TUJISE Turkish Journal of Islamic Economics

Participatory Banking (PB) Taking Measures Against Covid-19 in Turkey

Issues and Proposed Strategies

Rusni Hassan
Zulfahmi

Abstract: Not much research has been carried out to examine Participatory Bank (PB) in Turkey. This is despite the fact that Turkey has a long history in Islamic civilisation. The legacy of strong Islamic law, the majority Muslim population, and the strategic location of the country have failed to serve as a catalyst to boost the market share of participatory banking in the country. The present study aims to explore problems, solutions, and strategies for developing PBs in Turkey. This research also captures the condition of PBs in facing the Covid-19 pandemic. The study adopts a qualitative method that uses library research benefitting from various sources of literature, namely books, journals, and other sources. Semi-structured interviews were conducted with experts including practitioners, regulators, and academicians who have direct involvement in PB. The findings are presented in the form of Strength-Weakness-Opportunity-Threat (SWOT) of PBs in Turkey. Interestingly, the preliminary finding shows that the problems of PBs in Turkey stem from both internal and external factors. Lack of understanding and skills, and lack of good Shariah governance practices are the main internal factors. Lack of regulatory support, lack of public literacy, lack of academic research and educational institutions, and a regulatory system are the primary external factors. The study suggests two main solutions, namely internal and external solutions, as well as strategies to address the problems. This study could serve as a reference point for the regulator in formulating appropriate policy strategies to increase the market share of PB in Turkey.

Keywords: Participatory Bank, Turkey, Solutions, Strategies, Covid-19 pandemic

JEL Classification: D12, D31, D642

Prof., International Islamic University Malaysia, hrusni@iium.edu.my 0000-0003-4332-9044
PhD Candidate., International Islamic University Malaysia, zf.takaful@gmail.com 0000-0001-5375-4496

DOI: 10.26414/A2379
TUJISE, 8(Special Issue), 2021, 445-467
tujise.org

Submitted: 14.03.2021
Revised: 25.05.2021
Accepted: 26.05.2021
Published: 15.06.2021

Introduction

Islamic banking has been undergoing unprecedented growth over the past few decades across the globe. The number of Islamic windows and full-fledged Islamic banks has been increasing not only in Muslim majority countries but also in non-Muslim countries such as United Kingdom (UK), France, Luxembourg, Australia, Singapore, and others. Even in South America, an Islamic bank has started its operations following the successful conversion of a conventional bank in Suriname into a full-fledge Islamic bank in early 2018. This has paved the way for better development of the Islamic banking and finance industry. At the global market, Islamic banking has been growing enormously with the volumes approaching US$ 2.44 trillion as at the end of 2019, marking a growth rate of 11.4 % annually (IFSB, 2018). The industry is expected to reach $ 3.69 trillion in 2024 (Refinitiv & ICD, 2020). This statistical figure, therefore, indicates that Islamic banking has performed very well thus far and is gaining well acceptance in many countries.

According to the ICD-Refinitiv Islamic Finance Development Report (2020), Islamic banking is present in at least 46 jurisdictions in the world. The share of Islamic banking has continued to increase in many countries, and hence deepening its penetration. The increases in the market share were experienced across 19 countries, including Gulf-Cooperation Countries, the Middle East and North Africa, and Asia regions. In this regard, the International Monetary Fund (IMF) highlighted the key success factors of the Islamic banking market penetration as follows: (i) the ethical principles and socially responsible business, (ii) the resilience during the global financial meltdown, (iii) the increasing demand for shariah-compliant instruments, (iv) the innovation of shariah-compliant products, and (v) the sound regulatory framework and infrastructure (IMF, 2015).

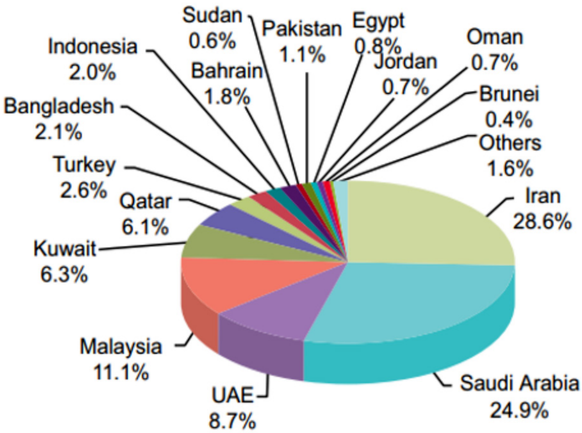
Despite rapid penetration, the Islamic banking industry is still at the infancy stage that it has just started in the early 1970s, while the conventional banking system has been firmly established for more than 400 years (Saat, Ramli, and Aminuddin, 2011). At this level, Islamic banking institutions face various challenges from the regulatory and market perspective. Among the challenges faced by Islamic banks are (i) the difficulty of regulatory harmonization of Islamic banking across jurisdictions, (ii) the poor shariah governance framework in some countries, (iii) implementing the Basel III particularly Tier-1 and Tier-2 capital which should comply with Islamic principles (ISRA and Thomson Reuters, 2016).

Moreover, it is worth noting that the Islamic banking industry is highly concentrated in few countries. As of 2020, Iran, Saudi Arabia, Malaysia, UAE, and

Kuwait appear as the top five largest Islamic banking markets with their share of global Islamic finance assets amounting to 28.6%, 24.9%, 11.1%, 8.7%, and 6.3%, respectively (see Chart 1).

Chart 1.

Share of Global Islamic Banking Asset



Source: IFSB Islamic Financial Services Industry Stability Report 2020

The fastest expansion was seen in other countries such as Turkey that have recorded the industry's fastest growth rates in 2019. Islamic banking assets in Turkey reached US$48 billion in 2019 ((ICD-Refinitive IFDI Report, 2020).

Highlighting the current progress of Islamic banking in Turkey, (Yanıkkaya, 2017). stated that the current issues that inhibit Islamic banking expansion are: first, lack of Shariah governance; second, lack of regulatory institutions focusing specifically on Islamic banking constraints and legal improvements; and third, lack of instrument variety as Islamic banks operate almost solely on Murabahah transactions In addition, the public perception of Islamic banking is very weak. A significant portion of the society thinks that Islamic banking is not necessarily interest-free and many have chosen their banking practices based on cost-benefit considerations. Islamic banks have to express their moral merits more and be cost-efficient at the same time. The operational efficiency of Islamic banks is lower compared with conventional banks. Worse, the gap is not closing. The study also found that the lack of academic research and educational institutions to study the aforementioned problems further aggravates them.

Based on the above, this study intends to fill the gap by examining the issues and challenges faced by PB in Turkey and proposes a framework that supports the development of Islamic banking and finance in the country. In doing so, this study empirically discovers the issues and challenges faced by PB by conducting interviews with the relevant stakeholders.

The research starts with an introduction section followed by an overview of the establishment, performance and growth of PB in Turkey. This is followed by a section explaining the research methodology adopted by this research whereby interviews were conducted with the relevant industry practitioners to get their views on the issues and challenges faced by PB. The findings of the interview are analysed and discussed before the paper proceeds to the recommendations and the conclusion.

Literature Review

An Overview of Islamic or Participatory Banking in Turkey

Islamic banking in Turkey is called Participatory Banking (PB). Islamic banking in Turkey has experienced a dramatic development since its establishment in 1985 (Yanikkaya & Pabuccu, 2017). Initially, Islamic banks in Turkey were established as 'Special Finance Houses' (SFH) without making any reference to the Shariah tenets due to the secular political system of the country. As the name implies, they were not considered banks. The country's secular system and sensitiveness of public policies were no less significant in precluding the development of Islamic banking in Turkey and limiting it to a crawling stage for a long time. Turkey, therefore, needed to catch up with the global development and innovations of the Islamic banking industry (Asutay, 2013). The conditions started to improve following the election of the Justice and Development Party (AKP) which holds the majority in the Turkish Parliament in 2002. Since then, Islamic banking in Turkey has begun a new development and has significantly improved.

Turkey enacted its Banking Act No. 5411 in 2005, which promulgated the transformation of SFH into PBs. SHFs were considered non-bank financial institutions and were not governed by the regulator. Because of this reason, they were covered by deposit insurance. Meanwhile, the latter has the status of banks and therefore has the same regulatory treatment as conventional banks. In this regard, are also covered by the Saving Deposit Insurance Fund (Ayse et al., 2012).

Nevertheless, although the political and economic conditions have impressively developed over the past decades, the market penetration of PB in Turkey is quite small. Moreover, the decline in the value of the Turkish Lira against the US Dollar has important ramifications to the decline in asset growth rate at around -6.8% between the years 2016 and 2017 (IFSB, 2018). It is worth noting that the drop in the overall asset in this country has gained serious attention from the regulators and policymakers in Turkey.

The History of Participatory Banking in Turkey

In attempts to understand the current economic success and the recent development of participatory banking in Turkey, it is important to understand the history of the Turkish economy both in general and in detail.

Osmanli Bankasi (Bank of Ottoman) was the first bank established in Turkey in 1856, founded by the British with a capital of $ 500,000. However, the British lost interest shortly after due to the restrictions placed on the bank by the Ottomans. Because of this, most of its shares were sold to France. It is worth noting that the Bank of Ottoman together with the State Treasury was responsible for issuing Turkish Lira (TL) until the establishment of the Central Bank of Turkey (CBT) in 1930.

The second bank established in Turkey was Ziraat Bankasi (Bank of Agriculture) in 1888. The bank operated and opened offices in important cities in Turkey at the end of the 19th century. Next, two other banks were founded at the beginning of the 20th century, namely Emniyet Sandigi and I'tibari Milli Bankasi. In the 1930s, two development banks were established to support the expanding state industrial sector, namely Sumerbank and Etibank.

The point to be noted here is that all of those banks were operated with interest-based principles. After the collapse of the Ottoman empire, interest-free banks were totally absent because the new secular Republic of Turkey did not embrace Islamic ways and did not consider Islamic solutions for economic problems. In fact, the Attaturk regime removed Islam as the official state religion and replaced it with Attaturk's secular ideologies.

After a long period of westernization, Turkey had paved the way to establish interest-free banks (Islamic banks) in the 1980s. During that period, Turkey had made a serious effort to bring capital inflow from the east, particularly from the Middle East and North Africa (MENA) region, into the Turkish financial markets. During this decade, the Turkish government had started to implement liberalization policies in the financial sector through deregulation of the financial industry. The policy enabled easy entry into the financial market and eventually encouraged competition amongst financial institutions. Concurrently, the government had also adopted export-oriented policies to integrate into the international markets, replacing the import-substituting economic policies.

Next, the financial reform initiatives in the 1980s were the abolition of interest-rate ceilings on loans and time deposits, the launching certificates of deposits, the introduction of a floating exchange rate regime, the introduction of the savings deposits insurance fund, the re-opening of the Istanbul Stock Exchange, the introduction of a new banking act, and the implementation of the amendment rule No.32 on the 'protection values of Turkish currency' (Okumus & Karamustafa 2005). Aside from that, all barriers and restrictions on capital movements and foreign exchange trading were removed.

It is worth noting that interest-free financial institutions were introduced in 1985 and Special Finance Houses (SFH) were established to provide interest-free products and services under the regime of President Turgut Ozal. As mentioned by Moore (1990), the institution Al-Baraka Turkish Finance House was created with capital contribution from Saudi Arabia. At that time, the introduction of interest-free financial institutions was merely an Islamic political strategy and had less of economic or religious motives.

Aside from that, Faisal Finans, Kuveyt Bankasi, Bank Mellat, to name a few, entered the Turkish market through either opening branches or joint ventures with Turkish banks. Ozal government played a crucial role in bringing Islamic capital through laws privileging these Islamic financial institutions. For example, Al Baraka Turkish Finance House and Faisal Finas were not subject to the bankruptcy laws and exempted from reserve requirements for their foreign deposits as stipulated by the Central Bank of Turkey (CBT) (Akguc, 1992; Bulut, 1997).

These institutions were given the name of 'Special Finance House' (SFH) because they provide only interest-free financial products and services in Turkey. The Turkish government had promulgated the Council Minister Decree No. 831/7506 dated December 1983 as the legal standing for the SFH. According to the Decree, the SFH was exempted from the provisions of the Banking Law that governs conventional banking operations in Turkey. Because of this reason, the SFH institutions had enjoyed a competitive advantage over conventional banking institutions. Furthermore, the deposits with the SFH became subject to insurance cover, which is in accordance with the 'Assurance Fund' Decree. According to this Decree, current account deposits and profit-loss participation accounts of individual customers are required to be insured.

The SFHs act as financial intermediaries although they are not like conventional banking institutions. According to Articles 18 and 19 Regulation of SFH, this institution collects funds through two accounts: (i) current accounts, and (ii) profit-loss participation accounts. The former account followed the principle of Wadiah (safekeeping). The assurance fund provides assurance of up to TL 50 billion for current accounts of individual customers holding this account at SFHs. Meanwhile, the later account used the Mudarabah principle. The customers participate in the profit or loss sharing scheme instead of receiving a pre-determined return on their funds. Similar to the current account, the assurance fund underwrites participation accounts of individual customers with balances up to TL 50 billion. Aside from that, the SFH institutions can collect funds in both local currency (Turkish Lira or TL) and foreign currencies (mainly denominated in USD and Euro).

Moving into the legal base development, the legislation of SFH has been amended twice: (i) the first amendment of Banking Law No. 4389 on December 1999, and (ii) the second amendment of Banking Law on May 2001. It is important to notice the crucial event during the period from 1997 to 1999 to abolish or to convert SFH into a conventional banking institution, by issuing the first amendment of Banking Law in 1999. According to the new regulation, SFH institutions were brought under the same umbrella with conventional banks.

The period between 1997 and 1999 was regarded as one of the most difficult periods for SFH (Akyüz, 2011). However, SFH leaders lobbied successfully and influenced the process so that SFHs were included in the banking system, instead of being shut down. The amended Banking Law No. 4389, ratified on 19 December 1999, was aimed at strengthening the banking system and banking regulations which were part of the structural reforms agreed with the International Monetary fund (IMF). As mentioned earlier, the SFHs were included in the banking system and became subject to the same regulation and supervision body, the Banking Regulation and Supervision Agency (BRSA), as conventional banks.

All of the features of interest-free banking products and services offered by the SFH in Turkey were conducted by the Decree of Council Minister No. 831/7506 dated December 1983, until they became subjected to the Banking Law Act No. 4389 in 1999. The removal of the Council Minister Decree No. 831/7506 dated December 1983 had brought the SFHs into competitive level with conventional banking and financial institutions. As such, the competitive advantage enjoyed by the SFHs since their inception in 1985 was gradually diminished although their interest-free nature remained intact.

The second amendment of Banking Law No. 4389 occurred in May 2001. This amendment was related to the banking crises of 2000-2001 and the bankruptcy of one SFHs. The government's initiation of an exchange-rate-based stabilization program in 1999 could not prevent the economic crisis of 2000-2001, one of the worst in Turkish history that resulted in shutting down over twenty banks. Later, in October 2005, SFHs were further integrated into the banking system with new Banking Law No. 5411. This law changed the name Special Finance House (SFH) to PB and defined Participatory Banking legally as one of the three types of banking along with deposit banks, and development and investment banks in Turkey.

The amendment in those banking laws had brought important changes for PB (or previously known as special finance house) industry in Turkey. The amendment of Banking Law in 1999 placed the SFH on the same legal base as conventional banks. Next, the amendment of Banking Law in 2005 changed the name Special Finance House (SFH) to PB and brought it under the same assurance fund as conventional banks.

Participatory Banking Principles and Operation

PBs are banks operating in the financial sector, supporting the real economy and offering banking services. PBs gather funds from savings, use them in industrial and trade sectors according to the interest-free financing ethics, and share the profit or loss with savings owners. The word “participation” in their name indicates that this type of banking is based on the principle of participation in profit and loss (The PBs Association of Turkey-FAQ, 2010).

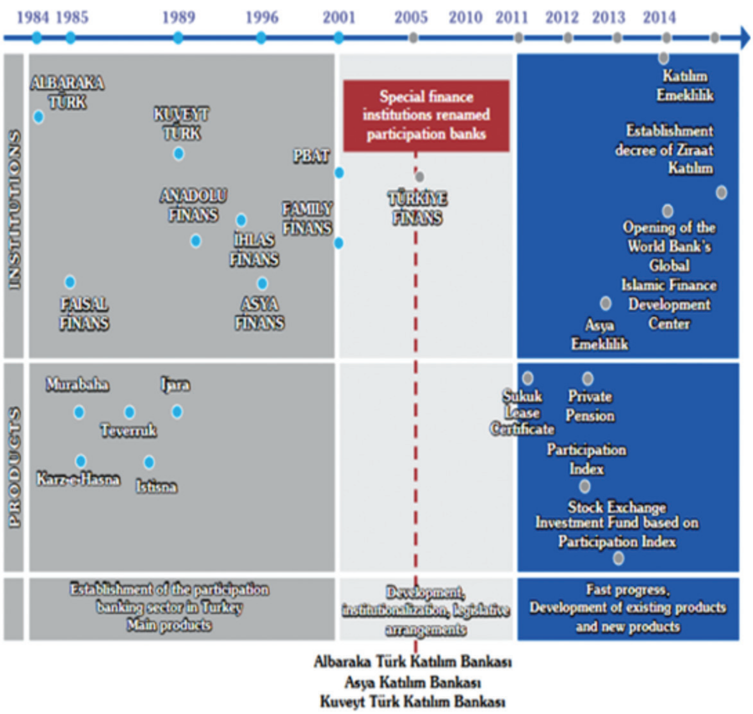
PBs provide means of transformation of savings to capital.   Proportional to their   advantage of working with a greater number of branches, they also offer standard banking services such as investment consulting, safe deposit box, money transfer service, giving checkbook, mediating cash proceeds, etc (Battal, 2007). At present, the diversity of such services given by PBs is equal to or similar to the standards of other banks.

As is known, secularism requires the separation of state and religious affairs. Nevertheless, as (Orhan, 2013) discussed, Turkish secularism follows a unique model in which the state gets often involved in religious affairs; however, religion can’t have any involvement in the state’s issues. Thus, Islamic finance has been intermittently challenged by the intervention of the political system. Turkish secularism has influenced the economy and due to strong secularism in Turkey, Islamic finance has not had any chance to grow since the foundation of the republic. The secular identity of state and military consistently and routinely resisted the Islamic influence on the business and finance sectors (Kansoy & Karlıoğlu, 2013). Therefore, the economic laws and regulations in Turkey were more often designed to suit conventional banks rather than Islamic banks.

Moving into the financing modes, PBs in Turkey mainly offer Murabahah, Ijarah, and Musharakah financing products. Similar to other jurisdictions, Murabahah instrument continues to dominate the sector with a share of more than 95 percent of the total financing. This is indicating a need to develop new products as well as increasing the effectiveness of existing products. Next, the use of Ijarah contract has started to increase for the past five years and reached 5.2% of total financing by the end of 2015. This is because of the removal of tax disadvantage on Ijarah transactions.

The figure below illustrates the historical development of PB in Turkey.

Figure 1.
Development of PB sector in Turkey



Source: TKBB, 2015

The Current Development of Participatory Banking Industry

In recent years, the Turkish banking sector including PBs has been undergoing a robust performance. The annual growth rate of the Turkish banking sector in the last six years averaged 18 percent. The asset growth of the banking sector is higher even than the growth of Turkish GDP and reached more than USD 800 billion at the end of 2015. As of November 2016, there are more than fifty banks in the Turkish banking system, which consists of 34 deposit banks, 13 development and investment banks, and 5 PBs. There is no separate legislation that regulates PBs in Turkey. The PBs including Albaraka Bank, Kuveytturk, Turkey Finance, Ziraat PBs, and Vakif PBs. The license of Bank Asya (Asya Katilim Bankasi A.S) was terminated in 2016 by the Banking Regulation Supervision Agency (BRSA). According to Turkish Banking Law No.5411, Bank Asya was audited by the BRSA in 2015 and it was found that the bank had made numerous illegal transactions and given credit to customers without obeying regulatory rules. The bank license was terminated in July 2016.

As we mentioned previously, PBs in Turkey have only around 5 percent market share. However, (Aysan et al., 2013) believe that PB in Turkey can still play a critical role in channelling untapped capital into more productive activities. It is important to note that these PBs, in the 'liability' side of their balance sheets, use profit and loss sharing methodology. On the 'asset' side, almost all of their financing facilities are channelled to tangible projects in the real sector (both households and companies). Next, to have a complete picture of the development of Turkish PBs, the table below shows an overview of PBs total assets from 2001 to 2015.

Table 2.

Total Assets (Thousand TL), Asset Growth, and Market Share of Turkish Banking Sector and PBs

Year	Banking Sector	s	Growth Rate (%)	Share (%)
2001	218,873,000	2,365,000	4.37	1.08
2002	216,637,000	3,962,000	67.53	1.83
2003	254,863,000	5,112,000	29.05	2.01
2004	313,751,000	7,298,000	42.75	2.33
2005	406,915,000	9,945,000	36.26	2.44
2006	498,587,000	13,729,000	38.05	2.75
2007	580,607,000	19,435,000	41.55	3.35
2008	731,640,000	25,769,000	32.59	3.52
2009	833,968,000	33,628,000	30.50	4.03
2010	1,006,672,000	43,339,000	28.88	4.31
2011	1,217,711,000	56,079,000	29.39	4.61
2012	1,370,614,000	70,279,000	25.33	5.13
2013	1,732,413,000	96,086,000	36.72	5.55
2014	1,994,329,000	104,319,000	8.56	5.23
2015	2,347,715,000	119,719,000	14.76	5.10

Source: Banking Regulation and Supervision Agency (BRSA, 2016)

Referring to the Table above, Turkish PBs share in the total banking assets increased gradually from as low as 1.08 percent in 2001 to 5.10 percent in 2015. Nevertheless, shareholders' equity remains at the same level as of December 2015. Next, the non-performing loans (NPL) ratio worsened due to the problems of Bank Asya in 2016. Moreover, the performance ratios (ROA and ROE) were decreased substantially from 2 percent in 2010 to 0.4 percent in 2015, and from 16.9 percent in 2010 to 4.1 percent in 2015, respectively (BRSA Tukey, 2015). This statistic reveals that PBs in Turkey became less profitable throughout the period 2010 – 2015. We notice that the decreasing profit occurred concurrently with Basel III liquidity standard implementation, particularly after 2013.

In February 2019, Turkish banking authority BDDK has approved for operations Emlak Katilim Bankasi, making it the sixth Islamic bank in the country. The state-owned Emlak Bank converted to become a participation bank. It focuses on the construction and real estate sectors. Turkey's government aims to increase the share of PB assets to 15 percent of the country's total banking sector by 2025.

In December 2018, PBs held 206.8 billion Turkish liras ($38.9 billion) in assets, accounting for 5.3 percent of the banking sector, according to data from the Participation Banks Association of Turkey (TKKB). This was up from 160.7 billion Liras in December 2017, when Islamic banking assets made up 4.9 percent of the banking sector. To expand the sector, the government opened two Islamic banks prior to Emlak, They were Ziraat Katilim in 2015 and Vakif Katilimin in 2016. The other PBs are Albaraka Turk, Kuveyt Turk, and Turkiye Finans (Global Islamic Economy Gateway, 2019).

Research Methodology

This study is a qualitative study that uses data from various works of literature, namely books, journals, and other sources. The literature survey and analysis are conducted to investigate the issues and challenges faced by PBs in Turkey. The purpose is to derive a better understanding and solution of the issue under scrutiny. In this regard, the purpose is aligned with the explanatory approach, thus, it is regarded as the suitable approach for this study. In addition, this study conducts in-depth interviews with experts on participatory banking in Turkey. A summary of the research method and the design adopted to achieve the objectives of this study is illustrated in Table 3 below:

Table 3.
Research Design Summary

Research Objective	Method	Instruments	Object/Population
To investigate the issues and challenges of s in Turkey To recommend the strategies to enhance in Turkey	Qualitative	• Literature survey • Interview	• Academicians • Regulators • Bankers

The interviews were conducted with nine experts in Istanbul, Konya, and Ankara. The respondents are selected due to their direct involvement as practitioners in PBs, regulators, and expert Islamic Finance academicians. All respondents have more than 10 years of experience in their respective works.

This research examines issues and challenges faced by PB in Turkey with a focus on the comparative viewpoints on impact and response to the issues and challenges faced by PBs generally and specifically in view of the covid-19 pandemic. All data are represented in Strength-Weakness-Opportunity-Threat (SWOT). According to

(David, Fred R,2011), all organizations have strengths and weaknesses in the functional area of business, which can be used as a basis for the objectives and determination of an organization's strategy. In this context, the SWOT analysis is useful in coming out with recommended strategies towards elevating PBs in Turkey.

Analysis and Discussion

The Legacy of Strong Islamic Law

The discussion about Islamic banking or PB in Turkey, particularly on issues and challenges faced by the country, cannot be separated from the history inherited by the Ottoman Caliphate. Ottoman economic history bears a transnational character involving the economic history of Turkey, the Balkans, North Africa, and the Middle East. The history of Ottoman economic history has attracted the attention of many researchers from all around the world. One should not overlook the Ottoman civil code known as the *Mejelle* or *Majallah al-Ahkam al-adliyyah*. It was the civil code of the Ottoman Caliphate from 1877 to 1926 which codified the principles of Islamic law for commercial transactions (*fiqh muamalat*). It is regarded by academicians, professionals, regulators, and practitioners of PBs as a guiding document for learning and appreciating Shariah principles underlying the operations of PBs.

Having such a powerful legal code is the source of strength and opportunity for Turkey especially when these principles are legislated and enforced as the underlying principle of the operation of PBs. Turkey does not only have a long history of interest-free banking system since the Ottoman empire, but the *Mejelle* codification also provides a strong legal foundation and footing for PBs.

The Economic Potential of Participatory Banking in Turkey

Turkey, as an emerging market and a developing economy, has been experiencing rapid development in economic and financial sectors since the early 2000s. During this period, Turkey opened up to foreign trade and international markets, reconciled rules and regulations with European Union (EU) standards, and significantly uplifted access to public services. The market-oriented policies embraced, consequently, created stability in macroeconomic, financial, and fiscal conditions. These led to increased job opportunities and eventually uplifting Turkey as an upper-middle-income country following a good recovery from the global financial meltdown in 2008/2009. Much of the Turkish recent success is due to the active role of the government in elevating economic growth.

Turkey recorded an impressive growth of 7.4% year-on-year in the first quarter of 2018, mainly due to private consumption and investments, and partly due to public spending. In 2016, the Turkish economy experienced a series of shocks, such as a failed coup attempt, sharp depreciation of the lira, and severe external and domestic security issues. In order to counter negative spill-overs of these shocks, the authorities introduced a series of stimulation packages since 2017 that have fuelled private consumption and investment.

The Turkish government is likely to continue the expansionary policies driven by the intention to maintain strong growth. (Ayse Nur Tepebasi,2020), citing the report by the International Relationship Specialist of TKBB, highlighted that PBs has signalled a positive future, as it reported a healthy performance, despite domestic and global economic challenges. PBs posted a net profit of TRY2.44 billion (US$410 million) in 2019, indicating an increase of 16.3% year on year.

Turkey's Strategic Location

Turkey is a country with a variety of strengths some of which include its geographical location, military, and resources. The country is located between two major continents Europe and Asia with the majority of countries in these two regions having strong economies. Turkey has quick and easy trade routes to many countries in either direction in these two continents. However, with so many bordering countries comes the vulnerability to attack. Luckily, military and defence is another strength point of Turkey. The country has the 10th largest military in the world. Almost 50% of the country's population is enlisted in the military. Also, Turkey is an oil and natural gas producer which are the most valuable natural resources in the world offering Turkey a strong opportunity to become an economic leader in the Islamic World through Islamic Finance.

Dynamic and risk-prone companies from the private sector are interesting cooperation partners for international investors. After extensive investment in the public infrastructure in the past years, Turkey now has a good basis for the industry. The country-wide business zones, so-called organized industrial zones, also offer favourable production conditions for companies. Turkey, with its geographic location between Europe, Middle East, and Central Asia, is an important hub for economic cooperation. This demographic bonus and strategic position of the country can be used to dominate the Islamic financial market in this region.

Last but not least, Turkey has a young population (constituting 15.4% of the population) (Turkstat, 2020) with high growth potential and propensity towards

Shariah principles and practices. That means an increasing workforce and a low retirement rate which could prove to be a major boost in the country's economy. Young consumers in the cities, which are open to new products and technologies, are important support for Turkey's growth.

Participatory Banks' Response to Covid-19 Pandemic

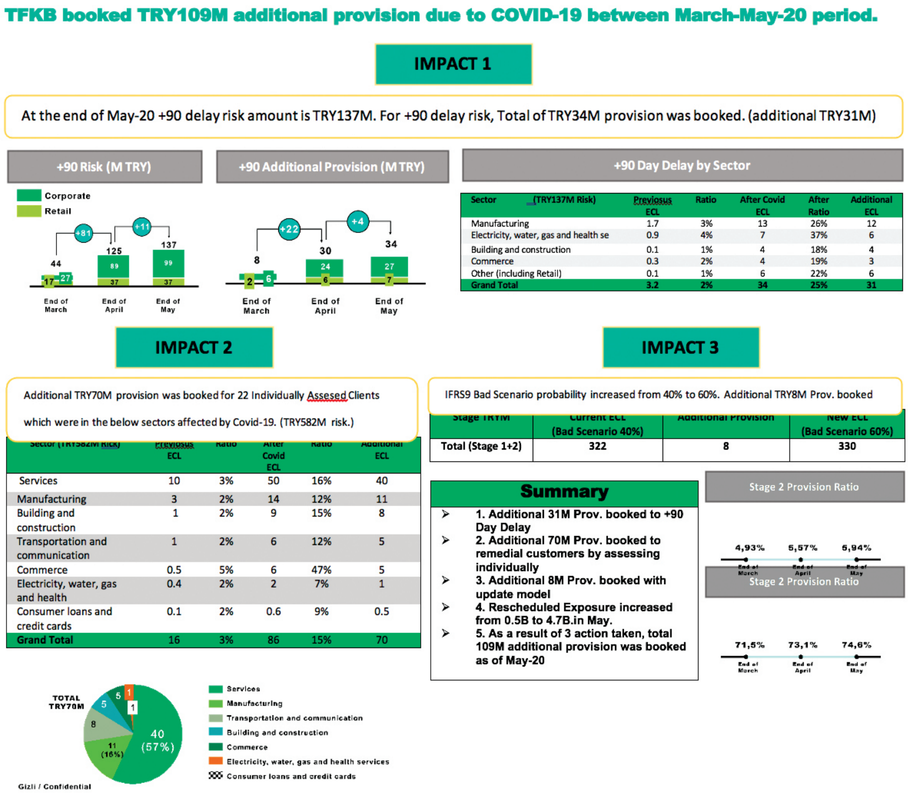
The Gulf Times (2020) reported that the Covid-19 pandemic has prompted Turkey's economists and financial experts to explore an alternative economic order to avoid the fragility of debt and interest-based economic systems that would be more effective to react to such crises. Turkey announced a series of measures, including social restrictions and economic support packages (Tepebasi, 2020). The government unveiled an Economic Stability Shield Program worth TRY100 billion (US$14.4 billion) in March 2020, including incentives on tax, credits and labour, of which PB is not excluded. Further proactive measures and steps have been offered beyond the initial budget covering more than TRY200 billion (US$28.8 billion).

In June 2020, Turkey's president, Recep Tayyip Erdogan, in his speech at a virtual Islamic Finance conference, emphasised the government's commitment to developing Islamic Finance through innovation and fintech. Henceforth, Serkan Yuksel, Director of the Istanbul Finance Centre Department, noted that a key accelerator to this is the Istanbul Financial Centre (IFC), set to open in 2022. The IFC is designed to compete with other global financial centres namely London, New York, and Hong Kong, and will focus heavily on PB (Maierbrugger, 2020).

Another important issue related to the covid-19 pandemic in Turkey is the response of PBs in their operations. The figure below described that condition:

Figure 2.

PBs response on Covid-19 Pandemic



Source: PB, 2020

The above figure shows that banks in Turkey including PBs increased the loan provision in response to market deterioration. Henceforth, PBs became more prudent in loan underwriting authority and the loan allocation to some risky sectors had to undergo more stringent screening before approval.

Findings and Recommendations

SWOT analysis is an important tool to identify the strengths and opportunities available and to devise strategies to utilize them fully, while identification of weaknesses and threats helps to identify the risk and take precautionary steps. The SWOT analysis of Turkey in this paper is used to understand its potential to develop Islamic Banking and Finance in Turkey, and especially to understand the issues and challenges pertaining to the legal framework.

The discussion about SWOT of Turkey above concludes that Turkey is a country with a variety of strengths some of which include its geographical location, military, natural resources, and young population. There are also few threats including the geographical proximity to turbulent regions, and weaknesses like the gaps in the legal framework.

During the first decade (1975-1985) of Islamic finance, many considered it impossible to have two systems of banking and finance operating in tandem in the global market. Today, the Islamic finance system is a global success story. The strength possessed by Turkey such as the demographic bonus and the strategic position of the country between the continents of Europe and Asia can be used to dominate the Islamic financial market in this region.

SWOT of Participatory Banking in Turkey

The results of the interview find that the strength of PBs in Turkey mainly lies in the long history and strong practices of Islamic banking in the country for more than 30 years. This is supported by the establishment of a number of PBs having thousands of branches in the whole country. Having a good Shariah governance system in the form of central Shariah advisory and Shariah board in the institutions also opens up the potential for the industry to grow further.

Having said that, the challenges faced by the PBs significantly revolve around operational aspects. The issues of the need for good capital, lack of competitive products, and the industry practitioners' awareness of Islamic or PB concepts and principles are quoted by the respondents. Most of the products offered by PBs are in the form of Murabahah (cost plus profit). The respondents put forward the challenge to the PBs to be more innovative in terms of exploring other Islamic concepts to develop their products and services and thus offering more options to the customers. However, this innovation requires competent product development teams in the PBs supported by other units such as the business unit, risk management, and the Shariah department. Also equally important is the board of directors, Shariah board, and management of the PBs that are supportive of Islamic banking and finance. Fundamentally, knowledge and understanding of Islamic finance concepts and principles is no compromise.

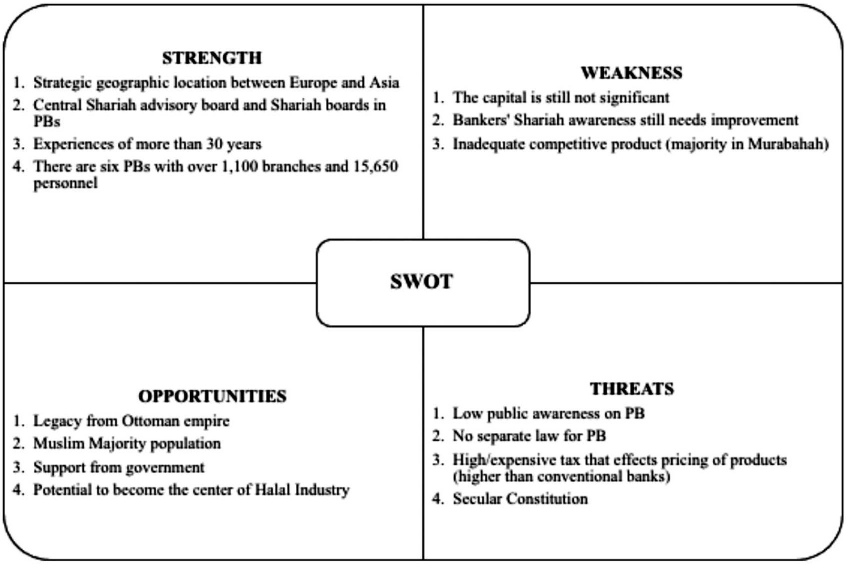
In every challenge that PBs faced, there is room for improvement. The PBs need to seize the opportunities to escalate PB to a better level. The strong legacy from the Ottoman empire, particularly in the area of Islamic law of transactions; the majority Muslim population that creates a ready market of PBs; the supportive government policies; and the ready halal market in Turkey are the opportunities that are widely open for PBs to take-up.

Whilst developing strategies to grow PBs in Turkey, the stakeholders need to acknowledge the threats that are faced by the PBs. The perception of PBs is very weak within society. There is no dedicated and comprehensive law and regulations on PBs. The issue of high tax imposed on PBs as compared to conventional banks needs to be resolved. The impediments implicated by the secular constitution of the country towards the implementation of Islamic banking and finance principles in PBs need to be carefully handled. These can be threats to the growth of PBs.

The SWOT of PBs in Turkey are summarised in Figure 2 below:

Figure 3.

SWOT of PBs in Turkey



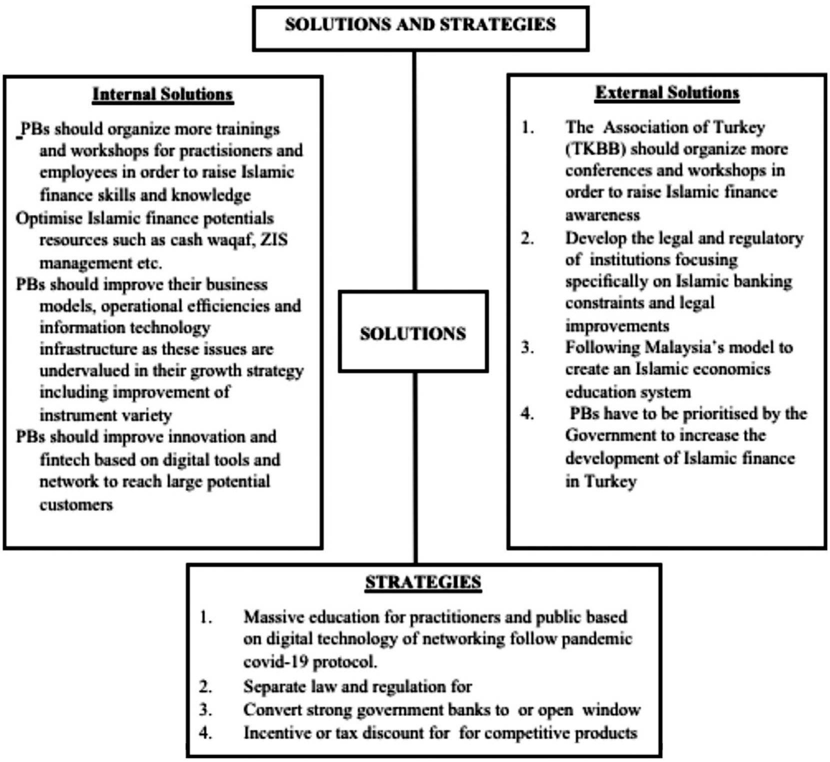
It is interesting to note that the respondents have agreed that even though the SWOT stated are general but also facilitate PBs in handling issues relating to Covid 19. Having a competent Shariah board with good knowledge on Shariah as what has been codified in the *Mejelle*, is a strength that PBs can benefit from in deciding Shariah related matters in restructuring the facilities provided to the customer that are urgently required during the crisis. Similarly, if the knowledge of bankers on PBs is improved, they would be able to convince the public to subscribe to their products and thus enhance growth.

Recommendations on Strategies to Grow Participatory Banking in Turkey

This research found that the issues (weaknesses and threats) faced by PB can be divided into internal problems and external problems. Internal problems are problems that originate from the Islamic banking institutions themselves, while external problems are problems that come from outside the institution. Internal problems found include a lack of understanding, lack of skills, and lack of sharia governance. The external problems found include the lack of regulatory support, lack of public literacy, lack of academic research and educational institutions, and a secular state system. This research also provides two kinds of solutions, namely internal solutions and external solutions, as well as strategies for overcoming these problems. Figure 4 below summarises the recommendations and strategies to overcome these issues and challenges.

Figure 4.

Recommendations on solutions and strategies to enhance PBs in Turkey



Conclusion

This research is expected to contribute and enrich studies on issues and challenges facing the growth of PB in Turkey. The insight of experts on PBs in the form of SWOT is presented to facilitate a solution for general issues but also specific issues faced in the covid-19 pandemic. Validated by expert respondents, this study ascertained the solutions and strategies proposed to PBs to overcome the issues and challenges they face either internally or externally.

The biggest internal issues faced by PBs are the lack of understanding of Islamic principles and the inadequacy of competitive products (majority in Murabahah). The strategies proposed to rectify these issues are to have more awareness programmes such as training, workshops, conferences, and the like. PBs should improve their business models, operational efficiencies, and IT infrastructure to improve their business and operations. Potentials of other Islamic finance resources such as cash waqf need to be explored and optimized to improve product offerings and services to the public. On the other hand, the absence of a dedicated law for PBs in Turkey takes the highest priority in the external aspect. The key-element strategy tailored to this issue is to propose for the government to issue separate laws/regulations for PB. This is aligned with the experts' observation on the opportunity that PBs should leverage from the supportive governments policies that is listed as the first rank opportunity.

The findings also provide managerial implications for practitioners of PBs and regulators in Turkey. At the same time, it also provides a theoretical implication for prospective researchers. As the findings show that PBs need to adopt four meaningful strategies to enhance their position, which includes:

1. Massive education for practitioners and the public through digital technology of networking following the constraints of the covid-19 pandemic.

2. Separate law and regulation for PBs.

3. Convert strong government banks to PBs or open PB windows.

4. Incentives or tax discounts for BP to enable them to offer competitive products.

This study may contribute to the knowledge related to Islamic banking theory and practice, particularly in Turkey. However, in the process of obtaining the data, this study has several limitations. First, the data is limited to experts and excludes consumers. The consumer perspective might be sought to get their perspective on the issues, challenges, and strategy of development of PBs in Turkey. Secondly, further research might employ another approach to prioritize the strategy of PBs development. For instance, Interpretive Structural Modelling and other quantitative approaches might be applied to obtain results from different perspectives and angles.

References

Abdurl-Rahman, Yahia. (2010). *The art of Islamic banking and finance; tools and technique for community-based banking*. New Jersey: John Wiley & Sons.Ahmad, A., Humayoun, A. A., & Hassan, U. u. (2010). An analysis of functions performed by islamic bank: A case of pakistan. *European Journal of Social Sciences* , *17*(1), 7-12.

Ahmad, Z. (1994). Islamic banking: state of art . *Islamic Economic Studies*, *2*(1). Akın, C. (1986).*FaizsizBankacılıkveKalkınma*.İstanbul: KayıhanYayınları.

Akyüz, Y. (2013). Waving or drowning: Developing countries after the financial crisis. *Economic and Political Weekly*, 38-48.

AlbarakaTürk (2010). *About Us*. .Retrieved from AlbarakaTürk: http://www.albaraka.com.tr/bizi_taniyin/detay.aspx?SectionID=AvW7CcOUELQlQzfWvBQMfQ%3d%3d&ContentID=SjpzafdvjZK8baQMqwSZQQ%3d%3d

Anas Zarka. (1996) The role of the islamic economy, islam and the expected role, thought & education club. Detroit, USA, Aleppo: Fucilat Press,Ardalan, K. (2003). Theories and controversies in finance: a paradigmatic overview. *International Journal of Social Economics*, *30*(1/2), 199-208.

Arslan and Hakan Ergec (2010).The efficiency of participation and conventional banks in turkey: using data envelopment analysis, *EuroJournals* Asutay, M. (2013). *Developments in Islamic banking in Turkey: Emergence, regulation and performance. Islamic Finance in Europe: towards a plural financial system*. Cheltenham: Edward Elgar, 213-227.

Aydinli, E., Özcan, N. A., & Akyaz, D. (2006). The Turkish military's march toward Europe. *Foreign Affairs*, 77-90.

Aysan, A. F., Dolgun, M. H., & Turhan, M. I. (2013). Assessment of the PBs and their role in financial inclusion in Turkey. *Emerging Markets Finance and Trade*, *49*(sup5), 99-111.

BAT, The Bank Association of Turkey. (2008). *Bankalarımız 2007*. İstanbul: Türkiye Bankalar Birliği.

BAT, The Bank Association of Turkey. (2009). *Bankalarımız 2008*. İstanbul: Türkiye Bankalar Birliği.

BAT, The Bank Association of Turkey. (2010). *Bankalarımız 2009*. İstanbul: Türkiye Bankalar Birliği.

Battal, A. (2007). *Bankacılık Kanunu Şerhi* (2 ed.). Ankara: Seçkin Yayıncılık.

Blumer, H. (1969). The methodological position of symbolic interactionism. *Symbolic interactionism: Perspective and method*, US: University of California Press.

Bourkhis, K., & Nabi, M. S. (2013). Islamic and conventional banks' soundness during the 2007–2008 financial crisis. *Review of Financial Economics*, *22*(2), 68-77.

Bryman, A., & Bell, E. (2007). Business research strategies. *Business research methods*. New York: Oxfoed University Press.

Bulut, M., & Korkut, C. (2016). A Comparison Between Ottoman Cash Waqfs (CWs) and Modern Interest-Free Financial Institutions. Osmanlı Para Vakıfları ve Çağdaş Faizsiz Finans Kurumlarının Karşılaştırılmas. *Vakıflar Dergisi 46* – Aralık.

Central Bank of Republic of Turkey, C. B. (2005).*Türkiye Cumhuriyet Merkez Bankası, "Finansal İstikrar Raporu 2005*", Ankara; http://www.tcmb.gov.tr/yeni/evds/yayin/finist/bolumII.pdf, 28.06.2010.Retrieved from Central Bank of Republic of Turkey: http://www.tcmb.gov.tr/yeni/evds/yayin/finist/bolumII.pdf

Chong, B. S., & Liu, M. H. (2009). Islamic banking: Interest-free or interest-based? *Pacific-Basin Finance Journal*, *17*, 125–144.

Cizakca, M. (2011). *Islamic Capitalism and Finance: Origins, Evolutions, and the Future*. Edward Elgar Publishing

Collis, J., & Hussey, R. (2003). *Business research: a practical guide for undergraduate and postgraduiate students*US:. Mcgraw Hill.

Crotty, M. (1998). *The foundations of social research: Meaning and perspective in the research process.* Sage Publication Ltd.David, Fred R. (2011). *Strategic management: concepts and cases*. 13th ed. Prentice Hall. USA.

DeLorenzo, Y. T., & M. McMillen (2007). Law and Islamic Finance: An Interactive Analysis, (eds.) Acher S., & R.A.A Karim, *Islamic Finance: The Regulatory Challenge,* John Wiley: Singapore. Pp. 132-197.

Denzin, N. (1970). Strategies of multiple triangulation. The research act in sociology: A theoretical introduction to sociological method. *Journal of Mixed Methods Research,* 297, 313.

Engku Rabiah Adawiah (2015). Efforts to Control and Upgrade the Legal framework Governing International Financial Transactions (BNM), *10th International Shariah Scholars Forum*, 2015.

Gray, P. S., Williamson, J. B., Karp, D. A., & Dalphin, J. R. (2007). *The research imagination: An introduction to qualitative and quantitative methods*. Cambridge University Press.

Guba, E. G., & Lincoln, Y. S. (1994). Competing paradigms in qualitative research. *Handbook of qualitative research*, *2*(163-194), 105.

Hart, M. A. (2010). Indigenous worldviews, knowledge, and research: The development of an indigenous research paradigm. *Journal of Indigenous Social Development*. 1 (1A)

Hayali, A., Dinç, Y., Sarılı, S., Dizman, A. S., & Gündoğdu, A. (2012). *Importance of internal control system in banking sector: Evidence from Turkey (Doctoral dissertation, Thesis. Turkey: Marmara University).*

IFSB. (2018). *Islamic financial services industry stability report 2018*. Islamic Financial Services Board. Kuala Lumpur

IMF. (2016). *IMF Annual Report*. 1, 131

Iqbal, Z., & Mirakhor, A. (2011). *An introduction to Islamic finance: Theory and practice (Vol. 687). John Wiley & Sons.*

ISRA & Thomson Reuters. (2016). *Islamic Commercial Law Report 2016*

Johnson, R. B., & Onwuegbuzie, A. J. (2004). Mixed methods research: A research paradigm whose time has come. *Educational researcher*, *33*(7), 14-26.

Kumar, S., Mohri, M., & Talwalkar, A. (2012). Sampling methods for the Nyström method. *Journal of Machine Learning Research*, *13*(Apr), 981-1006.

Nagaoka, S. (2012). Critical overview of the history of Islamic economics: formation, transformation, and new horizons. *Frontier of Islamic Economics and Finance: New Challenges.* https://doi.org/10.14956/asafas.11.114

Qureshi. (1974). *Islam and the theory of interest: with a new chapter on interest free banking.* Pakistan: Sh. Muhammad Ashraf

Ritchie, J., Lewis, J., Nicholls, C. M., & Ormston, R. (Eds.). (2013). *Qualitative research practice: A guide for social science students and researchers*. Sage Publication..

Rosly, S.A. & Bakar, M.A.A. (2003). Performance of Islamic and mainstream banks in Malaysia. *International Journal of Social Economics*, *30*(12), 1249-1265

Rusni Hassan, Aishath Muneeza & Ismail Azzam Wajeeh (2011). Legal Obstacles Facing Islamic Banking in Malaysia. *World Journal of Social Sciences*, *1*(5), 126-131.

Sargeant, J. (2013). Qualitative Research Part II: Participants, Analysis, and Quality Assurance. *Journal of Graduate Medical Education*, 4(1), 1–3. https://doi.org/10.4300/jgme-d-11-00307.1

Saunders, M., Lewis, P., & Thornhill, A. (2007). *Research methods for business*. London: Pitman, 124-126.

SESRIC. (2012). *Islamic finance in OIC member countries*. SESRIC. Ankara

Shafii, Z., Iqbal, Z., & Tasdemir, M. (2015). *Governance Regulatory Framework for Waqf in Selected Countries. In World Bank Global Islamic Finance Development Centre, Borsa Istanbul Reşitpaşa Mahallesi*,. Retrieved from http://www.tkbb.org.tr/Documents/Yonetmelikler/Governance-Regulatory-Framework-for-Waqf-in-Selected-Countries-Zurina-Shafii-Zamir-Iqbal-Mustafa-Tasdemir-2015.pdf

Siddiqi, M.N. (1981). Muslim economic thinking: a survey of contemporary literature (Vol.1). *International Centre for Research in Islamic Economics*. King Abdul Aziz University

Skully, M. (2011). *Corporate governance and Islamic banks. The foundations of islamic banking: theory, practice and education*, Cheltenham, UK and Northampton, MA, USA: Edward Elgar, 103-24.

Strauss, A., & Corbin, J. (1998). *Basics of qualitative research techniques*. Thousand Oaks, CA: Sage publications.

Tashakkori, A., & Teddlie, C. (Eds.). (2010). *Sage handbook of mixed methods in social & behavioral research*. Sage Publication. https://dx.doi.org/10.4135/9781506335193Tepebasi, Ayse Nur. "Turkish PBs post US$410 million net profit in 2019". *Islamic Financial News (IFN)*. 18 March 2020. p.17

Thomson Reuters & Dinar Standard. (2015). *State of the global Islamic economy 2014-2015 report*.

Turkstat (2020). *Youth population constituted 15.4% of Turkey's population*.

https://data.tuik.gov.tr/Bulten/Index?p=Youth-in-Statistics-2020

Yanīkkaya, H., & Pabuçcu, Y. U. (2017). Causes and solutions for the stagnation of Islamic banking in Turkey. *ISRA International Journal of Islamic Finance*, *9*(1), 43-61.