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Evaluation of the Fundamental Differences that Distinguish Participation Banking from Deposit Banks in Turkiye

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ABSTRACT: Participation banking, or, more broadly, participation finance, continues to exist as a sector different from deposit banks in principle, purpose, and practice, developing at national and international levels. Understanding the difference between participation banking and deposit banks also provides accurate observation of the operation, processes, and results reflections. For this reason, this study examines the fundamental differences that separate participation and conventional banks from each other. Firstly, the study includes elements that differentiate participation banking conceptually and based on basic operating principles. The different structures of participation banks in pricing and balance sheets constitute the basis of the operating mechanism. For this reason, fund collection and allocation methods are explained in detail together with this structure. As a result, the participation banking sector, which continues its development as an alternative finance, was born from a different approach and has differentiated itself from deposit banks in many areas. Knowing these differences is essential in supporting the correct reading and analysis of the sector.

KEYWORDS: Participation and Deposit Banking, Participation Banks Balance Sheet Structure, Pricing Differences
Jel Codes: G21, G10, G00

1. INTRODUCTION

Participation banking or participation finance with a new perspective is the implementation of a new banking concept as a result of a different principle search. In Turkiye, the word "*participation*" has been chosen to reflect the differences in this principle and the change in practice.

Participation banks differ from deposit banks in operation, products, and applications. They differ from deposit banks because they offer interest-free products based on profit and loss sharing, fund allocation and collection methods, and the pricing mechanism. Correctly reading the differences in the working structure of participation banks provides a better understanding of the holistic structure in the banking sector. For this reason, this study explains the essential features distinguishing participation banking from deposit banks in terms of conceptual and application, balance sheet structure, pricing, products, and services.

This study examines the basic items that distinguish participation banking, which is increasingly widespread at the national and international level as alternative finance, from deposit banks, and the main issues determining the operation of the participation banking system from deposit banks in practice. For this reason, the study first gives the concept and principle of participation banking and then details the essential working areas that differentiate participation banking. The different dynamics in the pricing structure and balance sheet of participation banks also affect their operation, processes, and results. As a result, this study explains these differences, the methods of fund collection and use, and the basic points that differentiate them from deposit banks.

2. CONCEPTUAL DIFFERENCES OF PARTICIPATION BANKING

Although participation banking or Islamic banking broadly operates the same way as conventional banks, it differs conceptually and in principle. (PBAT, 2018; 19) In its broadest definition, Islamic banking is a financial institution that provides interest-free services to its customers, where it is forbidden to pay interest and use interest in all transactions. It is managed according to Islamic rules, and all financing transactions and contracts are regulated within the scope of these rules (Kahf, 1999: 445; Lewis and Algaoud, 2001: 2). Like conventional banks, Islamic banks also collect deposits, but differently, it is based on profit and loss sharing, which grants depositors a kind of ownership right (Dar and Presley, 2000: 7). In other words, while Islamic banking operates according to interest-free principles, they evaluate the funds they collect according to this principle and share the resulting profit or loss with savers. For this reason, while funds are collected based on the principle of profit and loss participation instead of interest, the fund disbursement methods have also been compatible with Islamic banking principles. Since they are managed within the framework

of Islamic principles, business, and investments are carried out with legally protected and halal transactions and processes with no uncertainty and gambling. While Islamic banking prohibits interest and speculative transactions, it supports making profits other than transactions where money is earned, such as buying and selling money (Nathan and Ribiere, 2007). For this reason, Islamic banking works towards the real economy and focuses on the development of ethical and sustainable finance (Rahman, 2017: 157).

In Turkiye practice, Islamic banking is called participation banking. The word participation was carefully chosen to distinguish participation banking from traditional banks; in essence, it means that the risk will be shared. In other words, it means that products in which all stakeholders contributing to the fund (real sector, households, etc.) will share the profit and loss will be preferred. This description is also included in the definition made in Article 4 of the Banking Law No. 5411. Accordingly, participation banks are "institutions operating primarily to collect funds and provide loans through special current and participation accounts." In the definition of participation banks, the concept of deposit is not included. On the other hand, the expression "institutions operating primarily to accept deposits and provide loans in their name and account" for deposit banks in the Law. In other words, while the fund collection methods are specified in the definition of participation banking, it is emphasized that it is different from traditional banks and implies that the products and services will also differ. The participation account also thoroughly explains the principle of profit and loss sharing. For this reason, the word participation was also inspired by the philosophy of participation when choosing it. The word also means a philosophy where human labor and participation in the universe, life, and society are blended with the principles of justice and labor. This perspective lies at the core structure based on unity, togetherness, and solidarity. Participation is aimed at establishing justice and ensuring balance in measure and distribution. This perspective also brings with it the philosophy of sharing and solidarity. (Ersoy, Hazıroğlu, et al., 2019: 29-31).

Participation banking is also a part of the participation economy concept with a broader definition. Participation economy is a working model that supports value-added production, development, and the real sector through basic principles in the most general sense. It is an economic model based on participation and partnership, compliant with public openness, morality, and law principles. Its basis is social justice. (Hazıroğlu, 2015, 2018). The basic principles of participation economy are the principles of morality, justice, and equity, the principle of charity and solidarity, the principle of labor, participation, and partnership, and the principle of activity and productivity. It aims for an active and productive economy that starts with morality and rises on this basis. (Ersoy, Hazıroğlu et al, 2019: 31-34).

There are primary objectives that participation banking directly or indirectly supports within the framework of its principles, practices and operations. One of the most concrete objectives of participation banks is to bring idle funds to customers who want to avoid working with deposit banks due to interest sensitivity in the economy. (PBAT, 2020: 3). The working principles of participation banks provide more development-oriented banking services. Because banking returns depend on investment and entrepreneurship, a product or service supports this objective. On the other hand, since it is desired to invest in the most profitable projects, products, and services due to the priority of profitability, it provides the most effective distribution of resources. Participation banking also contributes to the equal distribution of income and resources between fund owners and entrepreneurs due to the participatory distribution application. For this reason, participation banking indirectly contributes to reducing income inequality and deprivation; and supports economic development. (Agriyanto, 2015: 81-83; OECD, 2020).

3. DIFFERENCES IN WORKING PRINCIPLES OF PARTICIPATION BANKS AND DEPOSIT BANKS

Participation banks' principles, applications, and methods differ from those of deposit banks. Examining the prominent details also helps to see these differences. This section summarizes the primary differences that separate participation and deposit banks under ten different headings.

a. Participation banks differ from deposit banks in principles and fundamentals.

Participation banks align with the principles of interest-free finance by prioritizing the Islamic economy. For this reason, it is built on a foundation that accepts returns based on trade and trading, not earning money by earning interest from money. It has also prioritized income equality and social development. Although it is possible to distinguish participation banks from deposit banks in many ways, the leading unique characteristics are interest-free banking methods. However, in principle, participation banking prohibits uncertainty, excessive risk, and speculation. (PBAT, 2020). It is unacceptable for one of the parties to be faced with uncertainty and for the other party to gain unfair profit. For this reason, it acts with the principles of avoiding interest, excessive uncertainty, avoiding gambling, staying away from sectors and goods considered haram, and avoiding contracts with haram content. Basic principles are acting according to the requirements of mutually consent-based trade and contracts. Based on these basic principles, all products and services included in the use and disbursement of funds must also be legitimate. There is also a unique structure for using products and services in areas considered legitimate and in compliance with the principles. For this reason, while the advisory units within the participation banks provide internal control, the Advisory Board within the PBAT provides external control throughout the sector with its guidance and decisions. For this reason, participation banking is completely different from deposit banks in terms of the principles based on and the ability to reflect these principles to all work and transactions.

b. Fund allocation methods are different.

Participation banks' fund allocation principles are also entirely different from deposit banks. Deposit banks convert the interest-bearing or interest-free funds they collect into loans by receiving interest income. However, participation banks use the funds they collect without interest through contract-based transactions such as partnership, trade, purchase-sale, and leasing. This fundamental differentiation distinguishes participation banks from deposit banks in all products and contracts. Participation banks do not provide cash loans in practice either. There must be a basis behind the transaction, such as a good, service, commercial activity, or leasing. Deposit banks, on the other hand, provide loans directly in return for interest. In other words, all transactions behind participation banking are entirely different because they are based on a contract, an asset, a service, or a trade. Since these practices ensure that all products and services are connected to a transaction aimed at the real sector, they also support the real sector. There is no money tracking in deposit banks, which is not visible from the transactions where it is used.

c. Fund collection methods differ.

Participation banks' fund collection methods also differ from deposit banks. Deposit banks collect the funds through interest-free and non-term deposit accounts and interest and term deposit accounts. On the other hand, there are two types of accounts in participation banks: special current accounts and participation accounts. Special current accounts are similar to demand accounts because they can be withdrawn at any time and do not have any return. When evaluated in terms of participation banking principles, these accounts are a loan, Qardh, given to the bank by the customer. The main difference distinguishing participation banks from deposit banks is participation accounts. Because these accounts do not promise to pay a direct return to the participants like term accounts, and only the profit/loss share contracted before opening an account. On the contrary, these accounts have no definite return guarantee, ensuring that the customer shares profit and losses. Participation accounts, on the other hand, are based on a specific contract. These accounts can be created based on partnership or investment agency (wakala). Partnership-based accounts work based on labor-capital partnerships. Accordingly, the customer who invests the capital is the customer, and the bank evaluates the capital. While the bank evaluates this capital according to the principles of interest-free banking, it can share a certain percentage of the profit. However, in this case, the payment is made after deducting the expenses, and in case of loss, it can be reflected to the customer. In the case of an investment agency, the profit and loss belong to the customer. While the agent can work for a fee or for free, the subject of investment and some issues can be limited. In addition, the funds collected for partnership and agency-based accounts are evaluated in separate funds and accounts.

d. There is a difference between profit ratio and interest.

Participation banks also differ due to the profit ratio they distribute in return for the funds they collect and the interest provided by deposit banks. Table 1 compares these differences between participation and deposit banks.

Table 1: Main Differences Between Profit Ratio and Interest

Profit Ratio	**Interest**
The ratio becomes certain at the end of the term.	Interest is known at the beginning of maturity.
The profit ratio paid to the customers is linked to the profit received from the customers using the fund because it is paid from the profit generated from using the funds collected in the pool.	There is no one-to-one relationship between the interest received from loans and the one paid to the customer. The payment to the customer depends on the income from various sources.
The difference between the profit ratio received from financing and the profit ratio paid to savers is fixed.	The margin between the loan and deposit interest is not fixed and can change depending on the conditions.
The profit paid to the customer depends on the profit from the bank's funds. If the bank makes little/much profit, the customer also receives little/much. If it makes a loss, the customer must bear the loss.	The interest paid to the customer based on the rate determined at the beginning is generally based on funds' costs and does not depend on the bank's profit or loss from funds, and this rate does not change.
Profits are not from a cash loan; they are always from a purchase, sale, service, or partnership.	Interest is the excess that is necessarily the equivalent of a debt relationship in banking.

Source: https://PBAT.org.tr/Documents/Yonetmelikler/PBAT-Katilim-Bankaciligi-Nedir-Brosur.pdf

e. Price determination mechanism varies.

Participation banks' price determination mechanism also differs from that of deposit banks. While deposit banks determine loan interest rates based on deposit costs, participation banks determine deposit costs according to the profit or loss they make due to the use of the funds they collect. In other words, the requested amount from the use of funds is not according to the cost of the deposit (participation fund), on the contrary, what determines the cost of the deposit (participation fund) is the return on the funds used. In this case, the pricing direction in participation banks is not from the liabilities to the assets as in deposit banks; on the contrary, it is

according to the asset's income, from the assets to the liabilities. For this reason, it also ensures that the pricing mechanism works reverse.

f. Financial leasing applications are specific to participation banks.

The products of participation banks resort to financial leasing. In this way, they also provide resources to their commercial customers. There is no such application in deposit banks.

g. There is differentiation in capital measurement and profit ratio/interest risk.

Participation banks differ from deposit banks in capital adequacy measurement and interest/profit ratio risk calculation. With the changes made in the capital risk regulations in 2016 and interest/profit ratio risk regulations in 2021, the risk rates used were differentiated by stating that they are determined by the BRSA (Official Gazette, 2016). Here, the determining factor is that participation banks share the risk with participation account holders at a specific rate through the profit share rate instead of interest. While there is no such situation in deposit banks, the profit-loss sharing principle in participation banks has also allowed them to keep lower capital. (Official Gazette, 2021b, Official Gazette, 2021c).

h. It offers an alternative to bringing idle funds to the sector.

Participation banking helps to bring idle funds into the sector due to interest sensitivity. It also diversifies the sector's resource distribution as it serves a different customer portfolio.

i. It differs in risk and profit sharing.

The profit/loss sharing principle in participation banking also involves sharing risk. In other words, participation is two-way. In participation banks, the fund providers who participate in the fund know they share in the loss and profit. If a party contributes labor, they also know that the labor loss belongs to them in the event of a possible loss. For this reason, the customer and the participation bank work as partners.

j. Views on the value of money differ.

In participation banking, money does not appreciate over time, and its price cannot be determined accordingly. The difference in the value of money can only be the inflation difference. On the other hand, profit value comes from the sale of goods purchased by money, not from money itself. In other words, it is not money that appreciates; it is the assets purchased with money.

4. DIFFERENCES IN THE PRODUCT AND BALANCE SHEET STRUCTURE OF PARTICIPATION BANKING

Participation banks' balance sheet products are based on an asset, a service, a work, or a production. For this reason, one of the main differences between their products and those of deposit banks is a basis in the background, and they are dependent on contracts.

It is possible to summarize the fund collection methods of participation banks in four categories: special current accounts, participation accounts, special fund pools, and syndicated loans. Article 4 of the Banking Law No. 5411 defines participation banking as "institutions operating primarily to collect funds and provide loans through special current and participation accounts." In this context, the primary fund collection sources in participation banking will be special current accounts and participation accounts. Regarding participation funds, the sum of special current accounts and participation accounts is mentioned in the same article of the Law. In addition, special fund pools and syndicated loans are also used as other fund sources.

The fund allocation methods of participation banks are not based on interest-bearing debt relationships as in deposit banks but are made through legitimately accepted contracts. Within this scope, there are cash or non-cash fund allocation methods. Fund allocation is obtained through revenues from transactions such as buying, selling, and renting rights, goods, or services. In other words, instead of an interest-bearing debt relationship, the bank and the customer establish a relationship of buying-selling, leasing, or partnership. Cash fund allocation can generally be based on buying, selling, leasing, partnership, or wakala. Non-cash fund allocation is mainly made through aval, letters of credit, and letters of guarantee. Fund collection and fund allocation methods are in the balance sheet structure below.

The balance sheet shows that deposit collection methods consist of three categories: fund disbursement methods, which can be based on sales, leasing, partnership, and wakala.

Participation Banks' Balance Sheet Structure

Assets	Liabilities
Credits	**Deposits**
(Fund Allocation)	**(Fund Collection)**
1.Cash Methods	*Special Current Account*
Sales Methods	*Participation Account*
(Murabahah,Salam, Istishna)	-*Mudarabah*
Leasing Methods	-*Wakala*
(İjarah, Financial Leasing)	*Special Fund Pools*
Partnership Methods	*Syndication Credits*
(Musharakah, Mudarabah)	
Wakala Methods	
(Investment Agency etc.)	
Other Methods	
(Qard, Sukuk vd.)	
2.Non-Cash Methods	
Letter of Guarantees	
Letter of Credit	
Guaranteed Loans	

4.1. Fund Collection Methods

Fund collection methods have four significant products. These are special current accounts, participation accounts, special fund pools, and syndication credits. This section explains them in detail.

Banking Law No. 5411 defines the special current account, one of the fund collection methods of participation banks.

"Special current accounts: These are accounts created by funds that can be opened in participation banks and can be withdrawn partially or completely at any time, and no return is paid to the account holder."

The definition of participation account in the Banking Law No. 5411 is as follows.

"Participation account: Accounts created by funds that result in participation in the profit or loss arising from the use of funds deposited in participation banks by these institutions, in return for which no predetermined return is paid to the account holder and in which the repayment of the principal in kind is not guaranteed."

The most fundamental feature that distinguishes participation banking from deposit banks comes from this definition. Because, unlike a time deposit, these accounts do not guarantee a direct interest yield to the customer; instead, a profit and loss participation partnership called profit share is introduced, and no principal guarantee is provided. For this reason, in Article 6 of the regulation;

"In return for special current accounts and participation accounts, no predetermined return guarantee can be given to the account holder under any name, nor can it be guaranteed that the principal invested in participation accounts will be paid back to the account holder in kind. These matters are announced by being posted visibly in the branches of participation banks." (Official Gazette, 2021d)

Participation accounts can be opened with public institutions, organizations, funds, and legal entity customers based on a profit-and-loss sharing agreement or an investment agency (wakala) agreement. According to the regulation, funds collected from profit-and-loss sharing and investment agencies are evaluated in separate pools. At the end of the term, accounts based on profit-and-loss sharing are automatically renewed unless otherwise stated. In contrast, accounts based on investment agencies are not renewed and are transferred to special current accounts.

Participation accounts can be opened as mudarabah and investment agency. The accounts can be defined as follows.

Mudarabah: This account is a labor-capital partnership. Participation banks use this instrument as a fund collection and allocation method. This type of partnership is where one party provides labor, the other provides capital, and only the predetermined rates are certain at the beginning for profit/loss sharement. This product has the largest share in participation accounts. In mudarabah, the customer deposits funds in the mudarabah pools of participation banks to be evaluated at a certain maturity. The funds accumulated in the pools are reflected to the customers as profit sharing at predetermined rates. While the fund offered by the customer to the participation bank is considered a mudarabah fund, the participation bank evaluates this fund in fund allocation instruments that align with participation principles, such as the purchase and sale of goods (murabahah). The funds and profit margin received from the fund allocation are distributed from the accumulated pool to the mudarib, that is, the customers, within the framework of profit-loss sharing. The profit is shared according to the partnership-sharing ratio determined in advance by the contract. (PBAT, 2021a: 172)

Investment Agency (Wakala): It is established on the authorization of a real or legal person, paid or free, to evaluate capital. As a proxy, participation banks transfer the funds they collect to the fund providers and use them in specific project financing. Although there is no specific return guarantee within the fund's scope, it is based on an estimated return in practice. (PBAT, 2021a). Although there is a profit/loss partnership due to the operation of participation accounts, the regulation has also paved the way for participation banks to cover the loss in favor of fund owners in the event of a loss. However, this can be done three times during an accounting period, provided that the board of directors is authorized. (Official Gazette, 2021).

While special fund pools were put into practice in fund collection methods with the regulation made in 2012; syndicated loans, on the other hand, are a credit method similar to deposit banks, although they differ in methodology.

Special Fund Pools: Participation banks have been given the authority to create special fund pools in addition to special current accounts and participation accounts. In this context, participation banks can create special fund pools by collecting funds in special accounts to finance a specific project, investment, or partnership. In such a case, a contract that includes only this framework is made with the fund owners, and the collected special fund cannot be used for any other purpose. (Official Gazette, 2021a).

Syndicated Loans: Syndication is a group of people or organizations that unite for a purpose. Syndicated loans consist of organizations that come together to provide loans, and the risk of the loan provided is shared among these organizations. Syndicated loans generally provide the opportunity for long-term and large-amount loans. (Yılmaz, 2003). Like deposit banks, participation banks obtain funds from international financial markets through syndicated loans. However, unlike deposit banks, the loan acquisition process is expected to be compatible with participation principles. The most frequently applied type of syndicated loan is murabahah syndication. In murabahah syndication, participation banks obtain loans by purchasing goods on credit and selling them in advance. When the participation bank applies to the consortium for a loan, it also gives power of attorney to purchase goods on its behalf. The participation bank purchases the purchased goods on credit and the sale of these goods is carried out by the consortium again with power of attorney. Thus, while the cash obtained from the goods is given to the participation bank as a loan, the participation bank becomes indebted in installments. In practice, these transactions are carried out at the London Metal Exchange. (Çemberlitaş, 2019: 61-62; Taner, 2011: 38-39).

4.2. Fund Allocation Methods

Participation banks' fund allocation methods were brought into line with international standards with the regulation amendment made in 2019 and classified under five different categories. As can be understood from the definitions, all transactions in participation banking are tied to a contract basis such as a property or right, lease, or partnership, i.e. According to the regulation, fund allocation methods and definitions are as follows;

a) Sales methods: It is the process of procuring all kinds of tangible and intangible goods and rights that the customer needs for financing by paying the price to the seller. Sales methods consist of sales with a profit declaration (murabahah), sales without profit (tevliye), sales by bargaining (musawamah), sales with advance payment (salam), sales with open account (isticrar), sales of goods with a profit declaration (tawarruq) and work contract (Istishna).

b) Leasing (Ijarah) methods: Leasing is the process of transferring the benefit of an asset or a service to provide financing that can be used without being consumed. Leasing methods consist of ordinary leasing, financial leasing, activity leasing, product leasing, labor leasing, and service leasing.

c)Partnership methods: Partnership methods involve establishing partnerships with customers to provide financing to share in the profit and loss arising from all activities of real or legal persons, a specific activity, or the acquisition of the ownership of a specific property. Partnership methods consist of labor-capital partnerships (mudarabah), profit-loss partnerships (musharakah), investment partnerships (venture capital), property partnerships, and agricultural partnerships.

c) Wakalah methods: It is the process of authorizing the customer as a proxy to provide financing for an income-generating activity, with the bank owning the entire profit or a specific predetermined portion and the loss within the scope of wakala signed with the customer.

d) Other methods: It consists of the types of free loan (Qardh), surety, guarantee, reward promise (cuâle) and other methods to be determined by the Board. When evaluated mainly through deposit banking, cash fund usage is made by giving cash directly in return for interest. However, in participation banking, instead of giving cash directly, a transaction such as a product, service, or partnership is made behind it. When evaluated in terms of participation banking, goods or money can be given to be paid back, provided that it does not bear interest, called Qardh (consumption loan). In such a case, there are opinions that the inflation difference can be taken from the customers. However, the Qardh contract is not preferred in most cases, and the products mentioned below are prioritized according to participation banking principles.

Some of the sales methods are summarized below. While the most commonly used method is murabahah, other applications are also encountered.

Murabahah: The simplest definition is selling a good with a profit declaration. In the case of financial murabahah, the good is purchased by the bank upon the customer's request and sold to the customer again on credit. Before this good is sold to the customer, the bank adds profit, which differs from tevliye and musawamah. Although the murabahah transaction is similar in corporate and individual finance support, it varies due to the differences in the goods purchased. In the process, the corporate customer requests a

limit. The participation bank allocates a limit as a result of the credit evaluation. The customer has a preliminary meeting with the seller for the goods to be purchased and agrees with the participation bank on the profit rate and payment. The participation bank purchases the goods from the seller and pays the price in advance. Then, it sells this good to the customer by adding profit, and the customer pays the debt on credit. Although the process is the same in individual financing support, the goods can be real estate, such as housing, land, vehicles, offices, or vehicle financing and consumer financing (Chong and Liu, 2009: 129, PBAT, 2018: 62-71).

Tevliye: Unlike murabahah, in Tevliye, no profit is added to the sales price of the goods, and the sale of the goods purchased to the customer is made in cash, not on credit. (Çetin, 2018: 100; Efe, 2021: 315).

Musawamah: It is a transaction made by bargaining. Its difference from murabahah and tevliye is that the sale of goods is based on mutual bargaining. When the profit obtained after the sale differs from the profit declared at the beginning, musawamah is applied instead of murabahah. In such a case, the customer is informed in advance (Çetin, 2018: 108; Efe, 2021: 315).

Istishna: An istishna based on a work contract includes the production of a good. In this contract, the production of the good and the labor required belong to the contractor. For example, the contractor covers the material and labor. Here, the participation bank generally provides funds for a contractor the customer determines to produce. In exception, the money is paid in advance. In this way, the participation bank undertakes the production and acts as an intermediary between the customer and the manufacturer. While the subcontractor is responsible to the participation bank for the production, the participation bank is also responsible to the customer for producing the goods. In the event of a problem in producing the good, the participation bank returns the deferred payment to the customer. If the good cannot be produced, the customer holds the bank responsible, while the bank must procure that good from another place and give it to the customer. In other words, the istishna contract binds the parties; the contract cannot be terminated unilaterally. The subject of the exception may be clothing, building, machinery, shipbuilding, construction contract, completion of unfinished cooperatives, mass housing financing, financing of significant construction works, etc. (Bayındır, 2005: 259; Öztürk, 2013; IFSB, art: 40; PBAT, 2021).

Salam: This is a prepaid sales transaction. A pre-sale transaction covers financing a product that has not yet been produced. With Salam, the producer's financing is covered. In Salam, the product to be subject to the sales contract is not available but a product that will be produced in the future and has a standard. Standard products have predetermined quality and characteristics (wheat, cotton, iron, concrete, brick, etc.). In the Salam application, there is a product to be produced that the customer requests to buy. The participation bank makes the pre-payment to the other party for production. When a Salam contract is made, a product with a specific delivery date, price, features, and quantity will be delivered later. The customer undertakes to receive the product after production. When the delivery time comes, the seller must provide the product with the specified characteristics. The participation bank purchases the product and then sells it to the customer in cash or on credit as determined. In Salam, financing is provided to the producer. Thus, the buyer can purchase the product at a more affordable price (Öztürk, 2013). While the Salam contract is used in all areas where standard goods trade is carried out, the financing needs of farmers, merchants, and industrialists can also be met. For example, the products used for financing areas are such as agricultural products (wheat, corn, grapes, etc.), textiles (ready-made clothing, yarn, etc.), construction (iron, sand, cement, etc.), automotive and other (spare parts, mobile phones, computers, etc.). On the other hand, the participation bank makes a profit from this sale since it adds a profit share to the product it buys from the producer.

Istijar: It is an open account sales transaction. In this application, the price of the goods, the delivery date, and the goods are not clear, and the payment is made later. In the application, the price of the goods is calculated after they are consumed by the customer and sold to the customer by the participation bank on credit. The first price of the goods is paid to the seller by the participation bank. The goods are usually subject to istijar such as natural gas, water, electricity, etc.(PBAT, 2021).

Tawarruq: It is the sale of goods with a profit declaration. The goods purchased on credit are later sold to a third party to obtain cash. The credit purchase price of the goods is lower than the cash sale price. In practice, the participation bank purchases the goods on credit on behalf of the customer and sells them on credit again on behalf of the customer, and pays cash to the customer. The difference remaining from the purchase-sale transaction is the profit of the participation bank. Although there are varieties such as classic, organized, reverse teverruk, and plain teverruk, its implementation is controversial regarding fiqh. The teverruk transaction begins with the participation bank purchasing a mineral other than gold and silver from the mining exchange upon the customer's request. It sells this good it has purchased to its customers on credit. Then, it sells this good to a third party on behalf of the customer in cash. While the money obtained is given to the customer, the customer is indebted to credit. (PBAT, 2021b, Standard No: 1).

Financial leasing applications are the most common leasing-based transactions. The products can be summarized as follows.

Leasing: A lease contract transfers the right to use and benefit from an asset to the party undertaking to pay the rent for a certain period. The lease transaction is carried out by the participation bank renting the requested place, work, service, etc. to its customer. The participation bank rents the place, work, or service the customer requests directly or through a proxy. The participation bank rents its request to its customers after this process. The bank or the customer cannot terminate the lease contract without a justified reason. The participation bank earns income by adding a particular rent and profit share to this transaction. The lease methods could be ordinary, financial, and activity leasing. (Chong and Liu, 2009 :129).

Financial Leasing: In financial leasing, the ownership of the goods that the financial leasing company purchases or procures from other persons remains with the company, while the right of use remains with the tenant and can be transferred to the tenant for a fee at the end of the term. Participation banks differ from other banks in that they can perform financial leasing transactions. For this reason, their balance sheets include financial leasing debts and receivables, and their profit and loss items include the profit and loss from these. In a financial leasing contract, the ownership of the goods initially remains with the financial leasing company, while the tenant can purchase the goods at the end of the term if he/she wishes. In practice, the customer applies for a limit, then conducts a preliminary meeting with the seller and makes a preliminary agreement. The participation bank purchases the goods the customer requests and rents them to the customer. Here, the participation bank acts as a financial leasing company by purchasing the goods. The difference between financial leasing and rental is that the customer becomes the owner of the goods he/she rents at the end of the lease agreement.

Mudaraba and musharaka practices stand out in partnership-based transactions. The products are summarized below.

Mudarabah: The labor-capital partnership method, is a product that can be applied both in fund allocation and fund collection. When participation banks collect funds from customers, the fund provider or capital is the customer, and the bank is the labor. In general, the mudarabah product is widely applied by evaluating the collected funds in this way and is included in the liabilities of the balance sheet. On the other hand, mudarabah is also a fund-use method and can be included in the balance sheet's assets. In this case, the fund provider, that is, the capitalist, is the participation bank, while the labor provider is the customer. The customer is expected to share his profit in return for his labor with the participation bank. When participation banks want to use funds, they provide funds to companies for a purpose, such as producing a good or implementing a project, with the capital coming from the participation bank. The participation bank takes a portion of the profit in such a case. The loss belongs to the participation bank. (Sağlam and Eğri, 2020: 200-201, PBAT, 2018: 71-72).

Musharakah: It is also known as capital partnership or profit and loss partnership. In Musharakah, a profit and loss partnership, both partners contribute capital, unlike mudarabah. The method is based on two or more people contributing capital and sharing profit and loss proportionally to their capital. Musharakah is generally realized by participation banks becoming partners in the project and providing financing to use funds. The parties share profit or loss in proportion to the capital contributed. The customer applies to the participation bank for a profit-and-loss partnership. After the participation bank evaluates, it enters the partnership project if it finds it appropriate. A profit and loss partnership agreement is made, and profit and loss are shared between the parties at the end of the project. In practice, participation banks leave the project management to the institution that is an expert in the business. Musharakah can be applied as normal Musharakah and decreasing Musharakah. In normal Musharakah, both parties contribute capital, while those wanting to end the partnership can withdraw and leave their capital. In the decreasing musharakah, one of the partners eventually sells his/her share to the other partner and leaves the partnership. (PBAT, 2018: 73-76; PBAT, 2021; IFSB, article: 54)

Wakala transactions can be used as both a fund-raising and fund allocation method, just like in murabahah.

Wakala: The proxy of the party that invests capital to the other party to evaluate the fund as an investment agent or proxy for the operation of this capital. Unlike a partnership, the proxy can demand a fee and receive his fee regardless of the profit after the work. The profit and loss of the capital belong to the investor. Unless the proxy is at fault, he cannot be held responsible for any damage. The fee paid to the proxy here is an expert fee. Wakala, just like murabahah, can be included in the balance sheet's assets and liabilities. Until 2018, before the mentioned legislative Regulation, funds could only be collected through murabahah. However, after this period, wakala also started to be used as a fund collection method. Wakala is also a fund allocation method. For this reason, participation banks can work as proxy receivers and givers. Wakala is also a fund allocation method where banks with excess funds give proxy to banks with fund deficits and make transactions based on the determined profit share. In this way, wakala agreement is made between banks. In practice, the bank with excess funds uses the wakala agreement to be used by the bank with a fund deficit to be evaluated over the maturity and the determined profit share. This fund is evaluated in the fund pool of the bank with a fund deficit, and the principal and profit share payment is made at the end of the maturity by deducting the proxy expense. In practice, transactions made with wakala are limited. Participation accounts can only be opened by public institutions and organizations, funds, and legal entity customers (Official Gazette, 2018). Similarly, when using funds, wakala can be limited to the mentioned customers, not individual customers.

Non-cash fund usage methods: Examples of participation banking non-cash fund usage methods are guarantee letters, letters of credit, and aval. Although these practices are similar to deposit banks, attention should be paid to the compliance of the subject of the transactions with the principles of participation banking. In this context, the work to be used for non-cash funds is expected to be compatible with the principles of participation due to the nature of the transaction, both in terms of the beneficiary and the addressee. On the other hand, any commission and expense to be received in return for the transactions must also be appropriate in terms of fiqh. (Akçalı, 292).

5. CONCLUSION

This study examines participation banks, an increasingly widespread area of alternative finance, or participation finance in a broader sense, and reflects on the fundamental differences between them and deposit banks. Knowing these differences is essential in supporting the correct reading and analysis of the sector.

The participation finance approach is different in principle and practice. It is most fundamentally encountered with the change in fund collection and allocation methods, namely the balance sheet structure. This change also causes the pricing mechanism to diverge. These different approaches affect the processes, results, and working methods, especially in the balance sheet structure and pricing behavior.

As a result, this study examined the fundamental differences that distinguish participation banking or participation finance from deposit banks. In this context, participation banks differ from deposit banks in principle, practice, and basis. With the change in fund collection and allocation methods, the profit share application instead of interest used in deposit banks comes to the fore. The fact that the profit ratio is not determined in advance, like interest, but is determined according to the loan income also changes the pricing mechanism of participation banks. Unlike deposit banks, the pricing mechanism route is not from liabilities to assets but from assets to liabilities. This structure affects the reflection of all operations and processes. In participation banking, the partnership principle is adopted in risk and profit sharing. For this reason, when capital measurement is made, capital adequacy is calculated over a different rate due to the risk sharing. On the other hand, since it considers the time value of products and services purchased with money, not the time value of money, purchase and sale are also prioritized. The correct reading of all these differences maintains its importance in facilitating the understanding of the banking sector as a whole. Finally, this study evaluated the essential elements that distinguish participation banking from deposit banks, which are increasingly widespread as alternative finance at the national and international levels. The study aims for a holistic perspective to reflect the operational differences between the bank groups that constitute the sector.

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