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edited by

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CONTENTS

		<u>Page No.</u>
C H Dodd	Foreword	
	Acknowledgement	
M Wagstaff	Introduction	1
J Norton	Turkish Sufis, Saints and Subversives	4
B Toprak	Religion as State Ideology in a Secular Setting: The Turkish- Islamic Synthesis	10
A Mango	The Consolations of Religion in Turkey	16
D Baldwin	Islamic Banking in a Secularist Context	22

FOREWORD

To the secularist elites still dominant in Turkish society and politics the question of Islam in Turkey in recent years has been both a puzzle and a worry. It is a worry because it is so much of a puzzle. And it still remains a puzzle partly because convinced secularists in the dominant Atatürkist tradition have for so long been so convinced that Islam cannot really be a force any longer that they tend to dismiss it, rather than study it.

This is now changing. More and more students of religion in Turkey are emerging in a number of fields of enquiry. In 1988 in Britain two seminars were held to make known the results of these new enquiries. The first, a two-day workshop, was organised by Dr R L Tapper under the auspices of the Modern Turkish Studies Programme in the London School of Oriental and African Studies. A publication is to appear in due course edited by Dr Tapper with the provisional title Islam in Turkey : Politics, Religion and Literature in a Secular State.

The second seminar was a single session on Islam in Turkey which formed part of the annual conference of the British Society of Middle Eastern Studies in Leeds. Smaller in scope, but addressed to a rather less specialised audience than the two-day workshop, it was notable for the interest aroused by the papers, as evidenced by the liveliness of the discussions, which had an instructive comparative dimension.

Dr Malcolm Wagstaff followed this debate with particular interest. The organisers of the session are very grateful that he has collected together the papers and has arranged their publication. Dr Wagstaff has also been able to add one more paper relevant to religion in Turkey which was given another session at the Conference. Together with Dr Wagstaff's Introduction the collected papers provide a useful and stimulating introduction to religion in Turkey.

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INTRODUCTION

Malcolm Wagstaff

Turkey, like other countries with a largely Muslim population, is experiencing a resurgence of Islam¹. It extends from the private domain of personal and family life out into society and affects politics, as well as economic behaviour. Revival is widespread in the Islamic World and its force has been gradually gathering momentum from small beginnings in the nineteenth century. Both the emergence and the development of the Islamic revival passed largely unnoticed in the western world, where the 'death of God' was formally re-announced in the 1960s². The Islamic inspiration of the revolution in Iran brought the whole movement sharply to the West's attention.

Despite the creeping spread of secularism in the World of Islam during the nineteenth and twentieth centuries with the political and economic dominance of the West, many people in Asia and Africa remained faithful to their religious traditions. Renewal drew its strength from many sources. For some it was a reaction against values and behaviour which were felt to be alien. More recently, immense wealth has allowed some Muslim countries to reassert the values of their Islamic culture and afforded the leisure to recover its diverse treasures. For the disadvantaged and exploited, Islam has offered present comfort and final justification.

Islamic revival in Turkey has special features. Whilst the state is constitutionally a secular republic, most of its population is Muslim. Religion may be at best a conventionalised deism for the elite, as Andrew Mango points out in the third paper published here, but for the mass of the population it is still an integral part of their life. Two or three generations of official secularism have failed to eradicate its influence. Indeed, the rootlessness engendered by migration from the countryside to the towns, the strains of living through a socio-economic transformation and the pauperisation of so many by inflation and underemployment have encouraged the lower orders of society to find consolation in their religion. The re-advance of religion troubles the old republican secularist elite with its commitment to Kemalist ideals. But, as Toprak and Mango show, the state elite itself has not been above manipulating religion as a form of social control, whilst the parvenues of economic success have used its cover to weld the solidarity of their group and to advance their own interests.

Mystical forms of religion offer most in comfort and escapism at times of stress, but are often politically suspect. John Norton's paper deals with this question through an examination of the revival of the sufi orders (tarikats) in Turkey. To some extent, the old sufi orders of the Ottoman Empire have reappeared - the Mevlevis and Bektashis, for example - and, in some cases, resumed a close association with members of the government. But new groups have also been established and it is these (The Nurcus and Süleymançis, for

example) which are often seen as most subversive of the established secular order. Secularists fear the influence of Muslim organisations, the more so since it is exerted secretly and linked to support from Saudi Arabia and Iran.

Social conflict is never far away in a society undergoing economic transformation. It is in order to reduce the scope for a major conflagration that a group of Turkish intellectuals has advocated the propagation, through the state, of what is called the 'Turkish-Islamic synthesis'.

Binnaz Toprak explains in her paper how the Turkish-Islamic synthesis derives from a re-interpretation of Turkish history in the Islamic period. She goes on to show that it unites what are claimed to be the specifically Turkish cultural traits of love for country, fear of God, the sanctity of custom, and obedience to state authority with the virtues associated with Islam, including respect for elders, discipline and the sacred character of duty. Failure to inculcate such values, as well as the subversive influence of Western culture, are seen by the supporters of the Turkish-Islamic synthesis as primarily responsible for the social unrest and the political problems of the 1960s and 1970s. Thus, reversion to a tradition which puts spiritual needs at its centre and emphasises obedience to authority, will produce the national unity and religious reawakening which, it is believed, will not only release the creative energies of the Turkish people but will also allow them to weather the social stress which arises from industrialisation.

The Turkish-Islamic synthesis is seen by Toprak as the ideology of a new state elite, in power since 1980-83. Andrew Mango develops this view to some extent and points out how religion has been used as a mechanism for political control in circumstances where, otherwise, civil war may have developed. The formalisation of Islamic education in schools offers concrete support for the notion that Turkey's current rulers see religion as a social cement. It may be in part to consolidate this role for Islam that Islamic banking has been afforded a foothold in the country, though considerable outside influence has also been applied.

Baldwin outlines the conditions on which Islamic banks, or 'special finance houses' as they are euphemistically called, are allowed to operate in Turkey. He then discusses how the two operations so far licensed, both part of large Saudi holding companies, actually function. Both have been successful in attracting deposits, including those of thousands of customers who have not previously used banks. Baldwin attributes this to the confidence felt in, and the preference for, institutions predicated on Islamic principles. Over 90 per cent of the funds of the finance houses has been used in a traditional way to finance short-term trade, often by means of leasing (*ijara*). The operations seem highly profitable on the basis of strict monetary comparisons, but Baldwin shows that this is far from the case when allowance is made for inflation.

Despite the attractions of Islamic banking to many ordinary Turks, the two special finance houses are in competition with the conventional banking sector. Banking and finance thus epitomise a basic tension in modern Turkey - the appeal of both secular and religious ideals to people of all backgrounds. It remains to be seen whether both can be accommodated.

Notes

1. See, for example, Ruthven, M. (1984) Islam in the Modern World, Harmondsworth: Penguin Books, 300-52.
2. Notably by Paul van Buren (1963) in The Secular Meaning of the Gospel, London: SCM Press, but previously proclaimed by Friedrich Nietzsche (1844-1900).

TURKISH SUFIS, SAINTS AND SUBVERSIVES

John Norton

Introduction

In this brief paper, I should like to touch upon the activities of certain groups and individuals in Turkey that are outside the strictly orthodox bounds of Islam and not regarded with favour by the government's Department of Religious Affairs, the Diyanet İşleri Başkanlığı. In this category I shall mention some sufi orders - tarikats - some groups of more recent origin - such as the Nurcus - the aims of the "Islamist trend" and the activities of one of its exponents - Cemalettin Kaplan. It will be appreciated that the sufism, sainthood and subversion are very much in the eye of the particular beholder. One man's saint may be another man's subversive, but all these people are involved in varying degrees in the intensifying struggle between secularists and Islamic activists in Turkey today, and some acquaintance with their teachings and practices is essential to an understanding of the position of Islam in modern Turkey.

Sufi Orders

Let us look first at some tarikats. Although they and their activities were banned by Atatürk in 1925 and that prohibition remains officially in force, they have emerged more and more into the open in recent years. It is now quite easy to discover where and when some of the tarikats hold some of their meetings and it is usually not difficult to attend and join in the proceedings. In most places the chances of a police raid are slight, though the organisers are usually fairly circumspect, particularly if the local military or civil authorities are known to be hostile.

The general reluctance of the authorities to act against violations of Law 677 that closed dervish lodges, banned dervish meetings, ceremonies and distinctive dress, and led to the confiscation of much of their property is a cause of great concern to secularists loyal to the Atatürk tradition. They recall that in 1925 the rebellion in south-eastern Turkey which combined ethnic and religious opposition to secular Turkish rule threatened the very survival of the infant Republic. They remember that Atatürk declared "The Turkish Republic cannot be the country of sheikhs, dervishes and disciples". "What other purpose", he asked in September 1925, "can existing tarikats have than to make their adherents happy in their secular and spiritual lives?" But, he went on, "I can never accept that there can be a place in civilised Turkish society for people primitive enough to seek material and spiritual happiness through the guidance of some sheikh or other when today we have the dazzling light of civilisation and all-embracing learning and science". And again, "Not a single one of us is in need of guidance from a tekke. We draw our strength from civilization, learning and science. We recognise nothing else". So, secularist Turks remind their compatriots that Atatürk made it very plain the tarikats were an affront to his concept of a civilized society. He had earlier declared that for a religion

to be natural it had to accord with common sense, science, learning and logic. These were not the qualities extolled either by the genuine mystics or by the charlatans who in some cases had gained authority in some dervish orders of his day. Today the secularists fear the principles of Atatürk's Republic are being betrayed. But they lack an Atatürk to halt the tide.

It is, however, misleading to imagine that typical tarikats meetings are devoted to plotting the overthrow of the Republic. The heads of some dervish lodges strictly forbid any political discussion on their premises. Religious devotions, conducted with a fervour and intensity bearing some similarities to charismatic Christianity, usually occupy the full attention of those attending. Atatürk often receives respectful mention in some of their prayers.

It is not only the secularists who oppose the tarikats. A number of Sunni purists, for example the Mücadeleci, have also conducted vigorous campaigns against tarikat activities, holding that these are a distraction from the true and austere path prescribed by the Koran and the Şariat.

Nevertheless, there are several reasons why tarikats still attract followers: members believe they are on the true path; they experience an environment different from that of their workaday world; they enjoy learning the arcane mysteries of their Order and the ecstasy they achieve through practising rituals that are more colourful than the mosque services of the strictly orthodox Sunni tradition; they find satisfaction in serving their superiors in the Order and they may cherish the prospect of their own advancement within it; they appreciate the warm sense of community within the Order; and some of them may also reap material rewards for membership.

Each tarikat has its own interpretations of the Koran and each has its own forms of worship. In most of the tarikats a main feature of their worship is zikir (from the Arabic dhikr), the remembrance and recitation of the names of God, these chants often being accompanied by rhythmic swaying, stamping or dancing.

Thus, the members of each tarikat follow a distinctive route that the founder of their Order and his successors proclaim as the path to the Ultimate Truth, and membership entails allegiance to and obedience to a sheikh or baba who is a successor or representative of the Founder.

Mevlevi

The Mevlevi Order, often called "The Whirling Dervishes", was once a very prestigious tarikat whose head had the honour of girding the sword of Osman on to each new sultan of Turkey. This Order is now attracting adherents again, both men and women. Some of the men now travel the world on quite lucrative engagements to display the Order's distinctive whirling dance. Some gather in secret, trying to learn the strict disciplines their forebears underwent and seeking the ecstasy of feeling that the dance is uniting them with Allah and making them a means of drawing His blessings down to earth.

The Mevlevi tradition is becoming more popular but their tarikat is not currently associated with any threat to the stability of the state or with political ambitions.

Bektashis

Whereas the Mevlevis used to be popular with the Ottoman Sunni elite, the Bektashis traditionally found favour with the underprivileged. Since they are an Alevi' tarikât they were frequently the victims of oppression in the Ottoman Empire and consequently learned to operate in secret, so found it comparatively easy to go underground when the dervish orders were suppressed in 1925.

Since 1964 they have held annual festivals in the small, central Anatolian town of Hacibektaş. They have succeeded in portraying themselves as champions of Turkishness. (In this respect they were well ahead of those Turks in the Aydınlar Ocağı credited with devising the concept of Turkish-Islamic synthesis (see p. 11). The Bektashis, like the rest of the Alevi population in Turkey, traditionally side with the Left in Turkish politics. In the later 1970s Right-wing governments imposed tight controls on the annual festival through a strong military presence, whereas a Left-wing government chose it as a platform to announce benefits. Since the 1980 coup, Bektashis have not been politically important.

Rufais

The Rufais, perhaps best known for sticking skewers through their cheeks as proof of their faith and of the power of their sheikh, are an example of a tarikât that seems genuinely to have accepted that the Turkish Republic is here to stay and they accept the separation of religious and secular affairs. They now seek to train bright young men of hardworking disposition and patriotic, tolerant, religious outlook for positions of responsibility within the state, and to this end they award educational scholarships. Members of their Order include some highly placed academics and also some members of the National Security Organisation (MIT). The mounds of wreaths and shoals of condolences from many Turkish leaders when the head of the Order died in the 1970s indicate the influence that may be wielded by this tarikât. But its membership also embraces many devout followers in humble circumstances.

Nakshibendis

The Nakshibendi Order is another that is now claimed to be powerful, numbering the Prime Minister's brother among its members. The person widely regarded as the present Nakshibendi leader is Professor Coşar who teaches in Istanbul University. As this is a widespread and very fragmented tarikât, generalisations about it may be misleading. Some of its practices reportedly vary quite widely from group to group, reflecting the different type of membership concerned.

It is widely recognised that Necmeddin Erbakan received crucial support from the Nakshibendis when he set up the National Salvation Party. It is interesting to observe that in the 1987 elections his new party, the Welfare Party, gained most of its votes in the east and south-east of the country, where Nakshibendis are said to be strongest. The party's best result was in Diyarbakır province, where it gained almost a quarter of the votes cast. Since 1983 the Nakshibendis have published their views in a periodical called İslam.

Halveti-Cerrahis

One tarikats that attracts the interest and support of many Western visitors to Istanbul is the Halveti-Cerrahi. They usually have some foreigners present at the regular Thursday evening meetings in their tekke. They have branches in Germany and the United States. Their leaders are learned and civilized men. When the distinguished Sheikh Muzafer died a few years ago there were huge crowds at his funeral - an indication both of the popularity of the tarikats and the esteem in which he personally was held.

There are, of course, many other tarikats flourishing in Turkey today, but there is insufficient space to mention them all.

Keen secularists regard most tarikats members as subversives and are alarmed at the growth in popularity of these dervish orders. In January 1987, the Left-wing Turkish daily Cumhuriyet published a series of articles on Islamist trends in Turkey and claimed that all the Right-wing parties drew support from the tarikats.

Other Unorthodox Groups

But there are other groups as well as the tarikats prominent in the Islamist trends now visible in Turkey and to the secularists they also seem subversive. Some of these groups are of much more recent origin than the tarikats.

For example, there are the Nurus, followers of Said Nursi who lived from 1873 to 1960 and established a network of followers across Anatolia. Said Nursi claimed to be the mucadded (divinely appointed reformer of Islam) for the twentieth century and his writings are contained in the Risale-i Nur, which is virtually a sacred book for Nurus. The Nurus have been extremely active for several years trying to recruit students both in Turkey and among Turkish groups abroad. One means by which they do this is buying property in which they can offer accommodation more homely and friendly than the often soulless rooms normally available. By taking over whole floors or buildings they can keep a watchful eye on their followers and protect them from opponents. It is claimed that they provide warm social support to students who are in strange surroundings. Last year there was great alarm in Turkey when it was discovered that the Nurus had infiltrated a military school. All cadets thought to have been contaminated were dismissed. Redoubled efforts have since been made to inculcate the principles of Kemalism into cadets and officers.

Another way the Nurus have found to proclaim their message illustrates their ingenuity in the face of official disapproval. They have used to their advantage the Turkish custom of organising mevlits in mosques to mark occasions such as the anniversary of a death. These services allowed them to circumvent any ban on public gatherings and provided opportunities for recitations from the Risale-i Nur.

Despite their reputation as reactionaries, Nurus do publish works on popular science. They can approach such subjects with open minds but on the subject of Said Nursi and his writings they will brook no argument. Their central

activity is the ders (group study of the Risale-i Nur).

Nurcus are earnest people who conform closely to the pattern of thought and behaviour approved by the group. They are vehemently opposed to Kemalism and the concept of a secular state, but they preach change by peaceful persuasion not by rebellion. They condemn Khomeini and his activities in Iran. Nurcus have not formed a political party of their own but have preferred to support the existing parties which they considered most likely to further their aims. Thus they supported the Democrat Party and its successor the Justice Party. Former Prime Minister Süleyman Demirel is a frequent contributor to the Nurcu periodical Köprü. Nurcus do not support Necmeddin Erbakan or his party; they consider him insincere.

Another group rather similar to the Nurcus are known as Süleymancıs. They were founded by Süleyman Efendi (1836-1946), who was a Naksibendi sheikh and protested against control exercised by the Directorate of Religious Affairs over Koran courses. The Süleymancıs will not let their followers remain in government service or teach in state schools. They have to be unshaven. They indicate their allegiance to the movement by certain signs such as the position of their little fingers when performing namaz. Their newspaper, Sabah, wages a constant war against the Directorate of Religious Affairs.

The Nurcus, the Süleymancıs, and yet another very similar group the Isıkçıs, are all regarded by secularists as subversives. With varying degrees of stridency these groups all call for the re-establishment of Islamic rule in Turkey.

As the Cumhuriyet series referred to above makes plain (p. 7), the restoration of an Islamic government is the paramount ambition of the 'Islamist trend'. Supporters of this "trend" vehemently reject the values of the West and deplore the spread of degenerate western culture in Turkey. The Islamist trend is said to have five aims:

1. To reject all sources of authority other than Allah and his Prophet.
2. To unite all Muslims in a world-wide Islamic state, but until that goal is achieved to establish the rule of the Şariat in individual Islamic communities.
3. To reject utterly all the political, economic and cultural influences of the West upon the Islamic world, and continue to accept only its technology and science.
4. To reject nationalism and nation states since these conflict with the concept of a universal Islamic state. (Thus the Islamist trend differs markedly from the Aydınlar Ocağı that attempts to reconcile Islam and Turkish nationalism in a 'Turkish-Islamic synthesis'.)
5. To regulate all human relations in the Islamic community in accordance with Islamic principles of justice.

One of the people calling loudest for the achievement of these aims is Cemalettin Kaplan, a former mufti of Adana and member of the Department of Religious Affairs (Diyanet İşleri Başkanlığı), now living in voluntary exile in Germany. He is a saint to some and quite clearly a subversive to others. With help from Iranians, video-cassettes of his fundamentalist, pro-Khomeini sermons circulate in Turkey in their thousands and are also distributed to mosques in Europe with Turkish worshippers. He brands Kemalism as rebellion against Allah. In 1987 he attracted the condemnation of the President of the Republic who described his views as a danger equal to that of communism.

Conclusion

With this religious ferment going on, it is hardly surprising that many Turks now find themselves confused. Those who have been reared on patriotism and love of Atatürk feel threatened by the resurgence of Islamic demands. Their fears are heightened by revelations of funding and support from Saudi Arabia and Iran. The example of Iran is not one that many Turks feel inclined to follow. Even when in 1987 secularists were surprised and alarmed to rediscover the intensity of Islamic fundamentalist attachment manifest in Turkey, opinion polls indicated that at least 80 per cent of the population had no desire to see the Seriat implemented.

The confusion in Turkish minds is further compounded by Turkey's application to join the Common Market. This application is vigorously pressed by the Prime Minister who makes no secret of his devotion to Islam, but supporters of the Islamist trend utterly condemn the proposal since they see it as opening the floodgates to Western influences. Nevertheless, since Turkey would have to annul Article 163 of the Penal Code as part of the admission fee to the EC, it is intriguing to note that this annulment would remove the ban on campaigning to make Turkey an Islamic state. It would also permit tarikats to operate publicly again.

The controversy over Turkey's place in Europe has naturally helped to sharpen the conflict on the battlefield between the secularist Kemalists and the Islamists. On that battlefield one side's saint is the other side's subversive. But the imminence of far-reaching decisions, such as that on EC membership, make both sides want a decisive victory more urgently than ever. Hence the increased concern now shown by Turkish politicians for the place of Islam in Turkey. Hence, too, the greater interest currently being taken in the subject by academics - an interest that has spurred some intellectuals to seek an alternative to devastating conflict by proposing a synthesis of Islam and Turkish nationalism.

RELIGION AS STATE IDEOLOGY IN A SECULAR SETTING :
THE TURKISH-ISLAMIC SYNTHESIS

Binnaz Toprak

This paper is an attempt to explain the growing strength of the Islamic movement in Turkey in the 1980s in terms of a change in state ideology. Although three years of military rule between 1980-1983 proved to be successful in breaking up the organizational strength of both the Left and the extreme Right, the Islamic movement survived. There are, of course, both structural and cultural reasons behind Islam's increasing role in Turkish society. However, given the general process of depoliticization by the military and the reorganization of political life along non-participatory precepts after 1980, it seems paradoxical that the Islamic movement managed to become more politicized.

I shall try to explain this paradox in terms of a new ideological formulation which gained credibility among state elites after 1980. Radical secularism as state policy, which had been a fundamental aspect of the republican ethos in Turkey, was replaced by a new ideology which rested on a re-interpretation of Turkish-Islamic history. In contrast to the pagan nationalism of the Kemalist period, the new state ideology, by incorporating Islam into the nationalist credo, hoped to renew the Islamic sense of community in an effort to prevent the recurrence of ideological divisions which had led to the anarchy of the street in the 1970s. In this context, the growing importance of Islam in Turkey in the 1980s is perhaps part of a global trend towards a new type of conservatism which emphasizes traditional values in reaction to the political and social radicalism of the 1960s and the 1970s.¹ In essence, the new ideological formulation was based on a concept called "The Turkish-Islamic Synthesis."

The "Turkish-Islamic Synthesis" was originally formulated by a group of intellectuals, mostly university professors, who founded a club in the late 1960s with the explicit aim of setting a theoretical framework for the Turkish Right. The club, which was named the Intellectuals' Hearth (*Aydınlar Ocağı*), was established, according to its present president, as a reaction to the 1968 student movement.² Although the club members saw themselves as a discussion group without personal political ambitions, the formulas which they produced for unifying the Right, in time, played a crucial role in the consolidation of Rightist politics in Turkey. The "Turkish-Islamic Synthesis" as a slogan stood at the core of the new ideology which, on its pragmatic side, represented an attempt to integrate the Islamists and the nationalists.

Politically, the Intellectuals' Hearth achieved its first success in establishing a dialogue between the parties on the Right which culminated with the "National Front" governments in the 1970s.³ However, it was after 1980 that the club gained political significance as its members began to hold important positions within the government and state bureaucracies, while its political programme gained acceptance as part of the official state ideology.⁴ The political outlook of the Intellectuals' Hearth found reflection in the legislation and policies of post-

The author is grateful to Professor Faruk Birtek for his contribution and criticisms.

1980 governments, including the 1982 Constitution⁵, the Higher Education Law⁶, and various official documents on the state's proposed role in cultural engineering⁷, a topic which has been of special concern for members of the Hearth, as shown below.

What, then, is the essence of the "Turkish-Islamic Synthesis" and how does it articulate into a coherent state ideology which serves the political exigencies of the 1980s?

According to the ideologue and first president of the Hearth, who originally formulated the so-called synthesis, the history of the Turks has to be rewritten in the light of the cultural elements which were specific to Turkic peoples as they emerged in Central Asia, founded several states, later converted to Islam, and successfully merged the Turkish cultural heritage with that of Islam. The pre-Islamic culture of the Turks was allegedly based on a social structure where the family and the military were the two most important institutions. Within this structural set-up, the Turks gradually developed a cultural outlook which emphasized specific moral principles around which individual behaviour was oriented. This morality, on the one hand, taught them the value of virtue, truth and justice in social relations. On the other hand, it led to the emergence of a unique political philosophy, the pillars of which rested on love of country, fear of God, sanctity of custom, and obedience to state authority. As part of this political outlook, the Turks also learned, from very early times, the importance of preserving their racial purity and political independence, both of which depended on keeping foreign cultural influences at a minimum⁸.

This cultural heritage later met with Islam and from the synthesis of two civilizations a "national culture" emerged upon which, according to Kafesoğlu, two great empires were built, the Selcukian and the Ottoman. However, despite a thousand years of history behind it, the Turkish-Islamic cultural synthesis collapsed as a result of a disease which inflicted Turkish intellectuals, namely, imitation of the West. The disastrous effect of such imitation was the disturbance of the balance that the "national culture" had achieved between the family, the mosque, and the barracks which, for centuries, had inculcated in the Turkish collective consciousness respect for elders, discipline, and the sacredness of duty⁹.

For proponents of the "Turkish-Islamic Synthesis" a major reason behind the political problems that the country faced in the 1960s and the 1970s was the failure of successive republican governments to follow appropriate educational policies. The republican educational system neglected the values intrinsic to the "national culture" which, throughout history, had been the guiding force behind the major achievements of the Turkish-Islamic civilization in the fields of arts, literature, statecraft and military power. In its disregard of an idealist philosophy of science and history, republican education failed miserably in producing the "Model Man". The Western impact on education resulted in the acceptance of positivism in scientific outlook which culminated in a materialist view of life that became increasingly dominant in social relations. Of positivism's several "variants", Marxism, Darwinism, Freudism, pragmatism and humanism are specifically cited as major schools of thought which have been responsible for the spiritual decline and decadence of both the Western societies and of Turkey¹⁰. In this context, humanism and communism are given special attention as major factors in the destruction of "national cultures" throughout the world insofar as both are of a "cosmopolitan"

nature. Whereas communism has stood as a political threat to Turkish independence, humanism has become the tool for Western cultural imperialism¹¹.

According to this analysis, republican education consequently destroyed the respect for authority and moral discipline that previously had been important elements of the culture and were transmitted to new generations through the family, tradition, custom and religious faith. The result was the youth of the 1960s and the 1970s: alienated from the national culture, ignorant of their own history, drawn to foreign ideologies, rebellious of authority, rootless, confused and without hope. Hence, it was the educational system which sowed the seeds of this anarchist generation¹².

The panacea, therefore, for social unrest and political instability is seen by the Hearth as lying in the strengthening of the "national culture" through the educational system, the mass media, and state planning. The idea of the "national culture" rests on the differentiation made between the twin concepts of culture, which is seen as specific to the nation, and of civilization, which is regarded as international. Whereas culture is static, civilization may be open to change. Here, civilization is understood in reductionist terms as the mere total of advances in technology. Accordingly, the suggestion is to limit Westernization within the boundaries set by the concept of civilization; this would allow for technological exchange but reject cultural influences. The unchangeability of culture is considered to be of crucial importance in an age defined as the century of nations and nation-states which, in this analysis, are viable units insofar as they retain their cultural uniqueness rather than search for universalist visions¹³.

The state, in this process of retraditionalization, is visualized as an active agent in engineering cultural and intellectual life. On the one hand, it should, through the Ministry of Education, reorganize the contents of social studies so as to introduce elements of the "national culture" into formal education. This suggestion, indeed, became part of the educational policies of the post-1980 period as the textbooks for secondary schools were rewritten with such titles as National History, National Geography, National Literature, and the like. On the other hand the state, through its radio-television network and financial support, should encourage the development of national music, visual arts, and literature. In this context, special attention is given to the language question, a controversy which dates back to the language reform of the Kemalist period, with the demand that the modern Turkish used by the intelligentsia should be replaced with what is considered to be an indigenous language based on the old Ottoman forms. The language issue, which has become a symbol of the division between the conservatives and the modernists, is taken to be so crucial that the state-owned Turkish television, after 1980, issued a long list of words which were banned from use over the network¹⁴. A final suggestion is made that the state's role should not be simply confined to promoting this specific cultural outlook but should be extended to discourage, or as one document put it, to "extinguish" modernist movements in literature and the arts¹⁵.

The most important part of the new ideology which is directly relevant for our concerns here has to do with its Islamic component. According to the ideologues of the "Turkish-Islamic Synthesis", religion is the essence of culture. This is especially true of Turkish culture which, from its architecture

and fine arts to its customs, has been influenced by Islam. The promotion of the "national culture", therefore, requires state planning of religious and moral life. This is seen as necessary not only for the intrinsic value of religious and moral teaching as a transmitter of culture but also for its pedagogical value in shaping the mind. It is considered to be the state's duty to create a culture which puts man's spiritual needs at its centre and hence guides him into being obedient of authority. The insistence after 1982 upon a religious course for all secondary school students, which became mandatory with a clause in the new constitution, is seen as reflecting the recognition by state authorities that the neglect of an Islamic upbringing was an important element behind the rebellious youth of the previous decades¹⁶.

An important aspect of the plea for a revival of Islam through state intervention concerns Islam's perceived historical role in providing for unity of purpose and homogeneity of ideals. It is this characteristic of Islam which, in the past, had connected the individual with the state on the one hand, and, on the other, had served as a unifying force between various classes and strata. The Turkish-Islamic tradition, in elevating the family and the military to the apex of the institutional structure, had further strengthened both social solidarity and state authority.¹⁷

It is this idea of recreating the Islamic ummah, a unified community of believers, that seems to have had the most appeal for policy-makers of the post-1980 period. The Islamic message that the new ideology contains is carried beyond issues of culture and encompasses a new concept of development. The Japanese course of modernization, which is conceived as a merging of religio-traditional values with a free market economy, is often cited in this literature as a successful model of national achievement. Hence, it is suggested that Turkey should pursue a new path of development which emphasizes the priority of a spiritual reawakening as a prerequisite for economic growth. In this quest, Islam is expected to play a significant role in minimizing the social conflicts that might ensue as a result of rapid industrialization and fierce competition in the market. An important document on the new ideology summarizes the point succinctly: "Science, without religion, is the source of all disaster."¹⁸

This new ideology, the outlines of which were summarized above, gained legitimacy in the political exigencies of the 1980s, a decade which, for Turkey, started with a military coup. Both the legislation and the political discourse of the post-1980 period have revolved around the key concepts of national unity, ideological uniformity, social peace and political stability. These aims were to be achieved by a general process of depoliticization, coupled with a concerted effort to socialize the new generations within the framework of the ideals set forth in the Turkish-Islamic synthesis. In this context, the idea of recreating the Muslim ummah, a community of believers who are united by the same faith, seems to have been included in the package with the hope that a renewed sense of community can consolidate social unity and solidarity, thereby eliminating the conflict of opposing ideologies.

Notes

1. For the revival of religion in several European countries and the USA in the 1980s, see the articles in a special issue of Daedalus, winter 1982.
2. See Süleyman Yalçın's statement in Yeni Gündem, "Türk-İslam 'Masoniari'," February 22-28, 1987, 11.
3. "National Front" governments were a coalition of Süleyman Demirel's centre-right Justice Party (Adalet Partisi), Necmettin Erbakan's neo-Islamic National Salvation Party (Milli Selamet Partisi), and Alpaslan Türkeş' neo-fascist National Action Party (Milli Hareket Partisi).
4. For a list of government and state officials who are members of the Intellectuals' Hearth, see Yeni Gündem, op. cit., 12-15. For more information about the Hearth, also see the series of articles by I. Tekeli, B. Güvenç, S. Turan and G. Şaylan in Cumhuriyet, "Türk-İslam Sentezi," April 19-23, 1987. The vice-chairman of the Intellectuals' Hearth, Muharrem Ergin, agreed in an interview that their ideological formulations had been very effective in the policies pursued by post-1980 governments. See Yeni Gündem, op. cit., 17-18.
5. For example, the Intellectuals' Hearth prepared a draft constitution in 1982 which was sent to the National Security Council. See Süleyman Yalçın and Salih Tuğ (1982), T.C. Anayasası için Teklif: Gerekçeler ve Maddeler, İstanbul: Ünal Matbaası). It also had two members (Şener Akyol and Yılmaz Altuğ) on the final Constitutional Commission.
6. See the proceedings of the commission on education in the Third Congress of the Intellectuals' Hearth in Aydınlar Ocağı (1981), Milli Eğitim ve Din Hayatı, İstanbul: Boğazici Yayınları, 9-231.
7. The most important of these is a document published by the State Planning Organization in 1983 called "The National Culture" which lays the outlines of state planning of cultural and educational life, of which more will be said below. See T.C. Başbakanlık Devlet Planlama Teşkilatı (DPT) (1983), Milli Kültür: Özel İhtisas Komisyonu Raporu, Yayın No: DPT: 1920-OIK:300 (Ankara). A second document of importance is the one published by the Atatürk Higher Council concerning, again, state cultural policies. For the complete text, see Saçak, September 1987, 44 ff.
8. İbrahim Kafesoğlu (1985), Türk-İslam Sentezi (İstanbul: Aydınlar Ocağı).
9. Ibid., 161-212.
10. See DPT, Milli Kültür, op. cit., 535-543.
11. Muharrem Ergin, A. Aydın Bolak and Süleyman Yalçın (n.d.), Milli Mutabakatlar, İstanbul: Renkler Matbaacılık, 6. This declaration was made public in 1987.
12. DPT, Milli Kültür, op. cit., 542-43.

13. Ergin, Bolak and Yalçın, op. cit., 5-8.

14. The document prepared by the Intellectuals' Hearth, Milli Mutabakatlar, which was presented to the Turkish nation for determining the "general will", claimed that the language issue was the most crucial problem for Turkey. "As long as this fake language is in use," wrote the authors, "Turkish is in danger, national culture is in danger, and indeed the nation itself is in danger." Ergin, Bolak and Yalçın, op. cit., 10.

15. Ibid., 11. For these and similar views, see also the articles in Aydınlar Ocağı (1987), Yeni Bir Yüzyıla Girerken Meselelerimiz: Kültür, Eğitim, Dini Hayat, İstanbul: Metinler Matbaası; Aydınlar Ocağı (1987), Yeni Bir Yüzyıla Girerken Meselelerimiz: Gençlik ve Meseleleri, İstanbul: Metinler Matbaası; Aydınlar Ocağı (1980), Kültür ve Sanat, İstanbul: Boğazici Yayınları; Aydınlar Ocağı (1983), Milli Eğitim ve Din Hayatı, İstanbul: Boğazici Yayınları; and DPT, Milli Kültür, op. cit.

16. DPT, Milli Kültür, op. cit., 514-517.

17. DPT, Milli Kültür, op. cit., 519-522. Also see the declaration published by the Intellectuals' Hearth in 1984 at the end of a seminar on the military takeover of 1980, in Boğazici, October 1984, 6-11.

18. DPT, Milli Kültür, op. cit., 527.

THE CONSOLATIONS OF RELIGION IN TURKEY

Andrew Mango

Between 25 April and 2 March 1988 inclusive, the left-of-centre Istanbul daily Milliyet published a series of articles by Dozent Dr Bahriye Üçok on the unequal relationship between men and women in Islamic countries. The last two articles (on 1 and 2 March 1988) listed violations of the secularist canon in Turkey. They thus provide a convenient summary of the current grievances of "enlightened" (aydın) opinion in Turkey.

Dr Üçok's principal worry is that Islamic fundamentalists (şeriatçı akımlar) have succeeded in infiltrating the staff of the Ministry of National Education. They no longer have to shout "We want the sharia", as they did in the garden of the Faculty of Theology in Ankara in 1968, she argues, since a first step has already been taken in the shape of the provision in the 1982 Constitution, which changed the status of religious instruction in primary and secondary schools from optional to compulsory. The provision occurs in Article 24 on "Freedom of Religion and Conscience", the relevant paragraph stating:

"Education and instruction in religion and ethics shall be conducted under State supervision and control. Instruction in religious culture and moral education shall be compulsory in the curricula of primary and secondary schools. Other religious education and instruction shall be subject to the individual's own desire, and in the case of minors, to the request of their legal representatives."¹

Incidentally, the last sentence (after the word "Other") was all that the 1961 Constitution had to say about religious education.² According to the official explanation (gerekeçe) of the article in the 1982 Constitution,

"Religious and moral education and instruction have been placed under state supervision and control in order to prevent exploitation and abuse. This education is compulsory in primary and secondary schools. Naturally, the scope of this compulsory education does not extend to non-Muslims."³

Dr Üçok argues that there was no need to write compulsory religious instruction into the Constitution. But there was a perceived need, expressed by President Kenan Evren (who as General Evren was military Head of State when the Constitution was drafted) in the words "There can be no nation without religion" (Dinsiz millet olamaz).

Dr Üçok then gives the following examples of violations of secularism:

That a report sent to schools by the Minister of Education stated "the Darwinian theory is based on scientific deception";

That the teaching of logic and philosophy in lycées has been made optional;

That books reflecting Khomeini's philosophy were included in an exhibition organised by the Religious Foundation (Diyanet Vakfı).

That in the district of Doğanşehir of Konya province it was announced by municipal loudspeaker that 16 persons who had broken the Ramazan fast would have to pay a fine of 10,000 Lira (£5 at the mid-1988 exchange rate).

That some classrooms have been converted into prayer rooms (as in the Siirt Teacher Training College);

That in 1987 the canteen of the Çankırı Technical High School was closed in daytime during the Ramazan;

That at Akçaabat, girls from a School of Prayer-leaders and Preachers (the presence of girls in such schools is a Turkish curiosity) wore head-scarves when they attended a general knowledge competition; that they left the hall when the District Officer objected; and that the District Officer was subsequently transferred to Siirt (in the mountainous East);

That the canteens of several Ministries in Ankara were closed during the Ramazan;

That a steelworker in Iskenderun and a student at the University of Van, who broke the Ramazan fast, were both killed by fanatical companions;

That at the Atatürk Student Residences students were forbidden to wear shorts when they walked to the bathhouse, as this was "contrary to Islam";

That the headmaster of a secondary school at Karşıyaka in Izmir was suspended when he suggested that summer Koranic courses should be replaced by courses in computer science;

That a 13-year old boarding school boy was beaten for failing to get up for morning prayers.

That a schoolboy at Tavas attempted suicide as a result of pressure at the hands of a dervish brotherhood;

That girls at the Gaziantep Central Secondary School are forbidden P.E. as "sinful";

That sixteen students of a School for Prayer-leaders and Preachers were arrested for circulating Islamic Unity (Vahdet-i Islam) proclamations;

That the (illegal) Islamic Liberation Party (Hizbu't-tahrir) sent proclamations to Members of Parliament; and that a Minister of State has declared that he would open a prayer-room in every school;

That an inspector at the Kütahya Social Security Hospital took statements sworn on the Koran and made witnesses take ritual ablutions beforehand; and that (presumably in the same town) no lunches were served in the teachers' residences during the Ramazan;

That members of the Fethullahçı brotherhood tried to infiltrate military lycees, whereupon 66 of their students were expelled;

That at a theatrical performance organised by the Medical Union of Kayseri men and women were invited to sit separately, whereupon voices were raised in protest;

That during two consecutive religious holidays, greeting cards were put on sale "calling for reaction [sic] and the jihad";

That personal data forms which are filled in by students living in residences and are then forwarded to the police included a question on the respondent's religious affiliation (mezhep); whereupon a Shiite student protested that this violated the provision of Article 24 of the Constitution that "no one shall be compelled ... to reveal religious beliefs and convictions..."

That teachers have been disciplined for introducing progressive publications into their schools, while fundamentalist books have been commended, including one which said "If a person apostatises he should be called back to the faith; if he refuses, he should be killed", or "It is illicit to play musical instruments other than pipes and drums", or again "School plays may not portray a marriage contract" or "He who plays the part of

an infidel in a play becomes an infidel himself";

That a woman doctor at Çubuk near Ankara announced in a handbill that she would not receive male patients above the age of 12;

That a University Rector spoke of injecting dynamism into Islamic law, while another Rector who complained that reaction had stopped scientific instruction was suspended by the Council of Higher Education (YoK);

That a Registrar in Ankara declared to a bridal couple "We are marrying you in accordance with Civil and Islamic Laws", and told the bride "Dear girl, you must obey your husband. You will not admit even your own relatives into your home without his permission. If you want to go to heaven, you must obey the laws of Islam;"

That a provincial Director of Education said during a ceremony "As we are a Muslim country, Arabic is more important than any other language"; and

That a circular sent to University Rectors by the Higher Education Council suggested that "religious functionaries should be given social responsibility".

After enumerating these improprieties Dozent Dr Bahriye Uçok concluded her series with the words "Happy are those who take an oath to keep faith with the secular Republic and the principles and reforms of Atatürk".

This mishmash of reports, some of serious incidents, others trivial, and all clearly culled from the mainstream Press, have one thing in common: they represent a threat to the way of life of the more or less secularised Turkish middle class. Yet even members of this large and expanding portion of the Turkish population have some use for religion. The same papers which report avidly stories of imams in sordid scenes carry daily notices of deaths and funerals, couched in unimpeachably religious terms, never failing to mention whether the deceased or even one of his ancestors was a hajji, speaking of "pious ladies" (slihat-i nisvan'dan), and invariably noting a religious funeral.

An important precedent was established in this respect when Mustafa Kemal Atatürk, the founder of the secular republic, died in 1938. General Fahrettin Altay, a companion of Mustafa Kemal in the War of Independence, who was Commander of the 1st Army, with headquarters in Istanbul, when the President died, writes in his memoirs:

"The secular government feared that religious incidents might occur during funeral prayers in Istanbul or Ankara. Could one do without prayers? I told them: 'I don't believe anything untoward will happen. It is absolutely essential that prayers be said. It is a religious obligation which has become traditional. If prayers are not said, then whether fifty or a hundred years later, this nation will disinter the body and say prayers over it. So if prayers are to be dispensed with, allow me to resign my command.....' I was then told: 'All right, let's have prayers. But must it be in a mosque?' 'No', I replied, 'prayers can be said anywhere: here, indoors or out of doors, we can say the prayers and then proceed with the funeral'. This was agreed, and [the Prime Minister] Celal Bey [Bayar] ended the meeting with the words: 'Let's invite Serafettin Efendi, the Director of Pious Foundations, to lead the prayers. The following day, people in the [Dolmabahçe] Palace formed themselves into a congregation and Serafettin Efendi led the prayers as the imam...'"⁴

General Fahrettin Altay was himself both a believer (at least as a deist) and a modernist. His memoirs begin

traditionally with the formula "Praise be to Allah", but end with the following story:

"One day I met in the corridors of the Assembly a former and the current Ministers of Education, both of them young and distinguished. I said to them:

"Hundreds of ignorant men, dressed as hocas, spring up from nowhere during the Ramazan. They go to the villages and mislead the wretched people with their sermons. You would do well to take measures against this". They laughed, and replied "What do you suggest, that we should stick turbans on our own heads?"⁵

The report is symptomatic of an attitude which has persisted in Turkey among the "enlightened". By and large, these continue to display a lack of interest in religion, which, apart from a few rites of passage (funerals, as has been noted, mevlit memorial services, and circumcision, although this last tends to be a surgical rather than a religious occasion among the secularised bourgeoisie), is reduced to a vague and comforting deism. However, traditional Turkish Islam is stronger among the "wretched people" (zavalli halk). These have advanced both in material prosperity and in political power since General Altay's day, but both objectively and subjectively their lives are still straitened and uncomfortable.

According to most measurable criteria Turkey is undergoing a rapid transformation: the growth of the population, urbanisation, industrialisation, the explosion in mass communications, the growth in knowledge and skills, the development of a consumer society, the integration of even the smallest settlement in to national life, which is itself being integrated in the worldwide free market system, are creating stresses and strains, since achievement can never catch up with expectations. True, poverty in Turkey tends to be relative: there is no starvation and ragged trousers are a thing of the past. But discomfort is widespread. The material and social infrastructure is inadequate. As in all developing countries, housing, transport, educational, health and recreational services cannot cope with demand. Macroeconomic calculations of overall advances and forecasts of future discomfort here and now. Moreover, the improvement in personal material circumstances is not evenly sustained. Developments abroad, like the oil shocks of 1973 and subsequent years, and political and economic vicissitudes at home, sometimes lead to a drop in newly improved living standards. The current phase of austerity, following a politically inspired and economically unsustainable jump in living standards, is a case in point. It is easy for journalists to talk of a doomed generation, whose sacrifices will form the foundation of future prosperity, but difficult to be part of one. In many countries painful social and economic transformation have led to civil war. In Turkey, the troubles of the 1970s appear in retrospect as a vaccination against civil war rather than the real thing. In terms of political power, Turkey has, of course, been kept steady by the armed forces. But in addition to political control, mechanisms of social control have also been at work. To the extent to which religious habits and beliefs have provided such a mechanism, enlightened opinion has reason to sustain, instead of discrediting them. The military hierarchy, which took on itself the practical job of ruling the country in troubled times, seems to have realised this. The introduction of R.E. in school curricula follows from the premise that religion provides the social cement which holds the nation together (whereas revolutionary Marxism and certain other secular ideologies bring

division into it). Thus proclamations distributed by the military in parts of south-eastern Turkey troubled by the terrorists of the separatist Kurdish Workers Party (PKK) made a point of saying that the murder of Muslims was a crime against Islam. The present Turkish government of Mr Turgut Özal has also disturbed strict secularists by appealing to religion for practical political purposes, as when the Prime Minister declared that the Prophet Muhammad had refused to fix prices in Medina, and was, therefore, a supporter of the free market. Mustafa Kemal himself had appealed to religious sentiment for support during the War of Independence, before turning against it after the proclamation of the secular republic. Even then there were minor cases of attempting religious justifications. Thus the first Turkish woman teacher of P.E. used to tell troubled parents that it was an Islamic duty to take good care of the healthy development of one's body.

However, religion is not an inert matter like cement, but a living force which it is difficult to limit to practical applications. And while Islam was traditionally the servant of the State in the Ottoman Empire, it was also on many occasions a source of trouble, a channel for discontent, and a vehicle of dangerous enthusiasm. The rulers of Turkey have always had to deal with troublesome dervishes, religious students (*softa*), and religious enthusiasts of all kinds. In the days before the secular republic, they did so in the name of the "true" State religion. Today, secularist journalists do occasionally discover an "enlightened" *imam* as an exemplar to others, but most of the time their gaze is fixed on the dangers of "religious reaction". Even the university faculties of theology and the religious secondary schools, set up specifically for the purpose of forming enlightened men of religion (and, consequently accused by wilder religious spirits of producing *Lenin tohumları*, (the seed of Lenin), are seen by secularists as sources not of comfort, but of danger).

In the 1970s, Mr Bülent Ecevit, who was at the time leader of the Republican People's Party, formed by Atatürk for the country's enlightenment, spoke of the conflict between State and religion in Turkey as a "historic mistake" (*tarihi yanlış*). However, his analysis was based on anti-clerical premises:

"In Turkish society, throughout our history, freedom of conscience has been restricted not by the State but by certain men of religion. Whether in Ottoman or in Republican times, the State has not oppressed the people's religious feelings or men of religion; on the contrary, certain men of religion have exerted pressure on the State and on the people's religious feelings ... It is therefore necessary to take measures to put an end to this pressure and to protect the citizens' freedom of religion and conscience from pressure coming as much from fanatical and self-interested circles as from the State."⁶

Ecevit's attempt to bring the political gap between enlightened and religious feeling failed when his coalition with the religious National Salvation Party collapsed in 1974. Religion could not be harnessed to the chariot of secular social democracy. Today, a conservative government, in which religious feeling is well represented, is having some success in enlisting religious support for liberal economic policies. Ecevit's conception of the "historic mistake" has been replaced by Özal's

ideal of a "Turkish-Islamic synthesis". However, the Turkish kulturkampf has not abated, as the modern sections of Turkish society fear that the "Turkish-Islamic synthesis" will endanger their way of life, even if it does not drag them back into the Middle Ages. Yet while their psychological comfort requires but little religion, their physical comfort depends to a large extent on the restraint exercised by religion on the behaviour of their less fortunate fellow-countrymen. Today some Turkish intellectuals are turning their attention to the legitimisation given by religion to political power, but less so to the social role of religion. It is a field which would repay study.

Notes

- 1 Prime Ministry (1982), Directorate General of Press and Information, The Constitution of the Republic of Turkey, Ankara, 16.
- 2 Rona Aybay (1963), Karsılastırmalı 1961 Anayasası, İstanbul: Fakülteler Matbassı, 36.
- 3 Kâni Eksioğlu (1982), Gerekceli Anayasa 1982, İstanbul: Yasa Yayınları, 41.
- 4 Constitution, 16.
- 5 Fahrettin Altay (1970), On Yıl Savas ve Sonrası, İstanbul: Insel Yayınları, 502.
- 6 Ibid, 505.
- 7 Bülent Ecevit (1966), Ortanın Solu, 3rd ed., Ankara: Kim Yayınları, 98.

ISLAMIC BANKING IN A SECULARIST CONTEXT

David Baldwin

Introduction

Several Islamic banks, together with numerous foreign conventional banks, have been established in Turkey since 1980. Although the role of the Islamic banks or "finance houses", as they are called in Turkey, is still fairly limited, they have nevertheless managed to attract a sizeable number of investors, as will be shown later.

Since paying or receiving interest is prohibited in Islam, these finance houses are obliged to generate their income from fees for services, profit sharing from equity participation, trading in commodities and foreign exchange, the building and management of industrial and agricultural businesses, leasing operations and other transactions that involve risk but do not violate Islamic principles. Besides having to conduct business in an increasingly competitive market and in accordance with Islamic business practice, the finance houses face an additional obstacle of how to operate in a secular state.

To understand the position of these finance houses, it is necessary to outline the changes made during the 1920s which led to the creation of a secular republic and to examine the role which Islam plays in Turkish society today. The reforms had far-reaching consequences, influencing the economic orientation of the country for the next half century.

Islam and Secularism

For over a millenium the distinguished role played in world history by the Turkic-speaking peoples, including the Turks of Anatolia, took place under the mantle of Islam. In Islam there is no separation of 'mosque' and 'state' as specifically religious and political institutions. Indeed, the state is conceived as the embodiment of religion and religion as the essence of the state¹. Defeat of the Ottoman Empire in the First World War brought fundamental changes to the Turkish state which emerged in the aftermath. Perhaps the most fundamental of these was the disestablishment of Islam in 1923 with the abolition of the Caliphate and the decision to separate religion from the life of the state.

A policy of secularisation followed. This arose from concern for 'progress' and national strength. Mustafa Kemal believed that both could be achieved only by following a western model of civilisation². Atatürk and his followers emphasised the technology, science and humanism of the West, rather than its Christianity, and believed that territorial and linguistic nationalism could substitute for religious faith. Religious orders were abolished. Religious schools were closed and use of the Şeria was replaced by a legal code derived from the laws of European states. A secular stance has remained the official position of the state since the 1920s. Indeed, the Constitution of 1982 makes no mention of Islam. Under the heading "Characteristics of the Republic", Article 2 states,

"The Republic of Turkey is a democratic, secular and social State governed by the rule of law; bearing in mind the concepts of public peace, national solidarity and justice; respecting human rights; loyal to the nationalism of

Atatürk, and based on the fundamental tenets set forth in the Preamble".

A part of the preamble states,

"... there shall be no interference whatsoever of sacred religious feelings in state affairs and politics".

The Constitution contains other references to religion. Article 24, which deals with religious freedom, makes clear that religion must be kept separate from other matters.

"No-one shall be allowed to exploit or abuse religion or religious feelings, or things held sacred by religion, for the purpose of personal or political influence, or even for partially basing the fundamental social, economic, political and legal order of the State on religious tenets".

Propaganda against the principles of secularism was prohibited by Article 163 of the Penal Code adopted in 1926. Despite the official position, various concessions to Islam have been made since the death of Atatürk (1938) and its profile has been considerably heightened since 1960. Religion certainly did not wither away under the secular state and most of the Turkish population remained loyal to Islam. The westernised elite has thus coexisted with the mass of the faithful. A specifically religious party, calling for a more Islamic way of life, has even been allowed³. After 1965 vocational training for Muslim leaders was reintroduced and religious education in state schools expanded. Today about 10 per cent of all secondary education and over 40 per cent of the highest grade secondary education is given in religious schools. Religious revival has been further assisted by financial assistance from some of the Arab oil-exporting countries, as well as by the inspiration of the Islamic revolution in Iran.

Whilst resurgent Islam in Turkey has brought some friction with the official state, mosque/state relations now display a certain ambiguity. At one level, local people find parts of the behaviour of some western tourists, who now flock to the country, deeply offensive but the tourists also provide examples which can be copied to some extent. At another level, the army has expressed concern about a radical Islamic outlook (*iritica*), while President Evren has traced the dangers to Turkey of both Marxism and Islam to the country's secular traditions⁴. On the other hand, Prime Minister Turgut Özal and his circle support moderate Islamic traditionalism. To emphasise his attachment to Islam, and thus to secure votes in the local government elections and pre-empt the challenge from the Islamic faction in his party, Özal made the Pilgrimage to Mecca in July, 1988. He was the first Turkish prime minister in modern times to do so whilst in office. One faction of the ruling Motherland party has been openly critical of Turkey's application to join the EEC (April, 1987) and would prefer the country to play a greater role in the economic and political organisations of the Islamic world.

Turkey is a member of the Organisation of the Islamic Conference and of the Islamic Development Bank. At the same time, it is a member of NATO and the OECD. Whilst Islamic states of the Middle East exert some pressure for a relaxation of Turkey's secular traditions, some Europeans question whether Turkey can be integrated into the EC and include amongst their reasons the continued role of Islam in the country, as well as questions of human rights. Debate continues in the country

itself about whether economic development would have been reached by an open adherence to Islamic ideas and principles. The appearance of Islamic dress in the cities seems to challenge the view that as Turkey became industrial, urban and modern in character, it would become more secular and western in its cultural attitudes.

It is against this background - both secular and Islamic - that the emergence of Islamic banking in Turkey must be reviewed.

Origins of Islamic Banking in Turkey

Despite being a predominantly Muslim country, Islamic banking is a relatively recent phenomenon in Turkey. While not wishing to see Islamisation of the banking system, the authorities recognised that many believers were unhappy with the kind of banking facilities offered by the *riba* commercial banks⁵, but they also seem to have been influenced and pressurised from outside the country by members of the Organisation of the Islamic Conference and by the Islamic Development Bank to permit the establishment of Islamic banks. Following his election in 1983, the prime minister, Turgut Özal, pledged specific legislation to allow the entry of Islamic banks into Turkey's financial system in an effort to expand the improved economic relations between Turkey and the other Islamic countries, particularly in the Middle East. Özal clearly believed that the individual should have a choice of banks and to his supporters, many of whom are religious, the setting up of Islamic banks seemed to be a way of acknowledging their electoral support. However, the establishment of the Islamic banks in Turkey was not without controversy and the decision to allow their opening was criticised by both conventional bankers and secularists.

Strict and detailed rules issued by the Council of Ministers, the Undersecretariat of the Treasury and Foreign Trade and the Central Bank, govern the operations of Islamic banks, or "Special Finance Houses" in Turkey. The rules detail the functions, objectives, management structures and capital provision of the "Special Finance Houses", but nowhere are the words "Islam" or "Şariat" mentioned. This would appear to indicate an attempt by the authorities to avoid an open conflict with the principles of the state's secular constitution.

The decision to allow Islamic banks to operate in Turkey was contained in Decree No. 83/7506 of 16 December, 1983 and published in the Official Gazette No. 18256 dated 19 December, 1983. It was issued by the Council of Ministers shortly after the Özal administration had taken office. The decree contains 17 articles and deals with "the methods and procedures of the founding of the Special Finance Houses, their activities and liquidation, under the Protection of the Exchange Value of the Turkish Currency Law number 1567 and Decree number 70 regarding banks".

More comprehensive rules and regulations were formulated by the Under-secretariat of the Treasury and Foreign Trade and published in the Official Gazette No. 18232 of 25 February, 1984. Thirty-five articles cover "the founding structure, operation and liquidation of the Special Finance Houses". Article 3 states that the minimum amount of capital needed to set up a finance house is TL 5 billion and that there must be at least a hundred shareholders. Foreign shareholders are required to bring in their capital as foreign exchange. Other regulations stipulate that each share certificate shall have a nominal value of TL 100,000 and that the board of directors shall consist of seven

members. Articles 15 to 24 deal with the two types of account that the finance houses may offer to the public: "Current Accounts" and "Participation Accounts" (deposit accounts). These articles describe the operating methods which the finance houses should follow in administering such accounts and give examples of how the profits and losses should be calculated.

The Central Bank of Turkey has also issued rules governing the finance houses. These appear in the Official Gazette No. 18348 dated 21 March, 1984. In all there are 18 articles which stipulate "the requirements for the application and issue of licences to establish and commence business by the Special Finance Houses", and they give a general outline of some of their activities.

Permission to set up a finance house must be obtained from both the Central Bank and the Council of Ministers. It appears that the Central Bank first scrutinises the application and then recommends approval or rejection to the Council of Ministers which ultimately issues the operating licence.

The Central Bank fixes the reserve and liquidity ratios, which differ from those of the riba commercial banks⁶. At the present time, a total of 10 per cent of all funds collected in current accounts and 1 per cent of funds accumulated in profit and loss sharing accounts must be deposited with the Central Bank. No interest is paid on these deposits. The finance houses themselves must keep an additional 10 per cent of the value of their current accounts in cash. The Central Bank is also responsible for the audit of all the accounts and operations of the finance houses.

So far two Islamic banks have been established in Turkey. One is called Al Baraka Türk Özel Finans Kurumu (Turkish Special Finance House or Institution - "ABT") with the majority shareholder being the Al Baraka Investment and Development Corporation of Jeddah whose chairman is Sheikh Saleh Kamel. The other is Faisal Finans Kurumu ("FFK") whose main shareholder is Prince Muhammed Faisal al-Saud's Dar al-Maal al-Islami group. Although largely set up with foreign capital, these finance houses consider themselves to be Turkish banks. However, it appears that, like the foreign conventional banks, they will be limited to only six branches. Each new branch requires permission from the authorities and an increase in capital. The extra capital requirements are not detailed in the decree or in the other articles but it is known that there is a capital requirement of TL 2.5 billion for each full service branch and TL 1 billion for each limited service branch.

The finance houses began with a capital of TL 5 billion but this figure has steadily been increased to allow the opening of branches. Both now have an authorised capital of TL 10 billion. Al Baraka Türk's paid-up capital at the end of June 1988 was TL 8.75 billion and that of Faisal Finans TL9.88 billion, and both finance houses expected their capital to be fully subscribed by the end of 1988.

Although it is not possible to give the names of the Turkish shareholders, several former politicians own shares in both finance houses. The prime minister's brother, Yusuf Bozkurt Özal, for example, is a founding member of Al Baraka Türk. Two members of the now dissolved Milli Selâmet Partisi (National Salvation Party), Saleh Özcan and Ahmet Tefvik Paksu, are founding members of Faisal Finans and both are on the board of directors of this finance house.

Initially, the two finance houses had only the minimum 100 shareholders, as any number in excess of this would have led to their affairs coming under the scrutiny of the Capital Market Board, and full disclosure of the shareholders was something that both finance houses seemed keen to avoid. However, in 1988, Al Baraka Türk decided to permit an increase in its number of shareholders and to become a public company, subject to the rules and regulations of the Capital Market Board. One of the main benefits of public quotation will be a sharp reduction in capital gains and profits tax from around 46 per cent to 30 per cent. As no shares have yet been traded on the Istanbul Stock Exchange, it is not possible to give a current share price value.

Al Baraka Türk received its official permit to operate on 21 January, 1985 and opened to the public on 18 February, 1985. Faisal Finans was given a licence on 23 January 1985 and opened its office on 2 April 1985. Both finance houses have their headquarters in Istanbul.

Al Baraka Türk opened limited service branches in Ankara on 10 September, 1987, in Izmir on 6 June, 1988 and in Bursa on 15 June, 1988. It planned to open another branch in the central banking district of Istanbul before the end of 1988 and to move its head office from its present leasehold premises to a freehold building a short distance away.

Faisal Finans opened a limited service branch in Ankara on 15 December, 1987, in Izmir on 17 December, 1987, in Konya on 18 April, 1988 and in Bursa on 30 May, 1988.

These limited service branches are only authorised to collect funds and to conduct a very restricted service, with all investment decisions being made in Istanbul. Both finance houses expected to open their sixth and final branch during 1989.

In order to compensate for their lack of branches, the finance houses have deposit collecting agreements with several conventional banks, enabling them to attract funds from throughout Turkey. Faisal Finans uses Vakiflar Bankasi, a state bank with 278 branches, while Al Baraka Türk uses not only Vakiflar Bankasi, but also Türk Ticaret Bankasi, a private bank with 407 branches, and the PTT's⁸ postal cheque service. Both finance houses have extensive networks of correspondent banks in most parts of the world and, whenever possible, they prefer to use the services of other Islamic banks to those of conventional banks.

The establishment of the finance houses brought considerable media coverage, not all of it positive. It appears that some newspaper articles were more interested in discussing the political, religious and financial affairs of some of the leading Turkish shareholders than in explaining to the public the aims and operating methods of Islamic banking. These articles also stressed the "Saudi connection" which gave some of the initial depositors the confidence to invest their funds. Some apparently believed that the backing of the finance houses by two leading Saudi businessmen would lead to high and guaranteed returns.

In view of the constraints imposed by the constitution, the finance houses have found it difficult to publicise their activities. The content of all advertisements is strictly regulated and monitored by the Under-secretariat of the Treasury and Foreign Trade which issued detailed guidelines on 22 April, 1986 covering "the principles, terms and conditions to be adhered to by the Special Finance Houses in their publicity and advertisements." All media advertisements must avoid the use of the words "Islam" or Şeriat, and, in an attempt to get their

message across, the finance houses use the phrase "interest-free" and hope that the public will associate this with Islamic banking. Most advertisements appear in right-of-centre newspapers and magazines, but during Muslim religious feasts such as 'Id al-Fitr (Küçük Bayram, i.e. end of Ramazan) and 'Id al-Adha (Kurban Bayram, i.e. the day on which Pilgrims sacrifice during the Pilgrimage), there are brief television commercials. In the cities where the finance houses operate, there are also advertising signs along certain main routes.

Types of Accounts and Other Customer Services

The banking services offered by Islamic banks, including those operating in Turkey, are generally similar to those of the conventional banks except for the granting of loans or the acceptance of deposits at fixed or varying rates of interest. Unlike the riba banks in Turkey, the finance houses may also offer leasing facilities and carry out commodity trading.

The finance houses offer three types of account: Current, Participation and Special Investment. The characteristics and operation of these accounts are described below.

Current accounts are payable on demand. They are accepted in Turkish lira or in foreign currency, either US dollars or Deutsch marks. These accounts are operated and recorded separately from all other accounts and the finance houses are also required to keep funds in local and foreign currency separate.

The finance houses have fixed a minimum opening balance of TL 50,000, or foreign currency equivalent, and, subject to satisfactory operation of the account in the first few months, the client receives a cheque-book. Current account services are offered to the client free of charge and no interest or profit is paid to the depositors on these accounts.

The finance houses, in addition, accept deposits in the form of Participation, or Profit and Loss Sharing accounts, and invest the deposited funds on behalf of the depositors in economic sectors or projects whose operations conform to Islamic principles. These accounts can be opened by individuals or businesses who wish to share in the finance houses' profits (or losses) for periods of 90 days, 180 days, 360 days or longer. The accounts may be held in lira or foreign currency and there is a minimum opening balance of TL 100,000 or equivalent in foreign currency. By far the most popular term is 90 days.

Although the regulations state that the funds in each group should be administered separately, in practice this is not done. The finance houses claim that such a separation would make the operations of the fund less economic and more complicated to administer. Some Islamic banks, however, do maintain separate pools and usually allocate a higher percentage of profit to the investment account, if the deposit period is longer.

In Turkey, the funds deposited in lira are placed in one pool, and those in foreign currency in another pool. According to the regulations, the finance houses should calculate a "unit value" for each pool. This "unit value", which was set at 100 on the day the finance houses began to collect funds, is a weighted figure and should be announced weekly. It is determined by dividing the total value of assets in each pool of profit and loss sharing accounts by the total "account value" of the preceding day, if any profit and loss has been recorded. The "account value" is calculated by dividing the amount deposited by the investor by the "unit value" prevailing on the day the

account is opened. When multiplied together these two figures give the lira or foreign currency value of the investment.

Al Baraka Türk publishes the "unit value" of its lira and foreign currency accounts every Tuesday in the right-of-centre newspapers Tercuman and Türkiye. Faisal Finans does not regularly publish its figures in the media, but they are available, on demand, from any of its branches.

At the present time each finance house takes 20 per cent of all profit received on all profit-and-loss investment placements as expenses; the remaining 80 per cent is credited to the accounts of the investors. As in the case of the interest rates paid to depositors by the riba banks, the profits paid to the investors by the finance houses are subject to a 10.4 per cent withholding and defence tax. The tax authorities make no distinction between deposit interest and participation account profits. All accounts not closed within five working days of maturity are automatically renewed for a similar term. Money may be withdrawn from these accounts prior to the due date by giving 30 days notice. If the fund is in profit, the account holder is entitled to receive the principal only; in cases where the fund shows a loss, the depositor is obliged to share in the losses, which are deducted from the original investment.

In the rules covering the operations of the finance houses the maximum profit (or loss) share for the houses is fixed at 20 per cent and both are seeking Central Bank approval to lower this figure to 15 per cent. Such a move would enable the finance houses to offer a greater return to the investor and allow the finance houses to compete more effectively with the riba banks whose deposit rates were raised by the Central Bank in February, 1988.

Al Baraka Türk also operates a Special Investment account. This facility was set up in May, 1987 and offers investors with a minimum of TL 60 million a higher return. The investor receives 90 per cent of all profit and Al Baraka Türk takes 10 per cent as management expenses. Funds may be placed for 180 days, 360 days or longer.

Unlike funds placed at the conventional banks which are insured, the funds held in Current Accounts, Participation Accounts and Special Investment Accounts at the finance houses are not covered by the Savings Deposit Insurance Fund.

In common with most Islamic banks, the finance houses in Turkey offer services such as domestic and international transfers, the collection of bills of exchange, letters of credit, travellers' cheques, the purchase and sale of foreign currency on the spot market and trustee services. These services are essential for the banks' clients and, as they are offered for a fee, they help to reduce the bank's overhead expenses, and thus increase its profits.

Deposit Growth

The two finance houses started from modest deposit bases, as would be expected for new, and novel kinds of financial institution. The initial publicity that surrounded the opening brought a considerable response. The funds generated from Participation (PLS) and Special Investment accounts as well as up to 20 per cent of funds generated from Current Accounts, are used to finance various profit-earning investment projects.

As shown in Table 1, during 1985 Al Baraka Türk and Faisal Finans attracted combined deposits of TL 28.9 billion, despite having been in operation for only 10 months and 9 months respectively. FFK had collected around 30.0 per cent more funds than ABT, and its foreign currency PLS accounts were almost three times the value of those of ABT.

During 1986, there was substantial deposit growth at both houses. The deposits at FFK increased at a rate of 180.2 per cent, while those at ABT grew at a rate of 140.5 per cent. Both houses recorded a decrease in the value of their local currency current accounts as investors switched their funds into relatively high yielding PLS accounts. Once again FFK had far greater foreign currency deposits than ABT, and these made up 69.7 per cent of its total deposits. ABT's foreign deposits account for only 35.4 per cent of total deposits.

In 1987, the overall increase in total deposits continued at a slightly lesser rate for ABT (131.7 per cent increase), and at a substantially reduced rate for FFK (99.1 per cent increase). The growth rate of the foreign currency deposits is once again interesting. The value of ABT's foreign current accounts actually decreased by 26.1 per cent over the 1986 figure, but its foreign currency PLS accounts increased by a staggering 202.5 per cent. At FFK, there was a huge increase of 245.6 per cent in foreign currency current accounts, but a much lesser increase of 86.5 per cent in its foreign currency PLS accounts. Despite the overall increases at ABT, FFK still had more than twice the value of its deposits in foreign currency at the end of 1987. ABT, however, has managed to attract more lira deposits than FFK in each year of its operations.

Perhaps the reason for the greater foreign currency accounts at FFK results from the activities of its representative office in Frankfurt and its public relations office in Jeddah. Both were set up to publicise the services and activities of the finance house among the Turkish workers living in those countries and to suggest to them that they transfer their foreign currency savings to FFK's branches in Turkey.

At the end of 1987 the combined total of the finance houses' deposits stood at around TL 161.1 billion and represented 1.16 per cent of the total current and savings deposits held by the riba commercial banks in Turkey, compared to only 0.83 per cent in 1986.

In the period January to June 1988, the deposit growth at both finance houses was rather modest. Although there was an absolute increase in the amounts of deposits, there was a sharply declining percentage increase. This was mainly due to very high inflation, estimated at around 70 per cent in September, 1988. It resulted in negative returns, and caused some depositors to switch to other forms of investment. The value of accounts at ABT increased by 24.1 per cent and those of FFK by 23.6 per cent. At ABT the value of foreign currency deposits increased at a faster rate than those denominated in lira but, despite this, ABT's foreign currency deposits at the end of June were still less than those of FFK, which, over the same period, recorded greater gains in its lira deposits.

Both finance houses seem keen to attract a wide deposit base. At the end of 1987 the two finance houses had 3,740 current accounts and 38,385 profit-and-loss sharing accounts; the average balance of each account was around TL 3.8 million. This compares with total accounts of 26,809 and an average balance of each account of TL 2.8 million in 1986. The increase in the

average balance may have occurred as a result of the confidence and acceptance granted by the deposit customers who feel comfortable in dealing with the finance houses because they can relate to them in spiritual, social and religious terms.

In the first year of operation, the finance houses had approximately 15 per cent of the value of their deposits in current accounts but by the end of June, 1988 this figure had fallen to just over 5 per cent, with the depositors having committed a high percentage of their deposits, almost 95 per cent, to profit-and-loss sharing and special investment accounts.

The gross rate of return in 1987 on PLS accounts was around 54 per cent. This compared favourably with the gross yields of deposits placed at the conventional Turkish banks. However, the yield on 1 year deposits at these banks is now higher than such deposits at the finance houses, although other rates remain slightly less⁹. Both ABT and FFK are keen to increase their profit rates for depositors in order to make their yields more attractive vis-a-vis the 1 year deposit rate of the conventional banks. The profits paid to investors by the finance houses on foreign currency accounts closely reflected the returns paid by the riba-based banks.

The "unit value", described earlier (p. 27), was fixed by ABT at 100 on 29 March, 1985, the day it began to collect PLS funds. This weighted figure had risen to 383.1823 on 14 March, 1988 and so, for example, an investment of TL 100,000 made on this day would have "bought" 260.9724 units. The "unit value" had risen to 499.1936 on 19 September and so the investment would then have been worth TL 130,276. The number of units of "account value" is written into the PLS agreement kept by the client. The finance houses disclose the "unit value" weekly, either in the media or upon demand at any of their branches. In effect, the PLS account acts like a "unit trust". A client may, therefore, follow the progress of the investment but is powerless to do anything should the "unit value" decrease, and must wait until the end of the deposit term to collect the funds.

The profit distribution on ABT's special investment accounts, which the finance house began to offer only in May, 1987, showed an annualised gross rate of return of around 57.5 per cent in 1987. This return, which is higher than that paid to the PLS account holders, is due to the fact that the finance house distributes 90 per cent of its investment profits to the investors.

Although Faisal Finans did not disclose the profit distribution figures to its investors in its annual report, it appears that the returns were very similar to those of Al Baraka Türk.

As would be expected in inflationary conditions, most deposits are placed for a period of 90 days. At FFK, for example, 90 day term accounts constituted almost 63 per cent of all PLS accounts and over 71 per cent of all PLS funds at the end of 1987, compared to 59 per cent and 69 per cent respectively at the end of 1986.

At the end of 1987, the debt (deposits) to equity ratio of ABT stood at 9.8 per cent, up from 5.9 per cent in 1986, and that of FFK was 10.6 per cent in 1987, compared to 7.5 per cent in 1986. The higher 1987 ratios reveal depositor and community acceptance of the relatively new finance houses and reflect the confidence placed in the ability of the bank management to generate profits on investment.

appear to indicate that, for the year as a whole, the value of its murabaha projects would have exceeded that of ABT.

Murabaha transactions have covered both national and international trade. In 1987, both finance houses were involved in the syndication of separate murabaha facilities of around \$ 50 million each for the importation of crude oil by the state petroleum company, Tupras. Each finance house had a five per cent stake in the facility which was arranged by their Jeddah and Bahrain offices.

The finance houses are aiming to decrease their involvement in this short term finance and to move gradually towards greater investment in more medium to long term projects. From statements in their annual reports, it seems clear that the finance houses believe that there is too much emphasis on easy to arrange and relatively risk-free murabaha projects. In 1986, non-murabaha investments at ABT occupied 6 per cent of total investments and, in 1987, 9 per cent. At the end of 1987 the percentage value of non-murabaha projects outstanding at FFK was 3 per cent, compared to almost 13 per cent in 1986, and figures for the end of June, 1988 show a further (slight) decrease.

Non-murabaha projects at FFK consist entirely of musharaka,¹² or profit-and-loss sharing projects. Al Baraka Türk is also involved in ijara finance¹³.

ABT set up 49 profit-and-loss sharing projects in 1987, compared to 14 in 1986 and only 3 in 1985. The total value of PLS projects financed in 1987 was TL 9.9 billion, an increase of approximately 234 per cent over the 1986 figure of TL 3.00 billion and representing 8 per cent of total loans and investments. At the end of 1987, FFK had musharaka projects valued at TL 2.5 billion outstanding, or 3 per cent of all loans and investments. In theory, musharaka projects are of a medium to long term nature, but in Turkey these profit-and-loss projects are related only to short term trade finance. This is evident from a look at the end of year figures for FFK. In 1986 it had musharaka projects valued at TL 6.3 billion, whereas the figure at the end of 1987 was only TL 2.6 billion, a decrease in one year of TL 3.7 billion.

Neither finance house has so far arranged by mudaraba advances¹⁴.

Although the annual reports of both finance houses do not disclose full details about the types of financing, whether trade or corporate, short or long term, it would appear that most investment is made in the short term financing of working capital or in the short term financing of trade. Medium and longer term financing is provided not on the basis of participation but on the basis of ijara, or leasing contracts.

In 1987, Al Baraka Türk started to finance medium term projects by means of leasing. It arranged 5 leasing projects valued at just over TL 1.0 billion. The projects involved the leasing of textile machines, inter-city buses, cars and computers. Although repayments will be made over a four year period, which is the legal minimum for such items, the bulk of the repayments will be made in the first two years of the agreement. At the end of the leasing period, the client will make a final repayment and obtain ownership of the goods in question. In Turkey, leasing offers certain tax advantages to the lessee which, the finance house believes, will make leasing an increasingly popular form of finance. Accordingly, ABT expects the total amount of financial leasing to rise considerably in the years ahead.

Figures which show the sectoral distribution of funds reveal a different emphasis on some sectors between the two finance houses. In 1985, for example, ABT invested most funds, 40.7 per cent, in chemical and petrochemical projects, whereas the sector that received most funds from FFK was agriculture. The machinery and equipment sector received most funds from ABT and FFK in 1986, a total of 28.2 per cent and 19.7 per cent respectively. In 1987, the two finance houses invested most heavily in the chemicals and petrochemicals sector, due mainly to murabaha financing of oil imports. The textiles and metals sectors were also important recipients of funds over the period 1985-87.

The fund utilisation ratio, which gives an indication about the extent of loans and investments made from available funds, is derived by dividing the total amount of loans and investments by the total amount of funds available for such purposes. The latter includes all deposits, except current accounts, and total capital and reserves. Current accounts are excluded because they can be withdrawn on demand and are not entitled to any profit distribution. The higher the ratio the greater the employment of funds generated from deposit accounts and capital in investment activities.

Both finance houses had very high utilisation ratios in the period 1985-1987. They have generally experienced no problems in utilising their lira or foreign currency funds as there are many opportunities for local trade and import-export finance. The ratio of ABT exceeded 100 per cent in 1986 and 1987, implying that the finance house had employed the amounts received from its current account depositors in its investment activities. However, there is nothing wrong in this, provided that the finance house complies with the requirements of Article 17 in the rules and regulations issued by the Under-secretariat of the Treasury and Foreign Trade, governing the "utilisation of funds accumulated in current accounts."

In addition to providing finance to individuals and businesses for investment purposes, FFK has itself made direct investments. At the end of 1987 it had majority shareholdings in two companies, Faisal Foreign Trade and Marketing and Faisal Real Estate Construction and Trading, worth almost TL 1.3 billion. It also had 11 per cent stakes in Kibris Faisal Islam Bankasi (Faisal Islamic Bank of Cyprus) and Kibris Faisal Islam Yatirim Sirketi (Faisal Islamic Investment Company of Cyprus) valued at TL 120 million. However, during the first half of 1988, it sold these stakes, at a profit, in order to concentrate all activities in Turkey.

To date, the role of the finance houses in Turkey's economic development has been confined mainly to trade financing. It is the hope of many, both within the finance houses themselves and within the Muslim community at large, that as the technical and managerial skills of the finance houses develop there will be a move away from trade financing activities towards greater investment in more medium and long term projects such as musharaka and mudaraba that will contribute more to Turkey's economic and social development.

Profits and Factors Affecting Profitability

Of the two finance houses, the operations of Al Baraka Türk are the more profitable, as revealed in Table 2. It made a pre-tax profit of TL 5.8 billion in 1987, a rise of 26.3 per cent over the 1986 figure of TL 4.6 billion. Faisal Finans recorded a pre-tax profit of TL 4.1 billion, up by 5.4 per cent over the TL

2.6 billion made in 1986. After payment of corporation and other taxes ABT's net profit in 1987 was TL 3.3 billion. The annual reports of FFK do not reveal the net profit figures.

Although these nominal increases may, at first glance, appear high it must be remembered that inflation in Turkey in 1987 was around 35 per cent, and so, in effect, ABT actually recorded a negative rate of increase in its profits. Figures released at the end of June, 1988 show that both finance houses made profits of just under TL 2.0 billion each in the first half of 1988, a rate of growth which, if continued in the second half of 1988, would lead to substantial nominal and real profit decreases over the 1987 figures.

The main reason for ABT's higher gross profit and higher return on assets is probably due to the composition of its deposits. It has far more lira deposits than FFK and it appears that there are greater profitable opportunities for the deployment of lira funds than for the placement of foreign currency of which FFK has considerably more. The margins earned on lira funds are also generally higher than those on foreign currencies. Other possible reasons for ABT's greater profitability could be its higher utilisation of funds, its sectoral breakdown of investments, the type of business which it finances or simply better management.

The extensive use of modern technology, including on-line computers to all branches, has enabled both finance houses to record substantial gross profits per employee. Faisal Finans with 132 employees at the end of 1987, had figures of around TL 31.0 million per employee, while those of Al Baraka Türk, which had just over 100 employees, were in excess of TL 55.0 million per employee.

Once provision for taxation and transfers to reserves have been made, the remaining profit is distributed to shareholders as dividends. ABT discloses the amount of its dividend payments, FFK does not. At ABT dividends as a percentage of paid-up capital increased from 12 per cent in 1985 to 40 per cent in 1986 and 1987. Earnings per share of TL 100,000 in 1985, 1986 and 1987 were TL 14,262, TL 52,227 and TL 53,542 respectively. The dividends paid to shareholders are therefore less than those paid to PLS depositors.

Profits made by the two institutions seem to have suffered from increased competition for funds within the financial sector which has led to a lowering of margins. High inflation has now made the returns on all conventional bank deposits and finance houses profit-and-loss sharing accounts negative. This, in turn, has led the public to invest in higher yielding government securities, gold and real estate. The profits of the finance houses are, therefore, likely to remain depressed for the foreseeable future.

Competition within the Financial Sector

In Turkey, where a duopolistic financial situation exists, competition is the main issue between the two Islamic finance houses and the more than fifty riba-based conventional banks. The finance houses compete, in varying degrees, both with each other and with the riba banks and financial institutions.

Legislation sets the finance houses apart from other commercial banks. Their methods of operation and the financial products they offer are different from those of the riba-based banks. Their annual figures are excluded from all Treasury and Central Bank reports and statistics covering the financial

sector. The various regulatory bodies deal discreetly with the finance houses and this rather low profile appears to suit the finance houses which do not wish to attract attention or criticism from other financial institutions over what some see as their favoured treatment and status.

Both finance houses offer a similar range of services and it appears that profits paid to their profit-and-loss sharing depositors are also very similar. Strict rules on advertising preclude the finance houses from making any religious references or direct comparisons with each other or with the conventional riba banks in matters such as returns on deposits, efficiency or profitability. Clients, or prospective clients can, however, work out for themselves, from the unit values that are announced weekly, the rate of return of PLS funds at each finance house but it is unlikely that many do so. A comparison could then be made with the rates offered to depositors by the riba banks which are fixed by the Central Bank and advertised widely.

Although both finance houses are competing for the same funds, there does not appear to be any overt price competition. When deciding such things as murabaha mark-ups, the finance houses take many factors into consideration and so direct comparisons between the two are difficult to make.

The returns on PLS lira deposits of under one year remain higher than the yields of deposits of similar terms at the riba-based banks but both finance houses are well aware that their one year participation deposits now offer less returns than such deposits at the conventional banks. The profits distributed on foreign currency participation accounts closely reflect the rates of interest paid by riba banks.

For many Muslims, however, the returns offered by the finance houses are of secondary importance. The overriding importance of these institutions is that they provide an opportunity for conducting financial transactions in conformity with Islamic principles by the avoidance of riba. As such, they do not compete directly for existing deposits but represent an alternative to conventional riba banks.

Despite the fact that the market share captured by the finance houses is steadily increasing, it appears that this is a result of these institutions offering financial products which appeal to believers and not as a result of direct competition with riba banks. The finance houses are obliged to act prudently to earn goodwill, to secure customer loyalty and to maintain their good reputation. Profits can be increased only by the development of new products and services and not by trying to increase market share by undercutting riba-based banks. This would only lead to a further reduction in their already relatively low margins and possibly liquidation. Overall, the Islamic finance houses have shown that they can operate successfully in a very competitive financial sector and that they complement, rather than compete with, the commercial riba banks.

Conclusion

Turkey is the Muslim country with perhaps the best prospects for Islamic banking. It has a population of over 52 million. Since 1980, Turkey has enjoyed a fast economic rate of growth and prospects for further growth look promising, specially since the country has an established industrial base, agricultural self-sufficiency, a booming tourist sector and a government committed to private enterprise. In recent years it has become a much more open and liberal society in which more toleration is shown

towards Islam. The rapid growth of Al Baraka Türk Özel Finans Kurumu and Faisal Finans Kurumu indicates that there is a demand for Islamic banking services. As these two finance houses account for just over one per cent of all Turkish bank deposits, the scope for expansion is clearly enormous. The finance houses have proved that banking growth and profitability do not have to depend on the practice of receiving and paying interest.

The lead taken by Prime Minister Özal in enacting legislation to permit the establishment of Islamic banks in Turkey appears to have been justified. Although the finance houses are subject to close supervision from the various regulatory authorities, the degree of supervision does make investors feel more secure and confident in their dealings with the finance houses. The Islamic banks in Turkey complement the existing conventional banks and other financial institutions, and have encouraged banking habits among the Turkish population.

Although the two finance houses have been in operation only since early 1985, the growth of their deposits, assets, investments and profits has exceeded most expectations. This initial rapid growth has now decreased somewhat and 1988 is likely to see a consolidation of their activities.

Both finance houses have high utilisation of funds ratios but, with most of these funds being used to finance short term trade, this appears to result in little tangible benefit for the Turkish economy or its people. The emphasis on trade finance conflicts with the ideology and theory of Islamic banking, the main aims of which are to provide a fair return to deposits and shareholders and to offer social services to the Islamic community. It is the neglect of medium and long term profit-and-loss financing that both special finance houses need to remedy in the near future.

In Turkey, the finance houses can contribute to the country's economic development by attracting the untapped savings of people who at present do not deal with banks and of those who have savings accounts at conventional riba banks, in conflict with their religious convictions. The real contribution of the finance houses will come from their investment activities in development projects on an equity participation basis.

Despite the growing competition in the financial sector it is likely that the next few years will witness an increase in the number of institutions operating along Islamic lines in Turkey. Indeed, a third finance house, Türk-Kuveyt Evkaf Finans Kurumu, received permission to operate in Turkey and was expected to open by the end of 1988. This finance house will have an initial capital of TL 15 billion and its major shareholders will be the Islamic Development Bank, the Kuwait Finance House and Vakıflar Bankası.

Islamic banking has thus shown that it can operate side by side with conventional banking and it appears to have become a permanent force within the Turkish financial sector.

Footnotes

1. Berkes, N. (1964), The Development of Secularism in Turkey, Montreal: McGill University Press.
2. Mango, A. (1975), Turkey: A Delicately Poised Ally, The Washington Papers 3 (No. 28), University Press of America.
3. Known as Refah Partisi (Welfare Party). In the 1987 General Election it gained 7.14 per cent of the votes but no parliamentary seats.
4. Economic Intelligence Unit, Country Report on Turkey 1988-89, London, 10.
5. riba (interest or rent) "as distinguished from bay', transfer for equivalents. The commentators, however, limit the prohibition to the taking of interest on, or the making of a charge for the loan of gold and silver and articles of human consumption". Levy, R. (1962) The Social Structure of Islam, Cambridge: Cambridge University Press, 256.
6. Since September 1988, the liquidity and required reserves of the conventional banks have been 30 per cent and 14 per cent respectively.
7. Vakiflar means waqfs i.e. religious foundations or charities, and many Turks view this bank as "Islamic", although it is not. As a result, the finance houses set up fund collection services with it.
8. PTT is the abbreviation of Posta Telegraf Telefon, the Turkish post, telegraph and telephone service.
9. Since September 1988, maximum gross interest rates for time deposits of 3 months, 6 months and 1 year at the conventional banks have been 42, 51 and 64 per cent respectively.
10. This ratio has been calculated using gross profit figures as net profit figures are unavailable from Faisal Finans Kurumu.
11. Murabaha. "The Islamic bank purchases, in its own name, goods that an importer or trader wants, and then sells them to him at an agreed mark-up. This technique is used for financing trade, but because the bank takes title to the goods, and is therefore engaged in buying and selling, its profit derives from a real service that entails a certain - albeit minimal - risk, and is thus seen as legitimate. Simply advancing the money to a client at a fixed interest rate would not be legitimate".
Khourl, R.G. (1987), "Knotting a new network", ARAMCO World Magazine 38(2), 18.
12. Musharaka. "The bank enters into a partnership with a client in which both share the equity capital - and perhaps even the management - of a project or deal, and both share in the profits or losses according to their equity shareholding". Ibid.

13. Ijara-Ijara Wa Iktina. "Equivalent to the leasing and instalment loan, or hire-purchase, practices that put millions of drivers on the road each year, these techniques as applied by Islamic banks include the requirement that the leased item be used productively and in ways permitted by Islamic law". Ibid.
14. Mudaraba. "An Islamic bank lends money to a client to finance a factory, for example - in return for which the bank will get a specified percentage of the factory's net profits every year for a designated period. This share of the profits provides for repayment of the principal and a profit for the bank to pass on to its depositors, should the factory lose money, the bank, its depositors and the borrowers all jointly absorb the losses, thereby putting into practice the pivotal Islamic principle that the providers and users of capital should share risks and rewards". Ibid.



TABLE 2

Gross Annual Profits of Al Baraka Türk Ötel

Finans Kurumu and Faizal Finans Kurumu

(TL 000 and percentage growth)

	A. N. Y.		F. Y. K.	
	1985	1986	1987	1988
Gross Profit	1,335,983	4,629,549	5,847,729	1,219,616
% Growth		243.5	26.3	113.6
			2,638,830	4,073,728
				54.4

Source: Compiled from Finance House Reports.