest free financing at the export stage is looking. But during the literature research, we realize that there is almost no study focusing on Islamic export financing. Most of them are concerned with either domestic trade or Islamic banks, but there is not a specific study on the export financing. This reveals that there is a need to develop further research on this topic and there is an industry urgently needed to develop.

- Export activities are mostly shared into financially strong entrepreneurs who have enough capital or can borrow money with self-trusted understanding. But it is not an effective way to increase export activities without widening it to the small producers. At this very moment, this study offers interest free financing rather than banks ready to take charge from small producers who have no enough capital to produce or no time to wait for their payment. But it should be reminded that, in every financial support, there can be some sacrifices for both sides. If capital requirement is met by qard-hasan (which is money lending without any benefit and taking it back as it is given amount at first) money lender has no physical benefit but benefits for ahirah. Of course, this is the best method for Muslims as a big favor to another as the Prophet (PBUH) did. But as a second best alternative finance method, we offer other Islamic finance tools. Thus, if the producer meets its capital requirement with interest-free financial institutions, it should sell its products a little bit cheaper than its installment price so that financial institution has the power to sell these products to another by adding its profit. As discussed in previous sections, both producer and financial supporter/buyer institutions have the trade benefit.

- Section 4 reveals the international organizations have a crucial role in export financing. Almost all interest free financial activities are organized with the help of international organizations. In other words, strengthening international institutions by both member countries and financial components constitutes a turning point here. If we start by going the easy way, export financing should be boosted between the Islamic countries first. Because all Muslim countries have same reasons, motivations and efforts to improve Islamic finance and exports. With healthy working financial transactions, it will be easy to expand it to all over the world. Every country is good at a different Islamic financial instrument and with the help of negotiations; financially leading countries can be an example for further developments of other countries and equating the countries financial improvements.

- As it was said at the beginning, this study does not aim to clarify Islamic finance instruments or Islamic finance experiments whether Sharia compliant or not. Therefore Sharia compliance is a subject for other studies held by Sharia scholars. But we are sure that all Islamic activities should be refrained from any non-Sharia compliant or doubtful activities. Because Sharia compliance is the very first matter in Islamic financing and improving trade comes second in spite of its high importance. The main purpose here is refraining interest based finance with using Islamic interest free system in a Sharia compatible way. Nonetheless, it is known that there are some controversial issues in some Islamic financial instruments. To overcome these controversial matters, with the help of states there should be a roof institution including both Sharia scholars and economists from different countries, colors, continents. The main purpose should be to solve controversial issues with Islamic concerns not with the national or monetary concerns.

- There are Islamic standardization institutions including Islamic Financial Services Board (IFSB) and AAOIFI. These institutions should have a pro-active role in ensuring Islamic financial tools applicable to export. Besides, controversial issues can be standardized with the help of these institutions. Pro-active policy is essential to take position ahead of changing and improving financial markets. Again, the main purpose here should not be just an alternative to conventional instruments, but to develop its own way as a unique Sharia compliant instrument.

- When we ask which sectors can benefit from IFC, the agricultural sector has an important place. The number of people dealing with the agricultural sector is quite high. Besides, farmers are more vulnerable because they are relatively economically weak. For Turkey, the most prominent sector in the country's exports is the automotive industry. If it is strengthened by Islamic financing and takaful insurance, the automotive industry will tend to develop itself and export more. Clothing industry is another important and third biggest sector in which our country has a comparative advantage. Sometimes, manufacturers export raw fabric due to lack of capital and have difficulty in reaching the capital to process them. At this point, it would be beneficial for manufacturers to use Islamic financing tools to export more value-added clothing products. Finally, the top three target sectors should be agriculture, clothing and automotive industry.

- Considering the latest developments in the financial sector, digitization shows a serious growth trend. It refers to the integration of technology into offerings by financial services companies in order to improve their use and delivery to consumers. Financial institutions are participating in collaborative blockchain and smart contract pilots to automate trade finance information exchange and transactions. Finance industry is using big data and advanced analytics to understand people's and industry's needs and capture a larger share of network value. Innovations such as the Internet of Things (IoT) and 3D printing are supposed to have disruptive consequences for Trade Finance. Islamic finance scholars and practitioners should also keep an eye on the further disruptive potential of Industry 4.0, IoT, fin-techs and blockchains. When it comes to its Sharia compliance, in Islam, every transaction is permissible, except when there is a clear text which prohibit. Therefore, they are impermissible only if there is clear evidence that they are against the basic rules of the Sharia.

- Cooperatives are one of the areas where the fastest results can be obtained in an economic development process. It is possible to produce solutions with cooperatives in every sector that can be considered as "doing a job that cannot be done alone", from agriculture to finance, from health to transportation, from energy to culture. Cooperatives are a formation that:
    - provides solutions to financing difficulties experienced in the export phase,
    - brings a profit-loss sharing mechanism, one of the building blocks of Islamic finance.

  For this reason, cooperatives should be strengthened, bringing them to a leading role in both participation in investment and financing for both their members and external entrepreneurs.

- The most important finding on this thesis is the difference between theory and practice. Islamic economics has improved considerably. There are many financial products, institutions, agreements and development programs, international organizations including many countries. But when it comes to practice, there is a scarcity on Islamic finance not only for export financing but also import and domestic finance. Firstly, even though there are many financial tools, only few of them are commonly used which are the least profit and loss sharing and solidarity based financial instruments of Islamic finance. Secondly, there is no impact analysis for credit or collaboration agreements. There are many schemes, agreements etc. between the triangle of international organizations, Islamic financial institutions and countries. But the outputs of these are not clear. While one reason for this is lack of data, the other reason is self enclosed institutions. Therefore, IFS should develop a policy for popularizing other Islamic financial instruments and take impact analysis seriously.

- Lastly, due to the lack of interest free-financing sourced export data, an empirical or analytical approach couldn't be followed. Therefore we strongly recommend for governments, banks or other financial institutions to collect interest-free financing based foreign trade finance data.

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APPENDICES

Appendix 1 Projects & Programs Held by AATP

Projects by BADEA

The following projects/activities were implemented during the year 2017, with their objectives matching those of the Program:

1- A Line of Credit for Supporting Arab Exports to African Countries	
Title of Project or Activity	Line of Credit for Supporting Arab Exports to African Countries
Start Date	September 2017
End Date	Ongoing
Objectives/Outputs	To enhance trade exchange between Arab and African countries
Outcomes	Increased trade flow between the two regions
Link to AATB's Objectives	The transaction contributes to promoting trade exchanges between African and Arab countries
Implementation Unit	Private Sector and Foreign Trade Division - BADEA
Partners	– Arab exporters based in Arab countries
Beneficiaries/Targeted Groups	– African importers based in the Republic of Mali
Geographical Coverage/Country	The Republic of Mali
Budget	US$ 20 million
Source of Funding	BADEA

2- A Line of Credit for Supporting Arab Exports to African Countries	
Title of Project or Activity	Line of Credit for Supporting Arab Exports to African Countries
Start Date	September 2017
End Date	Ongoing
Objectives/Outputs	To enhance trade exchange between Arab and African countries
Outcomes	Increased trade flow between the two regions
Link to AATB's Objectives	The transaction contributes to promoting trade exchanges between African and Arab countries
Implementation Unit	Private Sector and Foreign Trade Division - BADEA
Partners	– Arab exporters based in Arab countries, mainly Egypt
Beneficiaries/Targeted Groups	– African importers based in SSA
Geographical Coverage/Country	The Arab Republic of Egypt
Budget	US$ 50 million
Source of Funding	BADEA

3- A Line of Credit for Supporting Arab Exports to African Countries

Title of Project or Activity	Line of Credit for Supporting Arab Exports to African Countries
Start Date	December 2017
End Date	Ongoing
Objectives/Outputs	To enhance trade exchange between Arab and African countries
Outcomes	Increased trade flow between the two regions
Link to AATB's Objectives	The transaction contributes to promoting trade exchanges between African and Arab countries
Implementation Unit	Private Sector and Foreign Trade Division – BADEA
Partners	− Arab exporters based in Arab countries
Beneficiaries/Targeted Groups	− African importers based in the Republic of Mauritius
Geographical Coverage/Country	The Republic of Mauritius
Budget	US$ 20 million
Source of Funding	BADEA

Exports of Arab Products to Africa

Projects by SEP

1- Building Materials Exports of Saudi Origin to the New Dakar International Airport	
Title of Project or Activity	Exports of Saudi Origin Building Materials to the New Dakar International Airport
Start Date	June 4, 2011
End Date	Disbursement: December 21, 2017
	Anticipated Project Completion: before the end of 2018
Objectives/Outputs	To supply Saudi origin goods/services needed for the Project
Outcomes	The new airport is expected to offer better services to passengers
Link to AATB's Objectives	To develop better services to passengers and increase trade volumes
Implementation Unit	-
Partners	IsDB and others
Beneficiaries/Targeted Groups	Passengers/cargo shipments
Geographical Coverage/Country	Senegal
Budget	SAR 375 million ~ US$ 100 million
Source of Funding	Syndication

2- Urea Exports of Saudi Origin to the Republic of Ghana	
Title of Project or Activity	Exports of Saudi Origin Urea to the Republic of Ghana
Start Date	Unknown
End Date	Unknown
Objectives/Outputs	To supply Saudi origin Urea to farmers in the Republic of Ghana
Outcomes	More fertilizers supplied to farmers in the Republic of Ghana
Link to AATB's Objectives	Increase trade volumes between the two countries
Implementation Unit	
Partners	None
Beneficiaries/Targeted Groups	Farmers in the Republic of Ghana
Geographical Coverage/Country	The Republic of Ghana
Budget	SAR 11,250,000 ~ US$3.0 million
Source of Funding	The SFD

Supporting Member Countries Strategic Needs -Projects by IsDB

1- Eastern Africa Region's Dry Land Development Program in Uganda, Djibouti, and Somalia			
Title of Project or Activity	Eastern Africa Region's Dry Land Development Program in Uganda, Djibouti, and Somalia		
Start Date	Djibouti	Somalia	Uganda
Project Approval	April 1, 2012	May 30, 2013	December 1, 2012
Signing Date	March 19, 2013	June 1, 2014	December 10, 2013
Effectiveness	October 29, 2013	June 1, 2014	February 25, 2014
End Date	2018	2019	2019
Objectives	The project envisages to: (i) reduce the vulnerability of populations living in the pastoral regions in the program's areas and build their resiliency; and (ii) accelerate the achievement of the MDGs		
Outputs	Output 1: Support to livestock and dryland agricultural production and improvement to agricultural productivity		
	Output 2: Improved access to community health, nutrition, and sanitation		
	Output 3: Access and quality of education improved		
	Output 4: Improved access for rural infrastructure		
	Output 5: Community's businesses promoted		
Outcome	The program is aimed to produce the following key outcomes in the target areas: (i) increase in the level, diversity, and stability of household income and assets of target pastoralists; (ii) increase the participation for the community's businesses understanding and practice of the good use of natural resources; and (v) improved capacities and market education enrolment rate; (iii) improved community access and use of health services; (iv) improved community primary		
Link to AATB's Objectives	The program is highly linked with the AATB's intervention for strengthening livelihood assets and improving community access to basic services. Particularly in Somalia and Djibouti, the intervention is focused on improving livestock production, which is expected to contribute to enhancing livestock exports to the Arab region		
Implementation Unit	MU, together with PIUs that will be established in the following institutions of the respective beneficiaries' countries:		
	* Office of the Prime Minister and Millennium Promise Alliance in Uganda		
	*Ministry of Agriculture, Livestock and Fishery in Djibouti		
	*Ministry of Finance and Economic Development in Somalia		
Partners	Millennium Promise Alliance in Uganda		
	IGAD in Djibouti		
Geographic/ Country	Somalia, Uganda, and Djibouti		

2- Reverse Linkage Project between Guinea and Tunisia to Enhance the Value Chain for Exporting Agricultural Products:	
Title of Project or Activity	iagnostic Mission for the Reverse Linkage Project between Guinea (Recipient) and Tunisia (Provider) to Enhance the Value Chain for Exporting Agricultural Products
Start Date	April 28, 2018
End Date	May 5, 2018
Objectives	To assess the capacity needs of all stakeholders involved in the value chain for exporting agricultural products in Guinea, in preparation of a potential Reverse Linkage Project
Outputs	A diagnostic report and an action plan will be prepared
Outcome	Potentially, a Reverse Linkage Project that would enhance Guinea's exports of agricultural products
Link to AATB's Objectives	This project promotes information sharing on markets and the trade and investment regulations among the Arab and African states (members of the OIC); provides technical assistance to build human and institutional capacity in trade and investment; and might lead to enhancing business opportunities and access to trade finance and export credit insurance
Implementation Unit	Reverse Linkage Section, Country Strategy and Cooperation (CSC) Department, IsDB
Partners	ITFC; Trade Facilitation Office (TFO) Canada; Tunisian Ministry of Industry and Small and Medium Enterprises and the Exports Promotion Center; Tunisia Agency for Technical Cooperation (ATCT)
Beneficiaries/ Targeted Groups	Public and private sector stakeholders in the value chain for exporting agricultural products in Guinea
Geographic Coverage/ Country	Guinea (Recipient) and Tunisia (Provider)
Budget	US$ 13,000 for the diagnostic report, At least US$ 200,000 planned for the project as an IsDB contribution
Source of Funding	Reverse Linkage Section's Operational Budget for 2018

3- Reverse Linkage Project between Chad and Tunisia for Enhancing the Teaching of Arabic Language:	
Title of Project or Activity	Reverse Linkage project between Chad and Tunisia for Enhancing the Teaching of Arabic Language.
Start Date	May, 01, 2017
End Date	May 1, 2020
Objectives	The project aims at enhancing the teaching of Arabic Language, in the framework of the Policy of the Government of Chad to develop the Franco-Arabic Bilingualism.
Outputs	• The design and the implementation of the National Policy of Franco-Arabic Bilingual education and its operational strategies are enhanced;
	• The initial and the in-services training of the Franco-Arab bilingual teachers are Improved;
	• The design and development of the Arabic Curricula and Textbooks Are Refined.
Outcome	Potentially, a Reverse Linkage Project that would enhance the teaching of Arabic Language, in the framework of the Policy of the Government of Chad to develop the Franco-Arabic Bilingualism.
Link to AATB's Objectives	*This project promotes bilingual education which is one of the priority objectives of the Government of Chad,
	which considers Arabic and French as the official languages of the country.
	* bilingual education will contribute to facilitate trade and investment; and might lead to enhancing business
	opportunities and access to trade finance and export credit insurance.
	- By contributing to the project, Tunisia is realizing its South-South cooperation strategy – capitalizing on its
	expertise and know-how to help other member countries, particularly the sub-Saharan French-speaking countries.
	From the IsDB's perspective, the project is an efficient and effective way of improving South-South cooperation among its member countries, helping the Bank to realize its vision and 10-year strategic framework. It is also in line with Bank's Education Policy, which promotes Bilingual education.
Implementation Unit	Reverse Linkage Section, Country Strategy and Cooperation (CSC) Department, IsDB
Partners	• The International Center for Training of Trainers and Pedagogical innovation, Tunisia (CIFFIP), wich is the provider of expertise and know-how in the field of Arabic Language Teaching;
	• The Ministry of National Education and Civic Promotion, Chad (MoNECP), which is the main recipient of the expertise and coordinator of the project;
	• The IsDB is undertaking its facilitator role. It facilitates the smooth implementation of this project by providing among others financial support;
	• Tunisian Agency for Technical cooperation (ATCT) is the donor, which is financially contributing to the project
	on behalf of the Government of Tunisia.
Beneficiaries/Targeted Groups	Public and private sector stakeholders in the value chain for exporting agricultural products in Guinea
Geographic Coverage/Country	Chad (Recipient) and Tunisia (Provider)
Budget	• Government of <Chad>: US$ 130,000
	• ATCT <Tunisia >: US$ 250,000
	• Islamic Development Bank (IsDB): US$ 277,000 (grant financing)
Source of Funding	Reverse Linkage Section's Operational Budget for 2016

Projects by ICIEC

1- Providing an Insurance Cover to ITFC's Trade Finance Transaction with Egypt:	
Title of Project or Activity	Providing Insurance Cover to the ITFC Trade Finance Transaction with the Government of the Arab Republic of Egypt Represented by the Egyptian General Petroleum Corporation EGPC - Egypt
Start Date	September 8, 2016
End Date	May 31, 2017
Objectives/Outputs	To cover the Government of the Republic of Egypt represented by the EGPC
Outputs	US$ 100 million
Outcome	US$ 100 million
	Suppliers: OIC MC's
Link to AATB's Objectives	Beneficiary: The Government of the Arab Republic of Egypt represented by the EGPC
Implementation Unit	ICIEC
Partners	ICIEC – ITFC (Saudi Arabia)
Beneficiaries/Targeted Groups	The Government of the Arab Republic of Egypt represented by the EGPC
Geographic Coverage/Country	Saudi Arabia
Budget	NA
Source of Funding	NA

2- Providing Credit Insurance Cover to Aluminum Bahrain with Wispeco PTY:	
Title of Project	Providing Credit Insurance Cover to Aluminum Bahrain B.S.C.
or Activity	with Wispeco PTY LTD located in South Africa
Start Date	January 1, 2017
End Date	December 31, 2017
Objectives/Outputs	Supply of Aluminum from Aluminum Bahrain (in Bahrain) to Wispeco PTY (in South Africa)
Outputs	US$ 9 million
Outcome	US$ 9 million
Link to AATB's Objectives	Suppliers: Aluminum Bahrain B.S.C. – Bahrain -Beneficiary: Wispeco PTY LTD – South Africa
Implementation Unit	ICIEC
Partners	ICIEC – Aluminum Bahrain B.S.C. (Bahrain)
Beneficiaries/Targeted Groups	Wispeco PTY LTD (South Africa)
Geographic Coverage/Country	South Africa
Budget	US$ 9 million
Source of Funding	NA

Projects by Afreximbank

1- Supplying Electrical Meters in favor of the Government of Togo	
Title of Project	Euro 44 Million a supply agreement between major Egyptian Power Company and the Government of Togo for the supply of electrical meters
or Activity	
Start Date	March 2018
End Date	December 2019
Objectives	Togo is strategically located and could serve as a regional logistics hub for the trade of goods into neighboring countries and across Africa, while also boosting its services industry to become a major destination for recreational and health/medical tourism. The country's Vision, Dedication and Political Will combined with Afreximbank's financial and technical resources would enable Togo to accomplish this within a short timeframe.
Outputs	The electricity sector is a priority sector in Togo and it is urgently required by the country to install those pre-paid electrical meters by end of 2019 in order to better control the collection of electricity charges given the increasing limited capacity on staff and also given the country's plan to expand electricity distribution ascustomer base of the company and the company's part of its short/medium-term developmental plan
Link to AATB's Objectives	Promoting and Increasing Trade flows between Arab and African entities, Provide Capacity Building on Trade related issues.
Implementation Unit	Intra-African Trade Initiative
Partners	Afreximbank as Mandated Lead Arranger and Original Lender.
Beneficiaries/Targeted Groups	A major Egyptian Power Company as well as internal suppliers.
Geographic Coverage/Country	Egypt/Togo
Budget	Euro 44 Million.
Source of Funding	Afreximbank

2-Financing Power Supply and Installation Project between a major	
Egyptian Power Company and the Government of Angola	USD 501 Million Power Supply and Installation Project between a major Egyptian Power Company and the Government of Angola
Title of Project or Activity	December 2017
Start Date	November 2018
End Date	The Government of Angola has identified that power is critical in the economy's development priorities and that its availability will create an enabling environment for businesses to grow and for citizens to improve their living standards as sought under the Public Investment Program. The facility has supplemented the country's international funding efforts in a very critical stage, and that support from multilateral institutions like Afreximbank through the Egyptian Power Company has gone long way in assisting the country to meet its development targets.

Objectives	The supply and installation of specialized power generation, power transformer equipment and execution of projects in Angola
Outputs	Promoting and Increasing Trade flows between Arab and African entities
Link to AATB's Objectives	Intra-African Trade Initiative
Implementation Unit Partners	Afreximbank as Mandated Lead Arranger and Original Lender.
Beneficiaries/Targeted Groups	The major Egyptian Power Company as well as internal suppliers.
Geographic Coverage/Country	Egypt/Angola
Budget	USD 501 Million.
Source of Funding	Afreximbank

3- Supporting Manufacturing Exports between Tunisia and Africa	
Title of Project or Activity	Euro 65 Million global financing to support the manufacturing exports between Tunisia and Africa through a major Tunisian Corporate (Group)
Start Date	August 2018
End Date	August 2023
Objectives	To finance the Group's business development and internal growth represented in expanding their production facilities, renew old equipment for better productivity and cost reduction (industrial units), expand their distribution networks This transaction has assisted the Group in opening other international markets, particularly in Africa to diversify risk and increase Group turnover while also energizing intra-African trade, bearing in mind that the range of its business scope has gone well beyond Tunisian borders to Europe as well as other African countries, namely, Morocco, Algeria, Libya, Ivory Coast, Togo, Burkina Faso, Chad, Senegal, Mali, Mauritania and Sudan.
Outputs	Assisted the Group in opening other international markets, particularly in Africa to diversify risk and increase Group turnover while also energizing intra-African trade
Link to AATB's Objectives	Promoting and Increasing Trade flows between Arab and African entities, Provide Capacity Building on Trade related issues.
Implementation Unit	Intra-African Trade Initiative
Partners	Afreximbank as Mandated Lead Arranger and Original Lender.
Beneficiaries/Targeted Groups	A major Tunisian Corporate
Geographic Coverage/Country	Tunisia / Morocco, Algeria, Libya, Ivory Coast, Togo, Burkina Faso, Chad, Senegal, Mali, Mauritania and Sudan
Budget	Euro 65 Million.
Source of Funding	Afreximbank

Appendix 2

Importers	Select your indicators: Value exported in 2019 (USD thousand)	Trade balance 2019 (USD thousand)	Share in Turkey's exports (%)	Growth in exported value between 2015-2019 (%, p.a.)	Growth in exported value between 2018-2019 (%, p.a.)	Ranking of partner countries in world imports	Share of partner countries in world imports (%)	Total imports growth in value of partner countries between 2015-2019 (%, p.a.)
World	171,098,411	-29,560,185	100,00	5	2		100	5
Germany	15,381,332	-2,577,200	9,00	4	-5	3	6.May	5
United Kingdom	10,858,011	5,432,823	6,30	0	-2	5	3.Haz	2
Italy	9,284,652	675,083	5,40	9	-3	11	2.May	5
Iraq	8,975,943	6,458,877	5,20	2	8	63	0.2	2
United States of America	8,043,054	-2,965,244	4,70	7	-3	1	13.May	4
France	7,641,538	1,317,409	4,50	8	5	7	3.Mar	4
Spain	7,641,186	3,492,684	4,50	15	-1	15	2	7
Netherlands	5,417,984	2,354,878	3,20	15	14	6	3.Nis	7
Israel	4,355,860	2,631,164	2,50	13	12	43	0.4	6
Russian Federation	3,852,545	-18,520,899	2,30	8	13	21	1.Mar	9
Romania	3,833,761	1,363,758	2,20	10	-1	37	0.5	10
United Arab Emirates	3,516,011	-816,357	2,10	-11	12	26	1	-3
Egypt	3,317,060	1,830,474	1,90	2	9	42	0.4	3
Poland	3,309,783	831,803	1,90	10	-1	20	1.Mar	9
Belgium	3,239,328	96,671	1,90	10	-18	14	2.Şub	5
Saudi Arabia	3,182,185	1,267,821	1,90	-4	21	32	0.8	-3
China	2,587,298	-15,809,746	1,50	4	-11	2	10.Eyl	7
Bulgaria	2,527,645	211,337	1,50	10	-5	60	0.2	8
Morocco	2,291,963	1,701,515	1,30	15	15	48	0.3	9
Iran, Islamic Republic of	2,263,251	-836,836	1,30	-16	-5	67	0.1	-10
Free Zones	2,244,438	991,535	1,30	5	3	147	0.02	1

Appendix 3

KEY FINANCIAL INDICATORS OF PARTICIPATION BANKS AND THE BANKING SECTOR (Million TL - June 2020)*

FINANCIAL ITEMS		PARTICIPATION BANKS			BANKING SECTOR		
		June.20	**Dec.19**	**2020/June -2019 (change %)**	**June.20**	**Dec.19**	**2020/June -2019 (change %)**
FUNDS COLLECTED **	**TL**	113.574	91.145	**24,6%**	1.534.009	1.267.073	**21,1%**
	FC	121.015	106.533	**13,6%**	1.364.733	1.226.609	**11,3%**
	FC-METAL	37.142	18.305	**102,9%**	168.916	82.722	**104,2%**
	TOTAL	271.731	215.983	**25,8%**	3.067.658	2.576.404	**19,1%**
FUNDS ALLOCATED ***		207.273	149.475	**38,7%**	3.357.280	2.739.736	**22,5%**
NON-PERFORMING LOANS (GROSS)		8.302	7.763	**6,9%**	150.906	150.108	**0,5%**
TOTAL ASSETS		*364.449*	284.450	**28,1%**	*5.355.653*	4.491.708	**19,2%**
SHAREHOLDERS EQUITY		25.668	21.762	**17,9%**	557.745	492.384	**13,3%**
NET PROFIT ****		1.667	1.252	**33,1%**	30.873	24.896	**24,0%**
NUMBER OF STAFF		16.393	16.040	**2,2%**	203.658	204.626	**-0,5%**
NUMBER OF BRANCHES	**DOMESTIC**	1.191	1.176	**1,3%**	11.248	11.300	**-0,5%**
	OVERSEAS	3	3	**0,0%**	74	74	**0,0%**
	TOTAL	1.194	1.179	**1,3%**	11.322	11.374	**-0,5%**

*** Prepared according to BRSA's report.**

**** Funds collected from banks are excluded. Rediscounts are included.**

***** Non-performing loans are excluded. Rediscounts are included.**

****** Net profit is compared to the same month of the previous year.**

PARTICIPATION BANKS' SHARE IN THE OVERALL BANKING SYSTEM AS OF 30.06.2020