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TKBB

Participation Finance Standards

Standards No: 2

TAWARRUQ

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Contents of the Standard

This standard contains the nature of tawarruq, its types, and the Islamic provisions that need to be taken into consideration in transactions.

1. Definition and Types of Tawarruq

1.1. Tawarruq refers to the sale of a commodity purchased on a deferred basis to a third party in cash and generally for a lower price to obtain cash. By this definition, tawarruq differs from bey'û'l-îne (sale and buyback) transactions since the purchased commodities are transferred to someone other than its first seller. Because in sale and buyback transactions, the commodity sold on a deferred basis actually returns to its first seller in cash but with a lower price. Based on the definition above, tawarruq can also be called classic tawarruq, simple tawarruq, or fixed tawarruq.

1.2. Apart from them, there are other tawarruq applications today such as murabaha-based tawarruq/commodity murabaha and reverse tawarruq (et-teverruku'l-aksî). Generally known as organised tawarruq (et-teverruku'l-munazzam), these applications differ from classic tawarruq by their nature and command.

1.3. In organised tawarruq, the participation bank sells a good that it usually purchased in an international market to its customer, usually on a deferred basis and by adding profit, at the request of the customer in need of cash, and then sells this good in cash through another intermediary in the same market as the representative of the customer. In this short-term transaction, the customer obtains the cash it needs and owes to the institution that sells the good on a deferred basis and at a higher price.

1.4. In cases where the participation bank itself is in need of cash and provides financing through similar transactions, it is named reverse tawarruq. In this case, the customer, who is the financial provider here, gives wakala to the participation bank to buy a commodity in his name; and the participation bank, acting as the proxy of the customer, sells the commodity to himself that it has purchased in cash for the customer on a deferred basis by adding profit or directly purchases it from the customer. Then the goods are sold one more time in the same market through a different intermediary. These transactions can be carried out between the participation bank and its individual or corporate customers, and also between the two participation banks.

1.5. The reason why these transactions are called organised tawarruq is that instead of the natural transaction stages of classic tawarruq, the organized tawarruq stages are based on collusion and fiction, instead of real exchange, and they are conducted within an interconnected and predetermined organisation.

2. Provisions of Tawarruq Applications

2.1. Classic tawarruq is permissible by its nature. However, in order to be called "classic tawarruq", it needs to meet the following conditions in addition to the general requirements of legitimacy regarding the contracts:

- 2.1.1. The commodity should be fit for deferred base sale, so it cannot be gold, silver, or money;
 - 2.1.2. The commodity must be existing and defined at the time of the contract;
 - 2.1.3. Contracts must be independent of each other and away from collusion;
 - 2.1.4. The commodity must be collected and received by the customer in real or legal terms;
 - 2.1.5. The commodity cannot return back to its first owner through fictitious transactions.
- 2.2. In order to call a participation banking transaction tawarruq, the person who purchases goods on a deferred basis needs to sell those goods without including their first owner or the participation bank in any way.
- 2.3. Classic tawarruq cannot be regulated or marketed as a standard investment and financing method that will lead to the same results as the organised tawarruq.
- 2.4. Organised tawarruq is not permissible. This transaction can only be applied when structuring the debts that arise as a result of fund extension and to meet the liquidity need of the participation bank until the regulations that make it possible to apply the classical tawarruq, or alternative legitimate methods are developed. It is essential for participation banks to first meet such needs with other products (opening participation accounts, sukuk, etc.) offered by participation banks. If it is not possible to utilise such products; however, the tawarruq transaction should be made with another participation bank first.

Sharia Bases of the Provisions

1. Sharia Bases of Provisions Regarding Classic Tawarruq

The classic (simple), non-fictitious tawarruq transaction, made by the parties for the purpose of providing cash, and referring to the real purchase and sale of a real commodity, has been accepted as permissible by the majority of scholars. In that transaction, the fact that there is a real commodity subject to the exchange, that the ownership is transferred to the purchasing party with the contract, and that there is no precondition or agreement for the said exchange have all been effective in acknowledging the transaction as an exchange contract based on real trade.

In order to have a permissible tawarruq transaction, the commodity subject to the purchase should not be returned back to its first seller through fictitious transactions. If an arrangement is made to return the goods to its first seller, then it will be a sale and buyback transaction. Sale and buyback transactions, on the other hand, refer to the exchange of goods that is not actually intended to be traded for cash supply, for the

reason of avoiding interest, and such a transaction is not permissible since it would be an interest fraud.

Due to Islamic law's sensitivity regarding interest, certain goods need to be sold in cash. Because of this, goods to be purchased on a deferred basis must be suitable for sale on a deferred basis. The tawarruq transactions also need to meet the general criteria regarding contracts.

2. Sharia Bases of Provisions Regarding Organised Tawarruq

The type of tawarruq applied in certain financial institutions through organised markets today, greatly differs from classic tawarruq transactions which are essentially accepted as permissible. In the organised tawarruq transaction in question, the fact that there is no aim to conduct a real exchange, that cash is obtained through an additional borrowing in return for maturity similar to interest by making only some fiduciary transactions on the goods subject to the exchange, that the participation bank sells the commodity again in customer's name in cash which it has already sold to the customer on a deferred base before, and reasons like all these processes have been preplanned, all render the transaction closer to sale and buyback transaction, which is not accepted as permissible by the majority of Islamic scholars. On the other hand, this transaction shows major similarities to the interest-based loan applications of conventional banks in terms of its goals and results. Hence, it is contrary to the fundamental principle of participation banking, which is to take real trade and investment as its basis and to abstain from interest.

Participation banks can perform classic tawarruq transactions in necessary cases without compromising from its principles. However, they should abstain from organised tawarruq, the process of which takes place as a set of predetermined fictitious transactions. When tawarruq turns into an organised tawarruq, it will violate the participation banking standards and principles that are based on interest-free grounds. In this regard, such a transaction cannot be marketed as a standard product.

Today's organised tawarruq transactions are not permissible as they do not contain the criteria sought in classic tawarruq. This is because the transaction set in question here leads the transaction into the forbidden sale and buyback. Even in some cases, since there is no real sale contract, this transaction becomes an interest-bearing loan. Such transactions can only be permitted for two reasons and under certain restrictions until permissible methods are found and regulated. One of these reasons is the restructuring of the debts that cannot be paid and the other is the liquidity problems of participation banks. The principle "necessities render prohibited things permissible," states that an operation that is not essentially permissible can be carried out in such necessary situations. However, such fundamentally impermissible transactions need to be restricted only to the minimum amount necessary due to the principle that "necessities are appreciated by their own amounts." Relevant public authorities can determine the

limits to be imposed on the tawarruq transaction rates that can be permitted as needed in these two areas, taking into account the conditions of the bank in question and the real economic situation.

Participation banks with liquidity needs must try products such as participation accounts, sukuk, etc. provided by other participation banks first. They could then opt for tawarruq if these products would not suffice them.

In a tawarruq transaction due to a liquidity need, the other party should ideally be another participation bank. Aiming at generating solidarity between participation banks, this permission must be restricted to only meeting the needs of a participation bank.

It would not be right to divide organised tawarruq into stages fictitiously and only refer to it as "commodity murabaha", "murabahah", etc., which constitutes only a part of the transaction. For it is misleading in that it gives the impression that the transaction is murabahah, not tawarruq.

It is contradictory to the principles of participation banking to include the tawarruq application in many transactions and try to build the system over tawarruq. For this reason, it would be appropriate for decision-makers to develop necessary regulations and work on developing markets in which buyers and sellers can come together to perform actual exchange transactions to use the classic tawarruq transaction only when necessary and other possible alternative methods.

Allah knows the best.

DISSENTING OPINION

It is the dissenting opinion for the Tawarruq standard of the TKBB Advisory Board dated 4.10.2019.

Tawarruq is a transaction in which a person in need of cash purchases a commodity on a deferred payment basis, sells it to a third party in cash, receiving money in return. Participation banks are established not only to make money, but also to finance real trade, make partnerships and investments, and support production. It is understandable to some extent that these institutions make classic tawarruq transactions for their own cash needs. However, intermediating tawarruq transactions for the cash needs of others would drift them into risk-free and labour-free gain, liken them to interest-based banks, and place them in a position where they extend the interest-bearing loan. In any shape or form, intermediating tawarruq transactions would keep participation banks stray from their fundamental reasons of establishment and may corrupt them, rendering them similar to interest-based banks.

Current Situation and Its Dilemmas

One of the most significant issues that participation banks face in the process of continuing their activities with their own principles is the inability to collect their receivables from funding on time. They have not found a legitimate and permissible solution to these non-performing receivables yet. And the inability to come up with a solution to this problem makes matters further complex and profound. So much so that, the delay in collecting receivables negatively affects the debt-paying behaviours and attitudes of the customers and makes participation fund customers and participation banks suffer from the consequences.

At first, participation banks decided to facilitate the debtor's transactions for delayed receivables, and "not to impose any surplus". However, this further weakened the ability of customers to pay their debts and even encouraged them indirectly not to make a payment. This led to losses for participation fund customers and participation banks. Time showed clearly that this is not a solution at all.

Later, the options of "converting those delayed receivables into foreign exchange" or "converting them into gold" were put into practice as a solution. However, this created serious uncertainties between customers and participation banks, and excessive increase or decrease in foreign exchange or gold affected both parties adversely in different ways. So, it turned out that this is not a proper solution either.

After some trial and error, "tawarruq transactions" arose as a solution for non-performing receivables. However, despite the important and permissible functions of the classic tawarruq in its own historical course, it has, over time, evolved into a quite controversial place. Reasons such as excessive competition, pressures to reach targets, money-making ambitions, etc. have pushed these institutions and their employees to a point of no control. This situation lead to the degeneration of the system excessively through licenses and fallacies. So, organised tawarruq, which seemed to bear the classical tawarruq conditions came on top of the agenda and it occupied the sector as if this was the only solution. What is even more thought provoking other than its institutionalisation is that organised tawarruq has become more profitable and advantageous compared to other funding methods, and more costly and disturbing for customers in need.

One thing is clear: the spread of easy, fast, cost-free, and labour-free tawarruq transactions stray participation banks from their core principles, likening them to interest-based banks. This gets ahead of one of the most important characteristics of these institutions: their contribution to the real sector and their production encouragement. However, participation banks were not only established to make money, but they were also established to encourage production, be the driving forces of the economy, and develop it.

Before we dive into the differences between classic and organised tawarruq, we should take a look at the etymology of the word tawarruq and its evolution in history. The meaning of tawarruq, which comes from the word verik (silver), is actually to ask for silver and get money. However, its meaning has expanded over time, and any kind of cash demand started to be called tawarruq.

A classic tawarruq transaction goes like this: Provided that they follow the contract conditions, a person in need of cash, first; purchases a commodity to obtain cash on a deferred basis, and secondly; sells it to someone other than its first owner, a third person in cash. Thus, the person with cash needs meets them by making money. This transaction is mainly regarded as permissible by Islamic scholars. Since the commodity purchased on a deferred basis is sold to a person other than its first owner, it is not considered an impure transaction.

However, a process that started out on the basis of good faith and the permissible classic tawarruq led to organised markets in time, making organised tawarruqs seem like the only solution. Thus, participation banks were somehow pushed to carry out organised tawarruq transactions from the London metal exchange for different conditions and reasons. And such transactions started to be used more and more. However, in this transaction that seems legitimate but is not actually real or commercial, the commodity purchased on a deferred basis returns to its first owner after a series of processes and records, leading to a kind of interest-bearing cash finance.

The implementation of organised tawarruq goes like this: Upon the request of the customer in need of cash, the participation bank first; Purchases a commodity usually from an international market in cash, secondly; Sells this commodity to the customer by adding profit, thirdly: Sells this commodity in cash through another intermediary in the same market as the proxy of the customer, and fourthly; With this advance payment, the delayed debt of the customer is closed, and the customer is re-debited with the new and increased amount created by the maturity difference; so to speak, the debt is restructured.

The customer's delayed debt is extended by adding to it, and the customer gains time. But there is one thing very important here: Even if the commodity purchased through the first intermediary seems to be sold through another intermediary, the price of this commodity, whose price is constantly changing in the real market, is fixed that day, and the commodity is exchanged with the money paid between the first and second intermediaries in the evening, so both intermediaries are carried to the next day over the morning price. Moreover, it is not exactly known whether the owners of these intermediaries are the same. In this short-term transaction, the customer obtains the cash it needs and owes to the participation bank that sells the commodity on a deferred basis and at a higher price. Although the party in need of cash is the customer in this process, all the transactions are carried out by the participation bank that will provide the financing.

The questionable thing here is that participation banks extend new funds to customers that they normally would not extend any funds since they do not pay their debts in time (because

participation bank is the one who sells the commodity purchased in cash to its customers on a deferred basis).

The difference is quite clear; while it is the customers themselves who conduct the tawarruq transaction for their cash needs in classic tawarruq while in organised tawarruq, this role is assumed by the participation bank. What commercial purpose does it serve for the participation bank to purchase and sell the commodity for someone else to make tawarruq a transaction, in a way, to act as an intermediary for cash loans? It is one thing for a person or institution to make a tawarruq transaction for their own cash needs, and it is another thing for a participation bank to act as an intermediary for its customers in need of cash, and to turn it into a product. In such a case, participation banks, whose main business is real trade, investment, and partnership, will become like interest-based banks by intermediating the cash financing of customers such as interest-based banks. While financing goods is understandable to a certain extent, it will be hard for participation banks to maintain their core values if it turns into financing cash.

Whether it be classic or organised under classic conditions, tawarruq transactions are, in any way, quite parallel with the interest-based loans of conventional banks, and they are one of the products that are closest to interest. Just for this reason alone, it is not appropriate to mediate tawarruq transactions in accordance with the Islamic principle of "Avoid suspicious deeds". Tawarruq transactions will always be similar to interest-based transactions in any shape or form. And it does not seem to change over time.

In addition, we see participation banks choosing to conduct organised tawarruq transactions for their own liquidity needs. However, the transactions here are conducted by the participation bank in need of financing, rather than the institution that provides the fund (can be a participation bank or a conventional bank). In this application, the institution providing the fund gives wakala to the participation bank to buy goods in its name, and the participation bank, acting as the proxy of the institution, sells the commodity that it has purchased in cash to itself on a deferred basis by adding profit and sells it back in its original market through another intermediary. While these transactions are done when the participation bank needs funds for liquidity management, it can also be done to make use of the funds when there is a surplus of it.

In reality, there is no exchange of real goods in organised tawarruq. Instead, what happens here is that a united contract is made with a single will by making it look legitimate on the surface, leading to an image of interest-bearing and fraudulent loan transaction. To tell the truth, organised tawarruq ceased to be a true tawarruq transaction, and just like the saying "bad money drives out the good money", permissible and appropriate products are pushed into the background, sabotaging the future of the system. This is also not acceptable in terms of the system's own authenticity nor in terms of its "interest-free principle". As the goods subject to the exchange return back to its first owner eventually, the transaction becomes objectionable by virtue of the principle, "Allah has made exchange halal, but interest haram". Organised tawarruq, which seems to be the solution now, is far from being an acceptable solution in any form and shape, but merely an eyewash and deception.

In summary, classic tawarruq is permissible. However, it is only permissible provided that the customer in need of cash does this in a natural market in accordance with the Islamic rules. And it is not permissible for participation banks to do classic tawarruq, see it as a way of making money, offer, or market it as a standard product. It can also never be permissible for these institutions to perform organised tawarruq transactions in the London metal exchange.

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Moreover, it should be remembered that organised tawarruq in London is not made directly on the London metal exchange, it is a fiduciary transaction performed outside. We cannot render it legitimate. It would not be the right attitude to take shelter behind the principle that "Necessities render prohibited things permissible and are appreciated by their own amounts" and to try to render it permissible.

We must underline one thing here: Although it seems to solve the issue to try to perform organised tawarruq based on permissible classic tawarruq transactions, it is not the right option in our opinion. Because it would not do anything but degenerate the process to try to conduct organised tawarruq as if it were classic tawarruq. So much so that, intermediaries in this matter will take immediate action, establish the necessary infrastructure somehow, and instead of real exchange, we will have a series of operations that only "seem" to comply with the Islamic law when in fact they do not. However, our job is not "making transactions adapt to the Islamic law but conducting transactions that are already in line with the Islamic law."

Moreover, if a real exchange is to be carried out, the markets may become susceptible to manipulation due to large-scale transactions. This will damage the image, perception, and reliability of participation banks whose main function is financial services as reliable institutions. On the other hand, since organised tawarruq is only made to look similar to classic tawarruq in transactions, the legitimacy will be damaged with non-real and non-trade transactions. Obviously, the organised tawarruq transaction that participation banks will do by likening it to classic tawarruq as we talked about will not only harm these institutions but will also damage their future. In both cases, institutions will lose their abundance, the sector will get a severe blow, and existential problems will increase.

And the claim arising from time to time that participation banks need to perform tawarruq transactions to meet the needs of their customers in order not to sin for expenses to interest-based banks is not convicting. We must remember: Participation banks should try to meet the needs of their customers with investment and financing methods such as capital partnership (musharakah), labour-capital partnership (mudarabah), cost-plus financing (murabaha), leasing, etc. that are in line with their principles and standards. They do not have to cater to every need of their customers, and they need to always conduct their activities within the framework of the "interest-free principle", which is their golden rule in any situation.

The task of participation banks is to develop new and inclusive products that will open new doors through innovative and creative processes and offer such products to every segment of society. Therefore, it would not be appropriate for these institutions to reproduce the products of interest-based banks in their own fields and present them to the public. In this case, participation banks could only be a bad replica of interest-based banks, would further strengthen interest-based banks since "each copy will strengthen the original", and would destroy themselves in the long term.

We should, once again, talk about our philosophy here:

The Participation Philosophy: Human Beings Exist with Their Labour

The world was created for humans. Humans are the most valuable beings in this world. Each person is equal with others regardless of their qualities whether it be race, language, religion, sect, sex, colour, title, position, etc.; each is unique and single. Fundamental rights and freedoms are God's grace to humankind. Any kind of intervention to these gifts under any name or justification whatsoever is an intervention to humans, rights, justice, nature, and shirk.

It is the most natural right and duty of everyone to benefit from the blessings of the world and to participate in this process. The rights of those who do not use them are protected. The principle of "Humans only exist with their labour" refers to this philosophy. This is exactly God's attribute Rahman, which means God's mercy. These all are a clear sign that we should live with the "participation philosophy" that is built on innate partnership and labour. The "participation economy" built on the participation philosophy and the Islamic economy is one of the rare ways of establishing a new world.

The course of humanity and the world is obvious. Humanity is now suffocated by the pressures of materialism and modernism, distanced from its nature/disposition, despite the principle of "Don't turn into states with the goods circulating among the hands of the rich", the whole world is enclosed as someone's property, generations and cultures are spoiled, and now everyone and everything needs a new climate that they can really breathe in. The flag of humanity is almost underfoot.

Humanity has two strategic paths to choose today: We will either try to find ourselves a place in the modern world of global capitalism, or design and build a new world based on truth, Koran, and Sunnah. In other words, either keeping up with the era, the world and modernism or reawakening with the truth, arising from the true humanity. It is clear that the second one will benefit humanity.

In this context, although the participation and partnership-based economy, which is a way of Islam and the Islamic economy that arose from it, seems difficult to implement today, the approaches and processes leading to it should always be our priority, and we must keep our hopes high no matter what. We must remember that achieving the full interest-free nature of the transactions will pave the way for an economic system based on morality and justice, and it will raise the flag of humanity one more time, which has long been underfoot.

With all that being said, what participation banks need to do here is not to adapt their transactions into the Islamic law, instead, they need to perform transactions that arise from the Islamic law. The main duty of these institutions is not to look like interest-based banks, not to imitate their products in some way or other, but to pioneer a new humanitarian world economically in light of the hope that "a new world is possible" and "interest-free principle", which is one of the fundamental testaments of Koran and Sunnah. We need to create new areas for humanity to breathe, which has long been suffocated by global capitalism.

In this respect, the whole ecosystem needs to address the issue of interest immediately and bring a new definition to interest through the means of classic fiqh. At this point, we need to clearly identify at first what interest is, which transactions and processes create interest using its background and historical experience, and immediately put forward the "interest-free principle standard", which should be the first priority of participation banking principles and standards.

Participation banks cannot focus on providing cash according to their principles. Rather, they should prioritise participatory processes that add value to humans, rendering them active, encourage real production and investment, and develop trade.

Moreover, solving a problem of Islamic countries through the London metal exchange means, in a sense, declaring its own inadequacy and promoting the market there. Paying commission to others can further strengthen them and weaken ourselves.

Meanwhile, establishing a domestic market similar to the London metal exchange to perform this function internally as an alternative seems relatively good, but not fully sufficient. Because we may face a process that will push the limits of, or even trample on the real and classic *tawarruq*, and such initiative can further institutionalise an application that is already questioned for its legitimacy. Moreover, creating a domestic commodity market that will meet the needs is extremely difficult in terms of the country scale. Additionally, the fact that participation banks enter the food commodity market in this way (exchanging especially essential food needs such as wheat, barley, etc.), can lead to distorted and incorrect interpretations, further defaming the reputation of these institutions.

Such a problem can only be solved with the involvement of the state, and furthermore, with the coordination of Islamic countries, and especially with the active central banks. Arrangements and transactions to be made within this framework must be strictly interest-free, legally permissible, and take into account the economic facts. But we need time, foundation, and suitable conditions to achieve that.

Therefore, it is essential to find new and legitimate solutions and make new initiatives in order to overcome this issue and pave the way for participation banks. We offer two pathways here:

1. A New Method for Restructuring:

Penalty and Solidarity Fund

We must make something clear first: For participation banks to carry out their activities fully and legitimately in line with the interest-free principle, the Islamic economic system is required, and the participation economy based on that needs to be applied holistically. Because a participation economy aiming for the three main foundations of the economy, which are efficiency in production, justice in sharing, and austerity in consumption, is the only alternative for the new and just world that embraces the entire humanity and advocates everyone's rights to benefit from the blessings of the world. This system will be based on morality, justice, equality, and participation.

However, it has become a necessity to find a legitimate and appropriate solution to the problem of non-performing loans, which has become very difficult to manage in participation banks under current conditions. We need to develop a unique restructuring method at this point.

We are now at a point in history where we stopped using gold and silver as coins in the market and turned to gold-based cash money. However, cash money has no connection to gold at this point. In this respect, it is extremely normal to question the relationship between interest and inflation, which reveals the general purchasing power of society under numerous items. At this point, in the event that a loan contract is made in money in environments with inflation, it is permissible to determine during the contract that the repayment of the debt will be indexed to the inflation difference that will occur in the maturity period. Therefore, it would be fairer to decide that the depreciation due to inflation will be paid during the period until the maturity date, it would not stipulate an unrequited excess. The opposition of that, namely, not preserving the purchasing power of the debt may lead to negative interest.

Participation banks can provide convenience to their customers who are in trouble within the framework of benevolent loans for non-performing receivables. So, we will be able to collect the debts indexed to the inflation rate to preserve the purchasing power. However, it may not be a complete solution because it weakens the payment attitude and behaviour of the debtors.

Participation banks may apply the following method for customers who cannot pay their debts resulting from providing financing only in necessary cases where they need restructuring:

For customers who cannot pay the debts of the funds they receive, the participation bank can restructure the debt over the average fund extension rates it applies to normal customers at that time, assuming that the participation bank collects its delayed receivables in order to compensate for the damage it has been inflicted. However, to preserve the legitimacy of that transaction, a contract should be made based on mutual consent at the beginning of the funding transaction that contains the said penalty cause.

Thus, the participation bank, which is a commercial enterprise, after all, is prevented from interruptions in its main business, from the recurrence of such transactions, and from a risk to their existence. In this way, the customers are prevented from damaging the participation bank in cases where they do not/cannot pay their debts to the participation bank. And participation banks are also prevented from abusing this and turning it into a profit mechanism ((because they also have their faults by not showing the necessary scrutiny, diligence, and prudence). In addition, the collection above the inflation rate of the receivable is also transferred to society.

Based on the fact that the debtor cannot pay the occurring debt when it is increased with the inflation rate and other additions, it will bring abundance to give them to debtors in real trouble in line with the principle of "If the debtor is in trouble, give him time until he gains his money. If you know, it is better for you to donate as a charity."

Required Conditions

In order for the full, just, and complete implementation of this method with its legitimacy based on solid foundations, the following should be considered in terms of the responsibilities of both the customer and the participation bank:

1. At the beginning of the fund transaction between the participation bank and the customer, it must be added in a contract based on mutual consent that if the debts arising from the funds lent are not paid on the specified dates, a transaction (restructuring) including the penalty clause in accordance with the following criteria will be imposed. In addition, an article should be included in the penalty clause stating that a certain amount or a certain proportion of the debt taken by the participation bank will be spent on charitable works, and the participation bank cannot benefit from this amount to be allocated to charity.
2. For customers who cannot pay their debts of funding, the current "average fund extension rate" of the relevant participation banks should be chosen in restructuring to achieve better and more proper ways of doing business and to encourage them to pay their debts. This is because the customer could not pay his debt, thus causing losses to both the participation bank and the participation fund account owners. Therefore, the customer must compensate for the damage incurred and pay for it (pay the price, so to speak).
3. In this respect, in order for the participation bank to do its job more meticulously and responsibly, it should collect the part of the current average fund extension rate equal to the "inflation rate" (Inflation Turkish Lira: ETL) as receivable and include it in its accounts. It can charge the customer the actual transaction cost if any.

4. Participation banks should transfer the difference between the inflation rate and the average fund extension rate to the "penalty and solidarity fund". Because the debt that could not be paid by the customer has now turned into a normal debt, giving the customer a maturity, and a kind of benevolent loan as of that moment. Therefore, collecting an amount above the inflation rate against the debt that is not paid on maturity by the participation bank contradicts the principles and standards of participation banking. It has been allowed to get the amount limited by the inflation rate in order to preserve the purchasing power of the money.
5. This penalty and solidarity fund should be established only for this purpose and should be used as a social responsibility to improve the lives of people with real needs. And it must be managed by the Participation Banks Association of Turkey (TKBB). Here, we can make cooperation within the boundaries of justice and legitimacy with public aid and solidarity institutions such as Red Crescent, etc. to increase the effectiveness and efficiency of the penalty and solidarity fund.

Benefits

This method will provide the following benefits for participation banks to perform sound activities:

1. This method creates the basis for clear and open transactions to the parties, away from any kind of uncertainty since it will be binding with a contract at the beginning.
2. With this method, customers who receive funds from the participation bank are encouraged to pay their debts on time, and they know that they will bear the results if they do not.
3. In addition, the participation bank will be prevented from taking advantage of the situation and seeing it as an opportunity when customers cannot pay their debts.
4. In this way, both the customers and the participation bank will have better and healthier management by taking responsibility for their actions.
5. On the other hand, participation fund account owners are largely prevented from falling victims to the above-mentioned issues and from losing their faith and confidence in the participation banking system.
6. In this way, the ecosystem will be further reinforced when customers, who are a part of the ecosystem, participation banks, administrators, and employees as well as the entire society can benefit from the penalty and solidarity fund.
7. At the same time, participation banks will further improve their social images and the hopes for the system by taking their own responsibilities and showing moral conduct, instead of taking advantage of the customers in trouble.
8. It will also contribute to solving the prioritised problems in the social structure and pave the way for socialisation, solidarity, and living together in harmony.
9. Participation banks will be able to help increase the faith in the system, enhance its reputation, and perception by taking an active part in solving social problems.

2. A New Method for Liquidity Management:

Benevolent Loan

Another important problem of participation banks manifests itself in liquidity management. It is the management of assets that are expected to be converted into cash at any time without losing too much of their value. Participation banks are expected to balance their cash and assets that can quickly turn into cash for both their entry and exit and their positions in order to perform their activities effectively and efficiently and to demonstrate a management skill that will protect them and carry them into the future within this framework.

It is essential for participation banks to find a solution to the liquidity management problem together and resolve it with solidarity. Because they need to solve their liquidity issues among themselves first, just like all their other issues. It should be noted that if individuals and institutions with certain values continue their lives with solutions in line with those values, they will have their *raison d'être* with conscious hearts and always remember their responsibilities. At this point, we can consider the principle that "Who is it that would loan Allah a goodly loan so He may multiply it for him many times over."

The benevolent loan is one of the most important elements of our religion. It is the act of giving loans regardless of any material interest and only to gain the approval of Allah and to relieve people's distress. In short, the benevolent loan is the act of giving a loan to those in need for the grace of Allah. It is given to ease the way for the debtor. In other words, the benevolent loan is the act of giving a nice loan and collecting it in a nice way. No justification and excuse can be propounded under any name of interest, profit share, delay interest, etc. to receive a surplus in exchange for the benevolent loan. The benevolent loan is often considered more important than help or charity. However, it has never been fully understood or implemented in its real worth. We need to overcome this and reach out to people with this principle. The benevolent loan is one of the most important economic solidarity practices that humanity needs today. It must be our priority to establish a system in which it can thrive, be alive, and inspire hopes in the hearts of the people.

And let's address the issue in this framework then; I suggest that participation banks can find solutions to their liquidity problems using the following methods, with the benevolent load as a priority;

1. As the first solution, participation banks with fund surplus can meet the funding needs of other participation banks with the benevolent loan method. Therefore, this transaction should be based on an index that is based on the inflation rate, which will occur to maintain the purchasing power. The actual transaction cost can also be received.
2. Participation banks with fund surplus can also meet the funding needs of other participation banks by opening profit and loss participation accounts. Hence, while one party meets its fund needs, the other party meets its fund management needs.
3. Participation banks with fund surplus can also meet the funding needs of other participation banks by opening wakala-based profit and loss participation accounts.
4. Participation banks can develop a model in which they can record their benevolent loan transactions and prioritise their needs within a system. It is essential that there is

no material surplus between the parties. In this way, the participation bank in need of funds can borrow from another participation bank with an index that is proportional to the amount and maturity and provide funds to them with the same index when it has its own fund surplus.

5. Participation banks can meet their own liquidity needs with the asset-backed fund and asset-backed sukuk (lease certificate, etc.) exchanges among themselves (The Treasury can be encouraged to increase its products and expand the market). If they cannot achieve it among themselves, they can apply to the Central Bank and conventional banks. However, it is not appropriate for participation banks to transfer the funds they collect based on the interest-free principle to interest-based banks and fields, instead of the real economy.
6. The participation bank in need of funds can meet it through the Central Bank with the inflation rate or through profit and loss participation accounts. At this point, a system can be established in which the Central Bank can purchase and give funds in TRY that is indexed to the inflation rate, which will occur with all banks.
7. The participation bank in need of funds can also meet this need through conventional banks with the inflation rate or through profit and loss participation accounts.
8. If the participation banks cannot meet their funding needs within the country, they can still apply the interest-free principle through the Global (Mega) Central Bank, which will be formed with the participation of the central banks of all Islamic countries.

Such practices will eliminate the problems that participation banks may face and increase their work and strengthen their own legitimacy fields. They will also serve to reinforce the interest-free system, rekindle the hopes, and strengthen socialisation as an example of social and financial solidarity.

In the meantime, syndication-type needs of participation banks that exceed their own size, with higher amounts, may come into question. In this case, participation banks can only apply organised tawarruq in cases that affect their existence, in line with the principle of "Necessities render prohibited things permissible and are appreciated by their own amounts" if they have tried and failed with all legitimate options. However, this tawarruq transaction should operate under the conditions of classic tawarruq, cannot be affected, and be temporary by respecting certain limits and conditions.

Allah knows the best.

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