

# **Comments of**

**Murat Cizakca\***

**on**

**An Evaluation of Special Finance Houses:  
A Case Study on Turkey**

**By Savaş Alpay**

## **1. Overall Impression:**

This is a highly informative and welcome paper on the latest developments in the Turkish Islamic bank sector. While I learned considerably from the paper, it suffers a basic weakness: it does not provide sufficient evidence for the many arguments of the author. If the author can do the further research necessary and provide the evidence, the paper would benefit considerably. Moreover, certain sections with long quotations can be deleted.

## **2. Assessment**

In the abstract, the author states that studying Turkey's experience in Islamic banking would be important for countries considering to make a transition towards an interest free system. This is because such a transition will not be abrupt but gradual. Therefore studying the co-existence of the interest based and interest free systems in Turkey is important. While there is no denying the importance of studying the Turkish co-existence, Turkey does not provide the sole example. There are other Islamic countries, where a co-existence of interest based and interest free financial systems is a fact of life. If Turkey has any particular importance, the author should explain it.

Paragraph starting with: "In Turkey, the overall..."

Here the author argues that "in Turkey, the overall volume of the banking sector is very low, and is less than what it should be as compared to similar countries in the developed world". A table providing the pertinent international data supporting his argument would be appropriate here.

In the same paragraph he also says that the MPS of the Turks is not high. Once again, a more precise figure should be provided and if possible be compared with the saving propensities of other nations. Moreover, he says that much of these

---

\* University of Bahcesehir, Faculty of Management, Osmanpasa Mektebi Sok., Ciragan Cad., Istanbul, Turkey, E-mail: mcizakca@gmail.com

savings are in the form of foreign exchange holdings. Since these holdings are also deposited in the banks, one wonders if they are part of the 14%, i.e., the share of the deposits in total savings.

Paragraph starting with: “There are different reasons...”

Here the author is referring to the crowding-out effect. It would be very useful if he could quantify his argument. What exactly is the size of this crowding out-effect and how does it stand when it is compared with other countries?

Paragraph starting with: “The operations of ...”

Here the author states that the “operations of the special finance houses are based on interest-free system”. Everyone in the field knows that this is only half true. It is well known that the *murābahah* investments, which dominate the investment portfolio of Islamic banks, come uncomfortably close to the ordinary interest. The author should therefore use a more careful language. He should also provide the *murābahah*-total investment ratio of each major Islamic bank.

Paragraph starting with: “A) Corporate Services”

While describing the financial instruments utilized by the Turkish Islamic Banks, the author should make clear how they relate to the better known Islamic financial instruments such as the *murābahah* or the *mushārahah* etc.

Paragraph starting with: “Other most commonly...”

Not all the readers may be familiar with financial jargon. The author should therefore explain in a footnote what “avalization” means.

Paragraph starting with: “In different parts of the world...”

Here the author talks about the many conventional banks that went bankrupt in East Asia during the 1997 crisis and in Turkey during the 2000-2001 crisis. The names of these banks should be provided in a footnote. If this is not possible, at least the number of banks that went bankrupt in East Asia should be provided.

Footnote 4:

Consider the sentence segment: “...banks is limited and for deposits...”. “For” should be deleted.

Paragraph starting with: “A second ...”

Here the author argues that the Turkish Islamic banks are less prone to the exchange rate risks. He should substantiate his argument by providing data on the relative foreign exchange holdings of the Islamic and conventional banks.

Paragraph starting with: “The superior...”

Here he refers to the upper limit of warranty for an individual’s deposit at a specific bank. What exactly is this upper limit? He then argues that since an

individual can divide his savings among different banks so as to remain within the limit and enjoy full warranty, the limitation should have been based on individuals and not on the banks. If the government of Turkey agreed with the author and applied his suggestion, wouldn't the new policy lead to a flight of capital from the banking system?

Furthermore the author argues that “the warranty fund from each Islamic bank generates an additional burden for them, and essentially forces them to finance the loss of their competitors had they gone bankrupt.” On the face of it it is difficult to agree with the author, because the state has created two warranty systems, one for the Islamic banks and a separate one for the conventional ones. The latter also pay a certain proportion of their deposits to the Turkish Central Bank. If the author wishes to argue that the warranty burden imposed upon the Islamic banks is too heavy, then he should substantiate his argument by providing data on the relative burden of the warranties imposed upon the two systems. Actually his argument would gain further strength if he were to focus instead on the very nature of the deposits. A conventional bank promises to pay to the depositors their principal plus the rate of interest, hence the need for Central Bank warranty. By contrast, an Islamic bank signs essentially a *muḍārabah* contract with each depositor and is therefore not obliged to pay back the principal in case of crisis. Under these circumstances, actually Islamic banks should not need to contribute to any warranty scheme at all. Only if viewed from this angle, the author's argument that “the warranty fund from each SFH generate an additional burden for them, and essentially force them to finance the loss of their competitors had they gone bankrupt” makes sense.

Paragraph starting with, “Another disadvantage...” and the footnote 5:

The *ijārah šukūk* and *salam šukūk* should be briefly explained in this footnote. Are these instruments really interest free? Being Turkish, one would have expected that the author explain and suggest the so-called *Gelir Ortaklığı Senetleri* (GOS) applied by the Turkish government under Turgut Ozal. These GOS bonds were the modernized versions of a much older instrument. Indeed, the Ottoman state had successfully utilized ever since 1774 government bonds without interest called the *esham*. The author would benefit if he read the following sources on *esham*: Mehmet Genc, “Esham”, *İslam Ansiklopedisi* (Ankara: Diyanet Vakfı); Murat Cizakca, *A Comparative Evolution of Business Partnerships* (Leiden: Brill, 1996) and Pinar Akkoyunlu, “Osmanlı Maliyesindeki Esham Senedinin Günümüzdeki Uzantısı: Gelir Ortaklığı Senetleri”, *Sosyal Bilimler Dergisi*, Mayıs 1994, c. I, no. 2, 76-85.

#### *Section 4: Comparative Performance...*

The author has summarized in detail the recent work by El-Gamal and Inanoglu. This is not appropriate for if we are interested in these works we can read them

directly and do not need the author. What would be much more interesting is what the author thinks about these works. Therefore much of pp.10-12 may be skipped.

Paragraph starting with: "It is clearly observed..."

The author needs to explain, at least in a footnote, the great discrepancy in the loans-to-total assets ratios. Not every reader may realize that he is actually referring to the crowding-out effect.

Paragraph starting with: "From another perspective..."

Excellent point.

Paragraph starting with: "Another interesting experience..."

The section below "Currently the government..." is repetitive.