



## Contribution Of Participation Banking To The Economy

### Katılım Bankacılığının Ekonomiye Katkısı

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#### ABSTRACT

The social discourse could have as a background the definition and analysis of the tools that we have to eradicate poverty in the world and the degree of control, by the authorities, over these tools. This article analyzes the contribution and contribution of traditional banking, ethical banking and microfinance companies in the achievement of economic and social development, which precedes said objective. Finally, the professionalization of these latter entities is proposed as a key element, in order to extend their activity and financial resources to the largest possible number of clients or beneficiaries in advantageous economic conditions.

**Keywords:** Participation Banking System, Economic effect, banking systems

#### ÖZET

Sosyal söylem, dünyadaki yoksulluğu ortadan kaldırmak için sahip olduğumuz araçların tanımını ve analizini ve bu araçlar üzerindeki otoriteler tarafından kontrolün derecesini bir arka plan olarak alabilir. Bu makale, geleneksel bankacılık, etik bankacılık ve mikrofinans şirketlerinin söz konusu hedeften önce gelen ekonomik ve sosyal kalkınmanın gerçekleştirilmesine katkı ve katkılarını incelemektedir. Son olarak, faaliyetlerini ve mali kaynaklarını avantajlı ekonomik koşullarda mümkün olan en fazla sayıda müşteriye veya yararlanıcıya genişletmek için bu son kuruluşların profesyonelleştirilmesi anahtar bir unsur olarak önerilmektedir..

**Anahtar Kelimeler:** Katılım Bankacılığı Sistemi, Ekonomik etki, bankacılık sistemleri

#### INTRODUCTION

The most anticipated social discourse, since it is the one that affects the greatest number of people, could be the one whose motto is “eradicate poverty in the world”. With this objective and now more than ever, coinciding with a stage of financial and economic crisis, the entire population would benefit: for the developed countries it would be the solution to the slowdown in demand from our own economies, already saturated, and for the another part of the population, that of the less developed countries, would achieve an improvement in their living conditions. However, despite having a very large number of potential beneficiaries, the formula that allows the achievement of this desired end has not been found. This article analyzes banking activity and its relationship and consequences on social and economic development. In the first part, the banking activity is considered in its most social aspect, emphasizing the overcoming of the shareholder approach and placing the accent on the stakeholder model, as it analyzes the relationships of the banking entity with each and every one of the social agents with those in which the entity maintains some type of

relationship and therefore, emphasizing its contribution to economic and social development. However, by their very nature, traditional financing channels are not accessible, in general terms, to potential applicants for funds that could greatly contribute to this objective. In the second part, microfinance institutions are detailed and defined, since they are entities that provide financial resources to those clients who intend to develop a business activity, but who, mainly due to lack of guarantees, are outside the traditional channels of obtaining financing. However, the presence and actions of these entities have not achieved great achievements in terms of economic and social development either. March 2009 marked the ninth anniversary of the Lisbon Agenda, where the heads of state and governments of the European Union (EU) agreed that next year, in 2010, the EU will become the “knowledge economy the world's most competitive and dynamic company, capable of sustainably growing economically with more and better jobs and with greater social cohesion ”. This European strategy for sustainable development was later expanded to also include social considerations.

On that occasion, the European Council made a special appeal to the sense of corporate social responsibility with regard to best practices in relation to continuous training, work organization, equal opportunities, social integration and sustainable development.

All companies, but particularly those of a banking nature, play a decisive role in social development mentioned in the Lisbon Agenda. However, global banking seems not to be acting in the expected line, but with its back to the world and its inequalities. Its traditional performance has consisted of interpreting the role of intermediary in channeling the savings of lenders towards borrowers to obtain the maximum benefit, without taking into account the environmental and social imbalances that it could trigger. In order to wash this image, the term Corporate Social Responsibility in banking activity arises in order to establish and develop internal codes of conduct that limit the performance of both internal and external activities that may violate social rights or environmental. In this scenario, and given the limited scope in terms of economic and social development achieved so far by traditional banking and ethical banking, a group of entities called “microfinance institutions” appear and that, at first seem to play a role. leading role in achieving the general objective that we intend to achieve.

The purposes of social financial instruments are three (Gutierrez, 2000):

I. In the first place, they pursue the development of economic or non-profit activities that are difficult to finance in traditional financial circuits, given the nature of the activities or the economic

situation of the entrepreneur. The reasons that traditional financial entities argue towards the potential applicants of these products are:

- The applicant for financing does not fit within what is considered an “entrepreneur”.
- Financial institutions do not share the logic of the social economy and have doubts about the viability of the projects that emerge from it.
- The projects that require financing are located in production and service markets and seek social, economic and ecological innovation.
- The initiatives lack guarantees to back them up or, if they do, they are non-traditional economic structures and / or they are placed in “high risk” markets.
- The lack of experience in the business field on the part of the one requesting the financing means that the provision of assistance or training in said area will be necessary. II. These instruments pursue other purposes apart from the development of economic activities. Essentially its objective is to guarantee the insertion of men and women.

III. Finally, underlying social financing is a concept of saving and investment that goes beyond the merely lucrative and appeals to the social profitability of investments and the social responsibility of the saver.

Finally, we are going to point out the entities that offer this type of product. And among them: (Gutierrez, B: 2002):

- Banking entities that offer microcredits in two ways: directly or through social work or related foundations.
- Public entities. This is a recently created initiative in which they promote microcredit programs, delegating the granting of the same to a financial institution.
- Non-governmental organizations. These organizations provide microcredits from their own funds, which are supervised and administered by other entities.
- Credit unions, which offer microcredits to their members.

### **1.1 Boosting The Economy From Citizen Participation**

Development can be understood as a process in which citizens are integrated to promote their opportunities as people, as entrepreneurs, as social groups, with the ability to attract private and

public resources that, favoring the common good, develop the economic activity of their environment. The traditional agents of development, government, private business activities, social organizations, families and support from the media are instruments for this new model of local development platform, which, with the existing capacities, human and financial capital, promotes projects that improve the quality of life, increase economic efficiency and boost the resources of the municipalities, which will facilitate a greater development of people, in addition to learning with a more educational process. A cultural change in public and private activity that seeks more an active role for reindustrialization forums for local development.

Participation is, in these cases, a modernization factor and is part of that change, in addition to constituting an essential element for the effectiveness of decentralization, where management competencies must be involved with institutional changes for a new vision of the State. The rights of citizens are only lived in reality when they are exercised and embodied in the constitutions and are exercised democratically by citizens without limitation of their freedoms, because the rights that are not exercised run the risk of becoming petrified norms. The innovative impulse of local life must be carried out with effective means, adequate policies, and integrated participation systems. Balanced public and private financing, research projects that develop new products or services, to open up from the local to the global world. The recent creation of the support network for Local Entities for Transparency and Citizen Participation (FEMP 2015) is a good step. Its adaptation and experiences of open and participatory government can be consulted in the experience of the City Council of Molina de Segura (Murcia) through its website.

54 cities have been incorporated into this project. From Molina de Segura (Murcia) a collaboration platform has been developed with the participatory budgets of the municipality and the entrepreneurs of the different sectors with the aim of promoting and coordinating with the participatory initiatives of the most enterprising citizens. The planned plan is to develop an innovative and efficient reindustrialization model that coordinates with research initiatives from the University of Murcia and the Polytechnic University of Cartagena. It is the relationship of universities with urban and regional development, it is not a new phenomenon, as stated by Capel, Canau and Viola (2014).

A local democracy for all requires committed planning, and accepting that the power / money / success triad does not dominate local society, because I understand development as a balance between equality, dignity and the exercise of shared power. The European Union, in its new H2020 strategy, considers that higher education and research institutions should play a key role in

smart growth initiatives and should become active participatory agents of local policies (European Commission , 2014).

Many European cities have based part of their historical development on the presence of important universities. In recent years, the spread of the triple helix model (university, governance and industry) has led to a relaunch in this type of relationship. There is an academic interest in regional development, both from sociology, as well as from the economy or the territory (geography). In addition, the University acts as a dynamic element, it is true that in some more than in others, but increasingly the economy, sociology and the study of territories have links with research, new knowledge and the creation of companies with projects linked to the research departments of the universities.

We are at the moment of opening debates and delving into how CIUs (University Research Centers) can be incorporated into these local development initiatives. These, in regional development, can be an engine for regional economic growth, it is what is known as «the third role», according to the report cited by Capel, Canau and Viola (2014), for universities to develop the model of the triple helix or the theories about clusters that have delved into the mechanisms (institutional, economic...) that transmit knowledge and innovation to the system; especially in this local area where it is specified that the role of the university in the transfer of knowledge, technological innovation and the production of knowledge infrastructures, can contribute to local economic development.

## **1.2 The Challenges for Participation Banking**

However, the CIUs have not engaged in local development activities, promoted platforms, seeking financing and attracting investment, it is an economic, social and participatory approach that must be developed for adequate territorial planning. These ideas are of special relevance, the European Commission tells us, in territories that are not specialized and that must deepen in identifying their capacities in fields where they present strengths and potential to develop new knowledge bases so that their human capital has a coordinated response with future entrepreneurial demands, and the new European growth strategy is a successful solution and reactivates the local economy (European Commission, 2014).

According to Oskar Lafontaine (2015) democracy and decentralization require each other. In the EU, opacity increases with size, becomes more remote and less controllable by the citizen. The principle of subsidiarity is and remains the cornerstone of any order of democratic society. And it is from the municipality where the regulations must start and from there, continue at the regional or

country levels, to continue in the national states, in the EU and in international institutions. Examples of wrong transfers are galore, says Lafontaine (2015). Because we do not need casinos that operate globally, but local financial institutions that can still be controlled. The major financial needs will be met by national banks, which must be strictly regulated. On the other hand, we do not need energy giants operating throughout Europe with large power plants and power grids, but municipal power plants running on renewable energy and local storage capacities. These are issues to bear in mind in local reindustrialization.

Reindustrializing Spain is a challenge, we affirm from Economists Facing the crisis, it is the new conceptualization of the engines of development and innovation, which go through many innovative questions that we have to collectively ask ourselves with the citizens, to get out of the crisis, with a project where inequalities are reduced, they are not increased. It is necessary to carry out a horizontal collaboration of the clusters in "local development platforms" that try to promote environments and promote intersectoral synergies between innovative practices.

In this context, as a general criterion, improving the insertion of our economy in globalization must have a double objective. In the first place, that our companies climb in the value chain of productive activities, something that is largely related to occupying spaces as main actors. Second, that local companies expand their geographic presence. Without forgetting that it is necessary to promote an R + D + i system attached to the business and institutional reality. So far we have not found an efficient model that is adequately inserted into the business and institutional framework and ensures returns to R + D + i. It is evident that there is no room for a centralized model, such as the French one, that decides where to place a new center, what type, or even what each region specializes in, but rather a decentralized model that encourages cooperation between the Autonomous Communities and focuses all efforts in coordination between the different existing local initiatives. Among the most interesting European institutional references for our country are the Finnish National Technological Agency (Tekes), created in 1983, and in charge of the productive reorientation of the country after the fall of the Berlin Wall by promoting and financing applied development research. technological and innovation. In addition to its headquarters in Helsinki, it has 14 regional agencies and offices in Beijing, Brussels, Tokyo, San José (California), Silicon Valley and Washington DC.

The justification for the innovative nature of the strategy for local development is closely related to the question "What do you want to change in the municipality, in the neighborhood, or in the region?" The power to transform everyone's living conditions at once must be concentrated on

actions that have a multiplier or snowball effect on local development, because it is not enough to talk about entrepreneurial public institutions, it is necessary to commit and build that society of the future, for which we must create long-term growth strategies, and accept that failures occur, and are part of the process. For this, the governments of the institutions must be improved, strengthened, and given the necessary efficiency.

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## CONCLUSION

Traditional financing channels turn their backs on many business projects, mainly from microenterprises, which, if answered satisfactorily, would contribute to greater economic and social development. Microfinance institutions and their commitment to the microenterprise sector are, without a doubt, an alternative in the expansion phase and with a long history. Microenterprises represent a huge untapped market for the financial services industry and particularly for developing countries. Microcredit, as a star product of microfinance institutions, is a credit technology that will allow lenders to manage risk and costs and grant loans to very small borrowers, the amount of which will depend on the income generated by self-employment and business ownership. However, it remains to assess whether microfinance can be considered an important resource to achieve the economic and social development we want. From the point of view of microfinance, some studies indicate that it can be profitable, mainly due to the low delinquency rate and that although the administrative costs are higher than those of conventional credit products, it is compensated with high rates of interest. From the point of view of the potential client, with microfinance institutions, the limits established by traditional entities in terms of obtaining funds are exceeded, but with high interest rates, a situation that makes obtaining funds enormously more expensive and stands as a barrier hard to get over. As a conclusion, it is proposed to defend a professionalization of microfinance institutions and the implementation of the necessary measures to ensure that the financial resources available to them are offered to an increasing number of the population and at increasingly reduced costs. , which would undoubtedly contribute to greater economic and social development.

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