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CONTRIBUTIONS OF ISLAMIC FINANCE IN THE ECONOMIC DEVELOPMENT OF TURKEY: A REVIEW

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ABSTRACT

World Bank data (2009-2019) provides that Turkey has been facing economic development challenges in terms of GDP growth rate, GDP per capita, inflation rate, unemployment rate, and youth unemployment rate during the last decade. Though 2020 data is not yet available, 2019 data depicted a very challenging year for Turkey. This paper aims to review the challenges in the economic development of Turkey and provide the solutions by applying the notions of participatory finance (Islamic finance) for the development of the economic growth, per capita income, inflation rate, unemployment rate, and the youth unemployment rate of Turkey. This study applied a critical literature review analysis to explore the challenges. The European Bank for Reconstruction and Development reported that Turkey observed a worsening asset quality of the banking sector, deleveraging by lenders, unstable market, reduced investor confidence, and shallow public and private investment in 2019. Similarly, the conventional finance literature illustrated prudent strategic financial decisions support in improving these issues. However, the Islamic finance literature demonstrated that interest-free financial mechanisms are comparatively more resilient and supported a sustainable economic development. Though the contributions of the participation (Islamic) finance are poor due to its size, this mechanism of finance has enormous prospect of contributions to the Turkey's economy as demonstrated in other countries. The current Turkish government supports participation (Islamic) banking and expects to reach 15% assets by 2025.

Keywords: Economic development, Islamic finance, interest-free, economic development.

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1.0 INTRODUCTION

Islamic finance has attracted global attention since the traditional financial mechanisms were unable to address the needs of the economies, especially in the case of the financial crisis where profit-sharing participation finance demonstrated superior performance (Hasan & Dridi, 2010). Shariah compliant financial products are very attractive to the segments of the population that demand financial services that are consistent with their religious beliefs (Alam et al., 2019). Therefore, Islamic finance has been dominantly booming throughout the globe at a 20-30% growth rate which is three times higher than the traditional finance mechanisms (Srairi, Kouki, & Harrathi, 2015). Currently, around five hundred Islamic financial institutions are working in over 75 countries holding a total asset of $2.88. Islamic finance is not only popular in Muslim countries, but it has also attracted significant appeal to non-Muslim countries including Singapore, United Kingdom, Luxembourg, Australia, Hong Kong, South African, Nigeria, and Ivory Coast (CNBC, 2020).

Prior research focused on the relationship between Islamic finance and its economic progress by emphasizing the greater roles of Islamic banks in saving for sustainable growth of the economy (Benes & Kulhof, 2012; Wolf, 2014). The last financial recession had created an immense crisis in the global economy as well as motivated the global economic leaders as well as the authority to the ethical finance or Islamic finance lead by Shariah principles for sustainable finance. However, Islamic finance follows five basic principles in accomplishing business activities such as interest probation, prohibition of gharar (deceiving or harmful transactions) and maysir (the acquisition of wealth through chance), all investment should be backed by tangible assets, investment focuses only on halal business functions, and profit and loss sharing. As a result, Islamic banking and finance could play a certain role in world finance as conventional finance has numerous weaknesses (Arouri et al., 2014).

In addition, as per the prohibition of interest, Islamic banks and finance have to follow the complete Shariah principles in investments and business trading rather than haram or unproductive or uncertain business. Moreover, customer trust and assets-backed funding are major components for Islamic banks to overcome their crisis (Khediri, Charfeddine, & Ben

Youssef, 2015). Researchers focused on the relationship between Islamic finance development and economic growth by focusing on 'Islamic Banking Growth' (Abduh & Omar 2012; Barajas, Chami, & Yousefi, 2013; Majid & Kassim, 2010). The studies revealed that the Islamic financial system has better stability and consistency than conventional financial systems (Abedifar, Hasan, & Tarazai, 2016; Al-Ali, & Yousfi, 2012; Beck, Demirgüç-Kunt, & Merrouche, 2013). Conversely, some of the studies found no dissimilar result between these two financial systems during the last financial crisis (Djennas, 2016; Kassim, 2016; Rashwan, 2012). Therefore, the results showed an incomplete conclusion rather than a complete decision concerning the development of Islamic banks in the economic development of the countries.

In this review, we seek to explore the challenges in the economic development of Turkey and provide the solutions by applying the notions of participatory finance (Islamic finance) for the development of the economic growth, per capita income, inflation rate, unemployment rate, and the youth unemployment rate of Turkey. In addition, we aim to explore the dynamic relationship between Islamic banking and economic growth as well as the relationship between conventional banking and economic growth.

By applying a critical literature review analysis, we found that participation finance has a positive impact on the development of economic growth, per capita income, inflation rate, unemployment rate, and youth unemployment rate from the global perspective and gradually in Turkey. Due to the slow development and progress of participation finance in Turkey, it is impossible for the participation financial institutions to contribute more compared to conventional finance in the development of Turkey.

2.0 PARTICIPATION FINANCE IN TURKEY: GROWTH AND DEVELOPMENT

Turkey, officially known as the Republic of Turkey, is a country bridging Europe and Asia. It has border with Greece, Bulgaria, Georgia, Armenia, Azerbaijan, Iraq, Iran, and Syria. It is also surrounded by the Black Sea, Aegean Sea, and Mediterranean Sea. Turks form the vast majority of the nation's population and Kurds are the largest minority. Turkey's capital is Ankara, while its largest city and financial centre is Istanbul. Based on the last report on 2020, Turkey has 83,614,362 people. Table 1 shows the GDP growth rate of Turkey.

Table 1: Turkey GDP growth rate

Turkey GDP Growth Rate - Historical Data		
Year	**GDP Growth (%)**	**Annual Change**
2019	0.88%	-1.95%
2018	2.83%	-4.64%
2017	7.47%	4.29%
2016	3.18%	-2.90%
2015	6.09%	0.92%
2014	5.17%	-3.32%
2013	8.49%	3.70%
2012	4.79%	-6.32%
2011	11.11%	2.63%
2010	8.49%	13.19%
2009	-4.70%	-5.55%

Source: https://datatopics.worldbank.org/world-development-indicators/

However, the Turkish economy has been in a sustainable progress after taking economic program in 2001. In parallel with the aim of reinforcing the market mechanism, important steps for strengthening the regulatory and supervisory institutions have been taken. Furthermore, the rules that regulate the markets have been harmonized with international standards. The government has shown its determination in the structural reforms for the establishment of permanent balance in the public sector. The financial sector in Turkey is in the stage of development. Compared to the developed countries, the size of financial sector is small and shallow. On the other hand, the financial sector has an above the average size compared to that of the emerging markets. This is illustrated in Table 2.

Table 2: Turkey trade balance

Turkey Trade Balance - Historical Data		
Year	**Billions of US $**	**% of GDP**
2019	$13.84B	1.83%
2018	$-8.46B	-1.10%
2017	$-38.46B	-4.51%
2016	$-24.92B	-2.89%
2015	$-22.42B	-2.61%
2014	$-36.30B	-3.89%
2013	$-55.19B	-5.81%
2012	$-42.92B	-4.91%
2011	$-67.75B	-8.14%
2010	$-38.61B	-5.00%

Source: https://datatopics.worldbank.org/world-development-indicators

The banking sector forms a great part of the Turkish financial system in its dynamic economy. Most of the transactions and activities of money and capital markets are carried out by banks. Most State banks were established to finance a particular industry such as agriculture for example (Ziraat Bank), but private banks generally have close connections to large industrial groups and holdings. First banking activities started in early 1800's with the so-called money-changers and the Galata bankers. The Ottoman Bank (Osmanli Bankasi) was established in 1856 with its head office in London and served as the Central Bank until the 1930's. Before 1980 there were only 4 foreign banks in Turkey, but their number grew rapidly during the 1980's as the Turgut Ozal government liberalized conditions and today there are almost 50 of them. During these years a series of reforms were adopted to promote financial market development; interest and foreign exchange rates were liberalized, new entrants to the banking system were permitted and foreign banks were encouraged to operate in Turkey.

Turkey experienced Islamic banking in 1985 by the inauguration of the interest-free banking act by the government. Still, Islamic banks are not in mainstream banking due to the conflict of interest among people. Even though the origins of interest-free banking are too old, international Islamic banking in experience of Turkey today’s sense was brought into the agenda in 1973, with the initiative and support of Saudi Arabia Faisal bin Abdulaziz Al Saud, Islamic Development Bank where Turkey is one of the 43 founding members. The first conservative political party National Salvation Party (MSP) had a political agenda of Islamic banking in the 1970’s in coalition governments with the Republican People’s Party (CHP).

DESİYAB (State Industry and Workers Mutual Bank-(Tr)- Devlet Sanayi ve İşçi Yatırım Bankası) is the first profit and loss sharing institution aimed to transfer workers' savings in Europe to investments. After the Turgut Özal era in the 1980's non-interest banking came to the agenda again when the Mainland Party (ANAP) came into power.

Therefore, Özal prepared the ground for the establishment of Islamic Finance Houses by enacting a decree numbered 83/7506 on 16.12.1983. In short, Islamic finance institutions were allowed to be established under the name of "Special Finance Houses" in 1983. The main purpose was to canalize under-the-mattress savings of conservative Muslims to the Turkish financial system. Although Islamic finance institutions were not quite popular in the Turkish banking sector through the formation of these institutions tried for a separate Islamic banking act. Special Finance Houses were entirely unified into the Banks Act and equalized with other depository and investment institutions in 2005 by denotation as Participation Banks. Following the AKP era, the regulatory framework for participation banking was enhanced with special provisions. The Participation Banks Association of Turkey was founded in order to give priority to those institutions with article 81 of Banking Law No. 5411 in 2006.

Borsa İstanbul, the main financial exchange in Turkey also has quotations on participation banks' equities. Bizim Securities Inc. and calculations by the Istanbul Stock Exchange launched the participation Index (its index code is KATLM) on 6 January 2011 with the sponsorship of all four Participation Banks, index consultancy. At present, only six participating banks are working among 53 conventional banks in Turkey. These institutions are playing a significant role in the development of the economy, despite numerous socio-economic challenges, as illustrated in Table 3.

Table 3: The advancement process of participation banking in Turkey

Date	Date Process	Activity status
1983	Issuance of the Decree No. 83/7506 of the Council of Ministers for the establishment of special finance houses	Status of Special Finance Houses was transferred into the status of Participation Banks in 2006
1985	Establishment of Albaraka Türk Special Finance House	It continues to operate as Albaraka Türk Participation Bank.
1985	Establishment of Faisal Finans Special Finance House	The name of the bank was changed to Family Finance Special Finance House in 2001. It merged with Anadolu Finans Special Finance House in 2005 and the name of the bank was changed to Türkiye Finans Participation Bank. It continues to operate under the same name.
1989	Establishment of Kuveyt Türk Special Finance House	It continues to operate as Kuveyt Türk Participation Bank.
1991	Establishment of Anadolu Special Finance House	It merged with Family Finance Special Finance house in 2005.
1995	Establishment of İhlas Special Finance House	It was liquidated in 2001.
1996	Establishment of Asya Finans Participation Bank	It was transferred into the Saving Deposits Insurance Fund on 29 May 2005 and liquidated on 22 July 2016.
2005	Establishment of Türkiye Finans Participation Bank	It was established in 2005 with the merger of Family Finance Special Finance House and Anadolu Special Finance House.
2015	Establishment of Ziraat Participation Bank	It continues to operate.
2016	Establishment of Vakıf Participation Bank	It continues to operate.

Source: Varsak, Koyuncu, & Kiliç (2017)

3.0 CONTRIBUTION OF ISLAMIC FINANCE IN ECONOMIC DEVELOPMENT: EXAMPLES FROM DIFFERENT COUNTRIES

Islamic banking and finance play several roles in the development of the economy. Among these, landings, savings, financial stability, and moral finance are more significant (Imam & Kpodar, 2016). However, as a stable financing system, the Islamic finance system can enhance growth and sustainable employment. It prevents interest, uncertain investment projects, rumors, hoarding, and the secondary market to promote productive functions and the actual economy. The last financial crisis showed the necessity of a sustainable financial system and promulgated the Islamic financial system as an example. Table 4 shows a few studies on Islamic banks and economic development in different countries.

Table 4: Studies on Islamic banks and economic development in different geographical areas

Sl.	References	Jurisdictions
1	Naz & Gulzar (2020); Gheeraert (2014)	Several Muslim Countries
2	Abduh & Chowdhury (2012)	Bangladesh
3	Furqani & Mulyani (2009)	Malaysia
4	Goaied & Sassi (2010)	16 countries in Middle-East and North Africa (MENA)
5	Mubeen et al. (2014)	Oman
6	Daly & Frikha (2016)	Several developing countries
7	Benbekhti et al. (2021); Aysan et al. (2016)	Turkey
8	Kalim et al. (2016)	Pakistan
9	Tabash & Dhankar (2014c)	UAE
10	Abduh & Omar (2012); Huda (2012)	Indonesia
11	Fasih (2012)	India
12	Migdad (2017)	Palestinian
13	Yazdan & Hossein (2012)	Iran and Indonesia
14	Arshed et al. (2020)	9 countries
15	Zahid & Arshad (2021)	Malaysia
16	Supriani et al. (2021)	Indonesia

Comparing with both financial systems in the area of time-variant controlling country-fixed assets, researchers found a significant difference within the business location. Moreover, Islamic banks are less cost-effective having a better asset quality, asset capitalization, and higher intermediation ratio (Beck et al., 2013). Studies are limited within the single country to examine the relationship between the Islamic banking development and economic growth of the country. Such studies are Furqani and Mulyani (2009) for Malaysia, Abduh and Omar (2012) for Indonesia, Asutay and Ergec (2013) for Turkey, and Tabash and Dhankar, (2014b) for Qatar. Moreover, Islamic banks performed better during the financial crisis as of their higher capital and asset quality (Beck et al., 2013).

In addition, Furqani and Mulyani (2009) carried out Johansen co-integration analysis based on the data for 1997-2005, and they found that Islamic banks contributed to the economic growth of Malaysia. Some other studies also found similar positive relationships within the jurisdictions (e.g., Abduh & Omar, 2012; Yazdan & Hossein, 2012; Tabash & Dhankar, 2014a, 2014c; Kassim, 2016). Among these, Abduh and Omar (2012) found a positive relationship between Islamic banking development and economic growth in the context of Indonesia. Similarly, by applying time series analysis, Abduh and Omar (2012) found a positive relationship between the conventional and Islamic banking development in economic growth concerning Bahrain in long run. Farahani and Dastan (2013) found a positive relationship during 2000-2010 between the Islamic banking development and economic growth among the countries such as Bahrain, Saudi Arabia, the UAE, Kuwait, Yemen, Indonesia, Qatar, Malaysia, and Egypt. Gheeraert and Weill (2015) based on the data from 70 countries during 2000-2005 found that the growth of the Islamic banking industry results in the macroeconomic productivity of the country. Abedifar et al. (2016), based on the data from 1999-2011 from 22

The Muslim countries having dual banking systems found a significant relationship within Islamic banks market share and the development of financial intermediation, financial development, and economic growth. El Mehdi and Mghaieth (2017) found a positive relationship between Islamic banking development and economic growth concerning GDP-per-capita growth rate, based on the data from MENA and Asia countries during 2000-2009. To sum up, it is seen that Islamic banks are aimed to establish sustainable ethical finance, alleviate poverty, balance social justice, social welfare along with profits and investment in productive sectors, which result in the economic development of the country.

In contrast, some of the studies found a negative relationship between Islamic banking development and economic growth. Goaied and Sassi (2010) found a negative relationship between Islamic banking growth and economic growth among 16 MENA countries and concluded that banks do not have any influence on economic growth. Moreover, studies revealed a weaker diverse relationship between the financial markets and economic growth in the oil-exporting countries during the year 1975-2005 (Barajas et al., 2013). They highlighted that this diversification is because of monitoring quality and characteristics of regulators among the institutions and countries. Pepinsky (2013) and Ammar et al. (2013) found a negative relationship between the depth of Islamic banking and economic growth due to unfavorable environment as well as weak Islamic banking and financial system. Pepinsky (2013) found that Muslim population and religious consideration do not impact Islamic banks products and economic growth. Some researchers pointed that weak Shariah law, Shariah compliance quality, Shariah board monitoring and challenge to comply with Shariah are also responsible for the Islamic banking growth among the jurisdictions. Ajili and Ben Gara (2013) resulted that structural weakness and lack of standard mechanisms, Shariah compliance deposit, lending opportunities, monitoring authorities lacking, money market instruments for

Islamic banks are also responsible for hindering the growth of the industry. Tajgardoon, Behname, and Noormohamadi (2013) summarized that Islamic banking does not have any contributions to the economic development of the country, as researchers did not find any significant relationship in diverse country contexts, such as in Malaysia (Hachicha & Amar, 2015) and Pakistan (Wahab, Mufti, & Murad, 2016)

Despite these limitations and negative outcomes, Islamic banking and finance have been contributing to the economic development of the country (Daly & Frikha, 2016; Johnson, 2013; Fasih, 2012; Yazdan & Hossein, 2012). Daly and Frikha (2016) illustrated that Islamic finance participating systems integrate lenders and borrowers, which can be invested for a longer time for more profit worthy projects, thus supporting the economic development. Islamic banks can invest in the different long-term and short projects among the different clusters of groups which lead to economic development. Abduh and Chowdhury (2012) explored that the growth of Islamic banks has a dynamic relationship between the economic development of Bangladesh and Indonesia. Overall, researchers supported that Islamic banking and finance have a positive indicator to the development of the economy over the jurisdictions (Ahmed, Akbar, & Barikzai, 2016).

4.0 PROSPECTIVE CONTRIBUTIONS OF ISLAMIC FINANCE IN TURKEY

Islamic banking and finance are contributing sustainably in the economic development and growth of the global jurisdictions in the different segments such as business development, profitability, liquidity and solvency, deposit growth/deposit mobilization, asset quality and capitalization, financial stability, inflation, GDP, unemployment, solvency, risk, cash, cash-deposit ratio, social performance (cruelty and injustice, rights of borrowers and socio-economic development). Table 5 shows the studies which reveal that Islamic banking performed better rather than conventional banking in different jurisdictions.

Table 5: The performance of Islamic banks in comparison to the traditional banks

	Financial Performance Criteria	References
1	Business development, profitability, liquidity and solvency	Safiullah (2010)
2	Deposit growth/ Deposit mobilisation	Khan (2010)
3	Asset quality and capitalization	Beck et al. (2013)
4	Financial stability	Cihak & Hesse (2010)
5	Inflation	Abduh & Omar (2012)
6	GDP	Furqani & Mulyani (2009)
7	Unemployment	Benbekhti et al. (2021)
8	Solvency, risk, cash, cash-deposit ratio	Samad & Hassan (2000)
9	Social performance (cruelty and injustice, rights of borrowers and socio-economic development)	Jalil & Rahman (2010); Imam & Kpodar (2016)

Several studies examined the relationship between Islamic finance and the economic development of Turkey. Jobarteh and Ergeç (2017) found a unidirectional relationship between the Islamic finance development and economic growth of Turkey in the long and short run. Conversely, Yüksel and Canöz (2017) did not find any positive relationship between the investment of Islamic banks and economic growth in the context of Turkey based on the period from 2005 to 2016. Çakar, Güngör, and Karakaş (2018) explored that investment/loans volume of banks has a significant positive relationship in the economic development of Turkey during the year 2005-2016 in long run. In addition, the causality test showed that the volume of loans of banks does not have any causality to economic growth (Çakar et al., 2018). Kandemir, Arifoğlu, and Canbaz (2018) outlined that there is no causal relationship between the loans/investment provided by the financial institutions in different business projects and economic growth during 2005-2017 in Turkey.

Koçak (2018) also found a unidirectional and positive causality relationship between Islamic finance and economic growth in Turkey during the year 2005-2015. Atıcı (2018) showed a positive relationship between the Islamic finance growth and economic development of Turkey during 2008-2018 for the long run. Similarly, Bilman (2020) observed a positive relationship between Islamic banking, financial development, and the economic growth of Turkey during 2005-2020. Moreover, based on data from 2005-2016 concerning the banking and economic growth of Turkey, Bozkurt, Altıntaş, and Yardımcıoğlu (2020) found a direct relationship between Islamic banking and economic progress and a unidirectional relationship between the conventional banking and economic development.

Furthermore, Islamic financial development, as well as efficient management procedures, can boost economic growth. Thus, there is a prerequisite for an efficient management system and institutional frameworks. Figure 1 below shows the process of how participation finance patronizes the economic development of the country. If the Islamic bank and financial institution can manage sufficient resources and mechanisms as well as strong management, corporate governance structure, and ensure customer satisfaction it will impact on economic development and growth of the country.

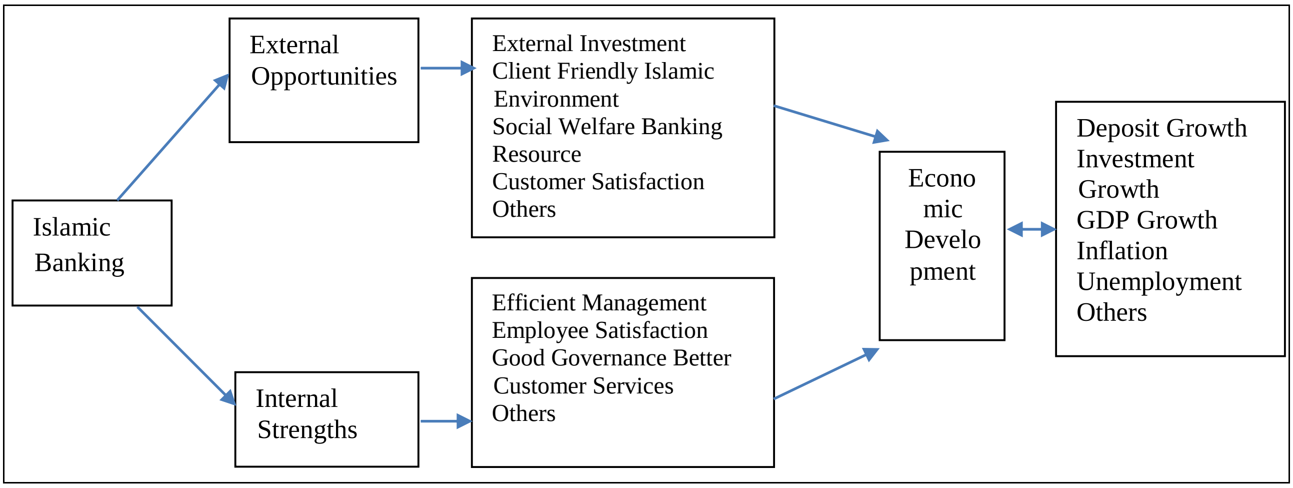

Figure 1: The process of how participation finance patronizes economic development

However, the existing literature showed a mixed outcome on the Islamic banking growth and economic development. Some studies showed a positive relationship (Cull & Xu, 2005; Shan & Jianhong, 2006; Galindo, Schiantarelli, & Weiss, 2007; Abu-Bader & Abu-Qarn, 2008; Ratsimalahelo & Barry, 2010), and some showed a negative relationship between industry growth and economic development (Eggoh, 2010; Ranciere, Tornell, & Westermann, 2006). Islamic banking and finance can contribute to economic development through participation in social investment by providing Shariah-based products and instruments, as well as Islamic social financing and corporate social activities. Numerous Islamic financial instruments, such as waqf, zakat, Islamic microfinance and Sukuk (Islamic bonds) could be a possible solution and in poverty alleviation, enhancing financial enclosure and upholding sustainable development. The development of the Islamic banking industry among the Muslim and non-Muslim countries, as well as the development of Shariah-based products and instruments contribute to the country's economy as well as the global economy. In addition, Furqani and Mulyani (2009) outlined a significant positive relationship between the progress and economic development in Malaysia. Prior studies also outlined that Islamic banking growth contributed to the development of the Indonesian context, and suggested that if there are more Islamic banking instruments, the liberal policies for this industry would contribute more to the economy (Abduh & Omar, 2012).

Moreover, predictable increases in inflation can severely damage the financial sector by hindering its ability to finance capital formation. Recent studies provided evidence regarding the importance of the financial sector in reducing information asymmetries, and illustrated that high inflation rates lead to an increase in credit market frictions with negative effects on the financial sector. Zero and negative interest-based monetary policy (IBMP) had created more attention in the last few years. Therefore, the policymakers and regulators are prioritizing the zero IBMP to minimize deflation and the development of the economy. Studies suggested zero-interest rate monetary policy for the development of a weaker economy, and Bernanke and Reinhart (2004) recommended that the central bank should follow zero-interest rate monetary policy (MP) to contest deflation.

Therefore, some studies investigated the proper application of Islamic monetary policy by the respective Central Bank of Sudan (Awad, 2015). Selim (2013) argued that mudarabah based investment is more effective and fruitful than the IBMP. Asset-backed securities contributed better to economic development and growth. Selim (2015) illustrated that Sukuk-based MP performs better when Sukuk are bought and sold in the open market by the central bank. Farahani and Dastan (2013) argued that Islamic banks financing activities are contributing directly and continuously to the country's economic growth.

However, the strategic location of Turkey enables the country to play a significant role in the development of the economy. The recent data shows that the poverty rate has minimized 30% -1.6% during 2002-2014 concerning the national poverty line (WDI). It is ranked 71 positions in the UNDP Human Development Report, 2016. Thus, the increase of employment enhances the GDP of Turkey. Financial inclusion has a positive significant relationship in decreasing of the unemployment rate in the developing countries. In addition, the education level, rate of inflation, and economic growth have a significant negative influence on the unemployment rate (Mehry, Ashraf, & Marwa, 2021). Studies suggested that by increasing financial capacity and capability, people can invest in the development of education, which will lead to the employability of the people and create job opportunities by financing their projects to make income (Sykes et al., 2016). In addition, the study found that financial inclusion also contributed to poverty alleviation and employment opportunities in Kenya (Mugo & Kilonzo, 2017). The authors also found that financial inclusion provides vulnerable groups, low-income households, and casual initiatives with a chance to receive financial transactions, accrue assets, make more income, and manage their financial risks. This allows their contribution to attaining a comprehensive growth. Muhammad, Dauda, and Mamman (2018) outlined that Sokoto State Zakat and Endowment Commission of Nigeria have taken initiatives to alleviate poverty to enhance social development along with the support of the Government and Emirate Council.

Moreover, Islamic microfinance can enhance saving and income, and finally assist to minimize poverty. Nobi, Billah, and Shohel (2021) resulted that Islamic finance investment has changed income, savings and expenditure. Islamic microfinance plays a significant role to progress the living standard, per capita income, awareness level (educational level), productivity, sustainability, moral values, infrastructure position, and the level of employment in the society, which are helpful to control the inflation and unequal distribution of wealth. Table 6 shows the impediments (constraints) to Islamic finance.

Table 6: The impediments (constraints) to Islamic finance

	Challenges to Participation finance	References
1	Government rules and regulations Central Bank's rules and regulations Lack of a well-defined regulatory and supervisory framework, No Islamic Banking Act	Ullah & Khanam (2018); Ullah (2014); Ahmad & Hassan (2007) & Benbekhti et al. (2021)
2	Scope of investment (only halal projects)	Biancone & Radwan (2018)
3	Unavailability of scholars	Grais & Pellegrini (2006)
4	Lack of research, new product developments & lack of specially-designed Shariah-complaint financial products	Grais & Pellegrini (2006); Ullah (2012); Koch & Stenberg (2010)
5	Shariah compliance, Shariah governance & Shariah audit	Chapra & Khan (2000); Chapra & Ahmed (2002)
6	Interest-based economy	Ullah (2014)
7	More compliance requirements (Traditional and Shariah)	Ullah et al. (2018)
8	Lower economies of scale, uneven playing field, large differences in practice across countries and limited standardization and securitization	Kammer et al. (2015)

However, the literature showed that the impact of participatory finance may not be visible because of its size in the economy. If there are more Islamic banks and financial institutions, it would be more visible in the context of Turkey. Therefore, the study suggests that Turkey needs to be aware of the constraints (as listed in Table 6) of Islamic finance and make strategic decisions to overcome these (Yüksel & Canöz, 2017). The government should take initiatives on the development of Islamic banking rules and regulations, central bank policy development, Islamic banking education, as well as research in product development.

The massive growth of the Islamic finance industry requires a wider understanding of the socio-economic development of this industry to the economy. Therefore, it is justified to consider the role of this industry in the development of the economy. Countries need to take proper initiatives for the well-functioning of the Islamic banking system on the economic development of the country. Islamic banking is still at a very infant stage in Turkey's financial system. The more initiatives and steps taken by the government to the development of the Islamic finance system and their business instruments or products may contribute to the economic development (Sekmen, 2021).

5.0 CONCLUSION

This study concludes that conventional banks have a better contribution to the development of Turkey compared to Islamic banks. In addition, the Islamic banking system is not in a comparable situation with the conventional banks due to the market size, share, number and instruments. The recent speech given by the Turkish president at the 12th International Conference on Islamic Economics and Finance 2020 can enlighten our beliefs, as he mentioned that participation or Islamic banking and their mechanisms could provide a valid and sustainable, as well as structural substitute of the conventional banking in Turkey.

Therefore, along with the government's influential support, Muslims' support can play a very influential role in the development of this industry like Bangladesh, which will impact the economic development of Turkey. The governments should promote the Islamic banking system, participation banks, act, regulation and instruments like Malaysia, as well as sending invitations to provide more licenses for Islamic banks to the development of this sector. Lastly, these initiatives would be more influential for the flow of foreign funds from Muslim jurisdiction in Turkey.

The study is heavily dependent on prior published papers rather than empirical or secondary data analysis. Therefore, future researchers can investigate the issues more broadly to examine this issue. Moreover, researchers can examine the Turkish government's support of the participation finance towards its economic sustainable development. This may result in economic growth, GDP growth rate, per capita income, reducing inflation, employment or youth generation, and county as well as poverty alleviation.

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