



ANKARA SOSYAL BİLİMLER ÜNİVERSİTESİ



# INTERNATIONAL ISLAMIC FINANCE AND PARTICIPATION BANKING



Its strategic value by **ASBU**

Studies of ASBU - 1

ANKARA 2017





SOCIAL SCIENCES UNIVERSITY  
OF ANKARA



# INTERNATIONAL ISLAMIC FINANCE AND PARTICIPATION BANKING



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# EXECUTIVE SUMMARY

In the discussions about the systematic crises experienced in the World economy, it is mainly emphasized that this kind of crises have resulted from the loss of connection between the financial sector and non-financial sector. Therefore, there have been some attempts to reestablish the strong connection between financial sector and non-financial sector. In that regard, Islamic funding technics have emerged as a significant alternative across the Globe. Islamic finance, which is also called non-interest finance or ethical finance, is a real asset-based finance aimed at risk sharing. Together with a strong focus on minimizing the systematic risks and establishing a strong link between financial and real sector, the Islamic finance provides valuable solutions.

In the World, in 1990 the total amount of financial asset forged based on Islamic principles was 150 billion dollar and in 2016 the amount exceeded 2 trillion dollars. Although in general, in the World, the Muslim majority countries have a great potential for Islamic finance, this potential has not exploited satisfactory and good enough.

To be a center in Islamic finance is not just the desire of Muslim countries, it is also one of the goals of the Western countries, such as England and Luxemburg. For instance, England in 2001 in order to help the development of Islamic finance sector and determine the obstacles in front of it, established a study group within the body of the central bank, and in 2011 it established `Islamic Finance Secretariat` to coordinate and support the development of Islamic finance. In 2014 England became the first country to export

sukuk with the amount of 200 million pounds. Therefore, the interest and competition in Islamic finance have become more of an issue not just among Muslim countries but on the global level as well.

Despite of the global level interest and upward trend, the scientific research done in Islamic finance and the solutions have been suggested for the problems in its applications are very inadequate. Moreover, the current system, model and applications have a great deal of problems and ambiguities. For these reasons, to develop unique systems, models and applications and to make the current systems, models and applications compatible with Islamic principles and values lots of steps should be taken. By taking this fact into consideration, Social Sciences University of Ankara (ASBU) as a thematic university including economics, business, law, sociology and theology by establishing International Islamic Finance Research Center (IIFRC) aims at filling one of the gaps in the field. ASBU's IIFRC plans to be a solution center at international level for theoretical and practical problems of Islamic finance.

Even though, academically there has been a tangible accumulation in the field of theology regarding Islamic finance tools and funds, there are very few academicians familiar with Islamic resources and possessing the knowledge of the dynamic market. Thence, there is an urgent need for people and institutions, who know the market mechanism and the dynamics of the competition with the ability of interpreting and analyzing them with Islamic perspective.



Especially, in the long run, there is a need for such academicians professionally working in this field to be raised who can learn the dynamics of the competition and Islamic resources as well. This issue is vitally important for our country, in the sense not bypassing the new opportunities in the field on the global level. On account of this, we as ASBU's IIFRC, different from the current programs will be focusing on interdisciplinary studies and researches.

There is also a need for reports suggesting specific solutions for the problems related to the applications of Islamic finance just as much as there is need for qualified and unique academic studies. There should be appropriate places providing an opportunity for such works to be done. In that regard, under the leadership of ASBU's IIFRC, reports diagnosing the problems related to application of Islamic finance and providing solutions to them will be prepared.

In Turkey, the structuring of Islamic finance sector is still at the infant stage. For this structuring to be done in a correct and effective way, there is a need for platforms accommodating genuine discussions. ASBU's IIFRC will hold the role of being a platform for productive discussions, seminars, workshops symposiums and congresses about Islamic finance.

Although the Islamic finance's issues and topics are more heavily discussed in the field of theology, interestingly, most of the time the sector recruits its employees from the graduates of faculties of economics and administrative sciences, business administration, management and schools of government. Due to this, current people working in the sector either have a very strong expertise in finance/banking and little knowledge of Islam or vice versa. This deficiency

at a strategic, tactic and operational level paves the way to a number of problems and contradictions. As a result, it is a serious need to educate people who are both strong in the field of finance/banking and Islamic knowledge. In this respect, to respond this need, under the leadership of ASBU's IIFRC, School of Islamic Finance will be opened.

To develop new and unique systems and theories based on Islamic norms and principles is depended on educating qualified academicians and experts who will be working in the field. However, both in our country and in the World, there is a shortage of qualified academics and experts possessing necessary intellectual strength and equipment. Therefore, the idea of raising academics and experts for developing genuine ideas, models, systems and applications are very significant. For that purpose, on the one hand ASBU's IIFRC within itself will open undergraduate, master and PhD programs, on the other hand it will send potential candidates abroad in different countries to study in graduate programs in order to be trained in the field of Islamic finance as academics and experts.

To realize and actualize these goals set by ASBU's IIFRC, the public resources alone will not be enough. ASBU as a research-oriented state university will fulfill its public and social responsibility in that regard. However, it should be appreciated and understood that, to overcome this responsibility and burden effectively is possible with the sincere support and cooperation between the institutions of public and private sectors.

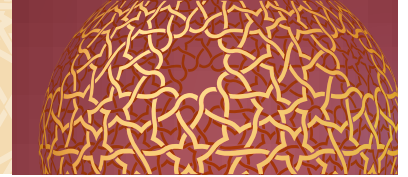


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İslami finans alanında merkez konuma gelme arzusu sadece Müslüman ülkelerin değil, İngiltere, Lüksemburg gibi Batılı ülkelerin de hedefleri arasında yer almaktadır.

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# INTRODUCTION



Islamic economics and Islamic finance technics first came to the agenda at the second quarter of 20th century when there were intense development discussions were taking place and this increasingly continued after the Second World War. It started to visibly attract the academia at the beginning of 21th century after the global financial crises. Because international economics system is based on finance and related to this there have been frequent repetitive crises, countries felt the need to look for different alternatives. In these searches, the need for reestablishing the connection between financial and real sector is emphasized as of the utmost important. Especially, while 2008 global financial crises causing the banking and financial system to collapse made this need visible, the idea of benefiting from Islamic banking and finance research centers and academic programs has started to be more appealing. In that regard, Islamic finance which is so called non-interest finance or ethical finance thanks to its structure based on real asset and risk sharing principle provides a very effective alternative. Because, it has a great potential of minimizing the systematic risks and reestablishing the tie between financial and real sector.

Islamic finance with its financial tools

requiring real asset-based export, forbidding interest, extreme unpredictability, gambling and encouraging honesty, transparency, and risk sharing and together with having institutions assuring redistribution of income can minimize the risks in financial system and greatly contribute to economic development. The biggest characteristics regarding Islamic finance that should be emphasized is that it is a business activity rather than a financial one.

Participation banking is a banking model working according to non-interest principles and realizing every sort of banking activity compatible with these principles. Furthermore, this model gathers funds based on profit and loss sharing and it helps the funds to be used via trade, coparcenary and financial renting technics. Especially, because this model is very serious in complying with sensitive Islamic principles regarding interest and work ethics, it gives an opportunity to inert funds not involved in economy to be gained and operated in real economy. Participation banking has been in service in the World for the last 50 years and in Turkey the last 30 years.

Islamic Finance, which was a popular concept in 1980s in the Middle East and in significant

portion of Asia, in the last 10 years by spreading quickly in Europe and United States has increased its reputation (SERPAM 2013:2). In the World, while in 1990 the total amount of financial asset forged based on Islamic principles was 150 billion US dollars, in 2013 it exceeded 2 trillion US dollars. Financial transactions compatible with Islamic rules increase approximately %15-20 each year. As of today, the volume of transactions has exceeded 2 trillion US dollars.

In general, in the World, especially, the Muslim majority countries have a great potential for Islamic finance, yet this potential has not exploited satisfactory and good enough yet. In other words, financial assets forged based on Islamic principles currently is very below the potential.

To be a center in Islamic finance is not just the desire of Muslim countries, it is also one of the goals of the Western countries, such as England and Luxemburg. For instance, England in 2001 in order to help the development of Islamic finance sector and determine the obstacles in front of it, established a study group within the body of the central bank, and in 2011 it established `Islamic Finance Secretariat` to coordinate and support the development of Islamic finance. In 2014 England became the first country to export sukuk with the amount of 200 million pounds. When it is looked at England which is as a Western country taking long term steps on this issue despite of being a Muslims minority country, it can clearly be understood that Turkey should execute necessary strategies and plans more quickly.

The development of Islamic finance and participation banking and their development in Muslim countries' universities and in the Western universities have different motivations behind. While in the Muslim countries they are religious

sensitivities and especially prohibition of interest directing them for different alternatives, in the Western countries it is a completely pragmatic reason, desire of taking share in the market, that oriented them to this field.

Experienced financial crises have directed scientists to be interested in Islamic finance presented as a different alternative and whether Islamic finance and banking can contribute to the cultural diversity of the Western financial system. Researches done with this tendency have examined whether suggestions related to Islamic economics and finance can contribute to the secular Western society. In the most of these researches the focus is on `Islamic Finance Engineering`.

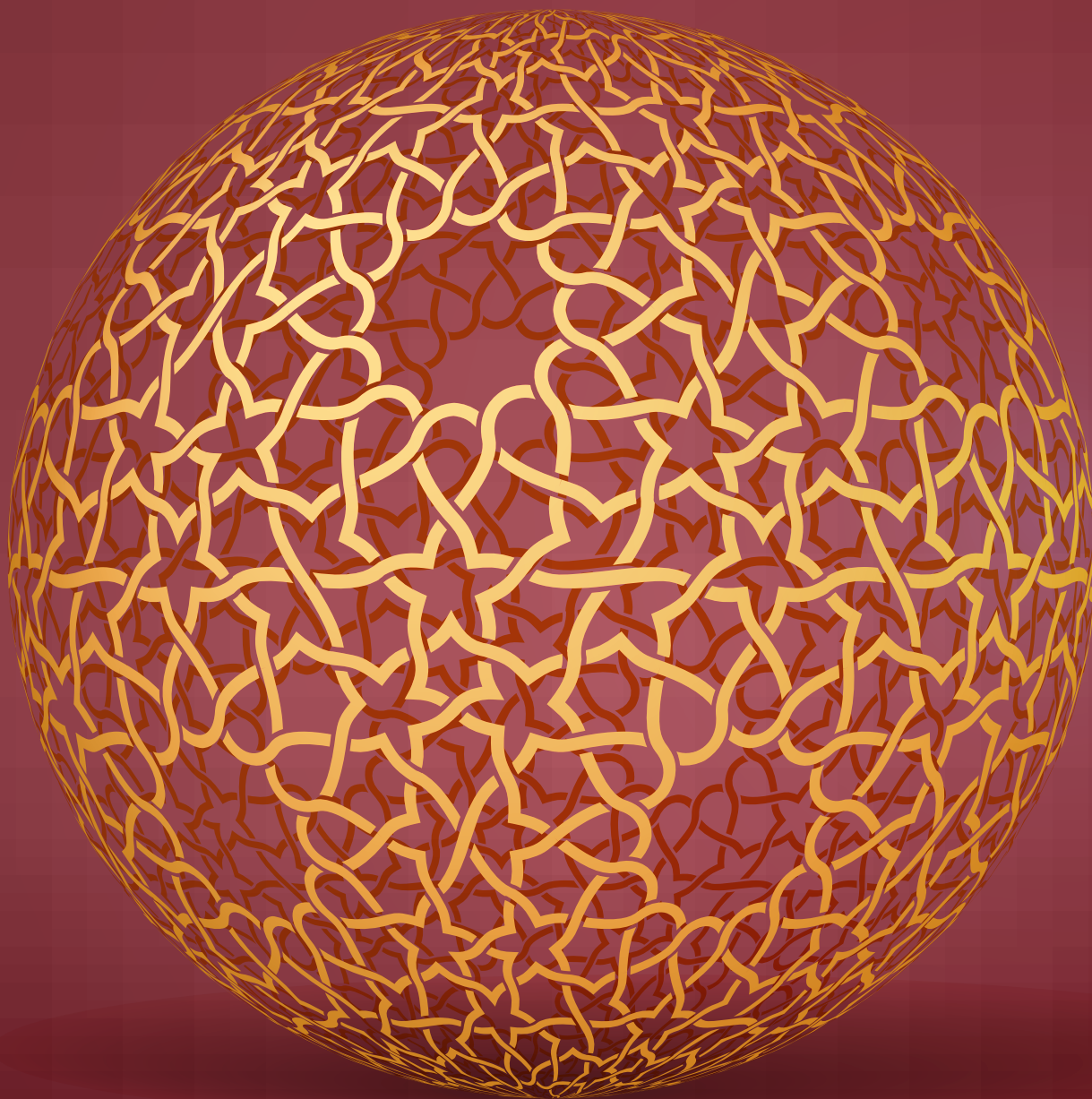
Although the motivation of the Western countries having developed financial markets and Muslim countries is different in that regard, uptrend in the sector necessitated scientific researches in the field. Emerging as an alternative financial technic, Islamic finance and participation banking have characteristics of being a research topic for serious scientific studies. It can be said that Islamic finance and participation banking researches are at the infant stage in the current system. The sector has significantly become larger that there is need for serious scientific research regarding to the modellings related to mechanism of the system, risk elements, financial tools in traditional banking obstructing competition, and its function in international financial mechanism. It is very important to bring the current researches done individually under the leadership of a research center with international collaboration and participation.

“

Faizsiz finans veya etik finans olarak da nitelendirilebilecek olan İslamî finans, varlığa dayanan ve risk paylaşımını esas alan yapıyla gerek sistematik risklerin azaltılması gerekse finans ile reel ekonomi arasındaki bağın tesis edilebilmesi açısından kayda değer bir alternatif sunmaktadır.

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# THE STRATEGIC CHARACTERISTICS OF ISLAMIC FINANCE AND ITS SITUATION IN TURKEY

*Non-interest finance, in its modern form, being an alternative financial sector started to take shape, in the World, starting from 1960s and in our country, starting from the half of 1980s. Until nowadays the sector has shown a stable growth and continuously increased its aggregate actives. In the last 20 years, thanks to the acceleration of globalization resulting from technological developments, non-interest finance sector has displayed a great performance much beyond conventional financial sector by making a big leap in the World.*

According to the 2017 Global Islamic Finance Report, by the end of 2016 the sector's volume is 2.293 trillion US dollars. In comparison with the previous year, it can be seen that in 2015 alone the sector has enlarged approximately 150.01 billion US dollars. It is estimated that Islamic finance industry each year is growing about %10. The points below also support the estimate growth rate:

- Muslim population across the Globe is constantly increasing.
- The awareness regarding Islamic finance is rising.
- The GDP per capital in Muslim countries has tendency to go upward.



When Islamic finance banks' assets' sectoral distribution at global level is analyzed, it is seen that 75% of the assets of these banks consist of their equity capital. From this follows 15% non-interest bonds and 4% investment converted into capital. According to the 2016 data, the potential volume of business of Global Islamic banking sector is calculated to be 7.806 trillion US dollars. However, as also emphasized before that at the same year the real volume of the business in the sector was 2.293 trillion US dollars. This points out a discrepancy between the supply and demand.

Table 1: The sectoral distribution of assets of Islamic Finance

Sectors	Sectoral share%
The Financial assets of Islamic banks	75
Sukuk (Non-interest bonds) 1	5
Investment converted into capital 4	
Takaful (Islamic insurance) 1	
Micro-finance 1	
Others 4	

“ Faizsiz finansın küresel düzeyde en yüksek büyüme kaydedecek sektörlerden birisi olacağı beklentisinden hareketle bugün birçok ülke, faizsiz finansa yönelik stratejik kararlar almakta ve bu kararları titizlikle uygulamaktadırlar. ”

The leading reason behind this discrepancy is that due to the Arab spring in countries, such as Libya, Tunisia and Egypt, where in the past Islamic banking gained momentum, the development of Islamic finance faced a rupture. Moreover, the political conflicts in the Middle East, especially, the DAES factor deeply hurting Syria and Iraq, the fact that the development of Islamic banking is dependent on oil prices, the intensification of 80% of assets of Islamic finance in ten countries where the economy is based on oil production and the ineffectiveness of Islamic banks outside of Muslim countries can be mentioned as other main reasons.

One of the important features of Islamic finance is that investments done with its tools are secure from uncertainties and speculations. Because the sector is sensitive in not involving in risk full activities, it makes the sector reliable

against economic fluctuations. For instance, when financial fluctuations are analyzed in the historical period, it is seen that Islamic banks' performance, compared to traditional banks are much better. Islamic banks demonstrate greater resistance against economic crises.

The removal of economic embargo on Iran and Iraq has brought a boom along to the sector. When demographically, the global demand for Islamic banking and financial sector is analyzed, it is seen that the ratio of use of banks among approximately 2.038 billion Muslims in the world is about 20%. And this underscores that the customer pool of Islamic banks in the Muslim countries is about 400 million. Considering that global Islamic finance's assets are about 2.293 trillion US dollars, it can be inferred that in the Muslim countries Islamic banking's assets per capital is about 5.732 US dollars.

“

Halen aktif büyüklüğü açısından 7inci sırada olan Türkiye'nin sahip olduğu potansiyeli henüz yeterince değerlendiremediği de bir gerçektir.

”



*Table 2: The financial assets of Islamic banking by countries (2016, USD billion)*

Countries	Total assets 2016	Formal assets 2016	Informal assets 2016	Arithmetic growth between 2016-2017
Iran	560	542	18	12.70
Suudi Arabia	401	333	68	20.95
Malesia	335	289	46	20.89
United Arab Emirates	197	167	30	18.58
Kuveyt	121	99	16	8.12
Bahreyn	43	35	8	7.49
Qatar	130	123	7	28.11
Turkey	81	73	8	24.41
England	61	41	20	13.47
Indonesia	66	66	0	56.06
Bangladesh	31	21	10	20.00
Egypt	31	19	12	20.39
Sudan	24	18	6	18.68
Pakistan	23	19	4	17.55
Jordan	19	15	4	27.98
Iraq	25	9	16	24.44
Brunei Darussalam	21	5	6	25.48
Syria	4	3	1	43.57
Other countries	120	61	59	49.25
Total	2,293	1,948	339	17.82

There are almost 40 countries which are active in Islamic finance banking. The leading countries among these countries are Iran, Saudi Arabia and Malesia (For the details see Table 2). According to the 2016 Islamic finance country index (IFCI), Malesia with the score of 79.255 is at the top. Malesia with this score exceeded Iran who was at the top in 2015. However, in this ranking, the top five countries list did not change. Among these countries while the scores of Malesia, Iran, and United Arab Emirates have showed improvement, Saudi Arabia and Kuveyt have experienced some level of decrease in their scores. According to the 2017 global Islamic finance report, by referring to Islamic Finance Country index, it is emphasized that the development field of Islamic finance sector is the Muslim majority countries. Unlike

the opinions of Western consultants, it is underlined that because of the demand for this system coming from Muslim countries and the reason that potentiality for this sector has not been fully exploited in these countries, Islamic finance banks should focus more on the Muslim countries.

According to the analyses, evaluations and predictions of international institutions, non-interest finance sector is expected to continue to grow steadily. Based on the assumption that the non-interest finance sector will be one of the top growing sectors, today lots of countries are taking strategic decisions intended for non-interest finance and implementing these decisions meticulously.

Our country is being pointed out as one of the potential leading countries in contributing to the



growth of Islamic finance sector. Additionally, it is underlined by sundry sources that in the meantime, Turkey is going to be a regional center for this sector. Our country's geopolitical location, sociologic and demographic structure, experiences in Islamic finance, great political and bureaucratic support for this field, positive reputation after the global financial crises, strong banking system and recently obtained image of pioneer country, increase positive expectations from it in the field of non-interest finance.

However, it is also a truth that although Turkey in terms of active magnitude is 7th in the World, it has not yet adequately exploited its potentiality. This situation is being taken into consideration by policy makers and the sector representatives in Turkey and currently the development of non-interest finance is one of the top priorities of Turkey.

Nowadays Islamic finance is not just only in Turkey, but in other Muslim and non-Muslim countries also seen as a strategic field. New institutions are being established, and investments done in partnerships and human resources. Therefore, both for the sector to realize the desired goals in the internal market and for Turkey to increase its share in the World Islamic finance market, there are some significant steps should be taken.

The first sukuk export in 2012 is a noteworthy reflection of this situation. For the first time an instrument used in International Islamic finance was preferred by the state. Afterwards, especially, since 2014 Islamic finance has been seen as a strategic sector by the government. The motivation behind this is not solely related to the government's worldview but also pragmatic reasons. The 2008 global financial crises increased the interest for alternative funding resources and Islamic finance is one of these fields.

In the beginning of 2015, BDDK (Banking Regulation and Supervision of Agency) by considering Islamic finance as strategic sector, in order to effectively execute the activities related to participation banking and develop participation banking in Turkey, within its body established a new unit named `Department of Practices`. Another development signifying that participation banking is an important component of the system in Turkey is that the heads of the top institutions of economy, such as the Central Bank, BDDK and Treasury have experience in participation banking. It is not possible to claim that initiatives related to Islamic financial systems, which have almost fifty years of history in our country, has reached



the desired level.

Even though there are enough savings meeting expectations in terms of financial resources, due to various reasons we haven't reached the level of other countries, with whom we at same time started to involve in this field and this observation can also be easily proved through numerical data. At the stage we came, our university recognized the significant potentiality of Islamic finance. It determined problem areas of first priority and following this it has set forth possible study areas.

Both as a social responsibility and public duty, Social Sciences University of Ankara is aimed at establishing `Participation Banking and International Finance Research Center` under its roof. For this process to be carried out and continued on a scientific base with an institutional identity, the need for an interdisciplinary academic perspective is an incontrovertible fact.

Among the existential reasons of Turkey Wealth Fund (TWF), which was founded in the August 2016, there is also the extension of assets of Islamic funding.

“ Türkiye'nin dünyada 70 milyar dolara ulaşan sukuk piyasasından % 8-10 pay alması beklenirken, Malezya %60'ından fazlasını gerçekleştirmektedir. ”



With TWF, both it is possible to increase the volume of Islamic finance by preferring sukuk export for the infrastructure projects going to be done in Turkey and making Turkey an alternative for the individuals and institutions in the Gulf countries interested in investing in Islamic funds. Moreover, by preferring non-interest loan technic the onerousness of interest can be eliminated. Through TWF, apart from export, by preferring to invest in the export of other countries an increase can be made in the volume of Islamic funds in Turkey. As it is also emphasized above, in the structure Turkish finance, compared to banking sector, participation banking has a shorter history. Participation banking started to develop in our country after the establishment of the participation banks of Kuveyt Türk and Albaraka Türk. In 1990 the Accounting and Auditing Organization for Islamic financial Institutions and in 2002 Board of Islamic financial Services were established. Establishment of such supervisory and regulatory institutions together with bringing certain standards for this sector, it provided a base for the sectoral growth and development.

As of 2017, in Turkey there are two public participation banks (Ziraat and Vakıf Participation banks) and four private participation banks (Kuveyt Türk, Albaraka Türk, Türkiye Finans participation banks and another participation bank within the body of Savings Deposit Insurance Fund (SDIF).

According to the 2014 participation banking in Turkey report, at the beginning of 2000s the participation banking only reached 2% of its actives, in 2004 the percentage was 4.3 and

in 2013 it reached 6.1%. Albeit these ratios seem low, between 2005-2013 in Turkey it was observed that in terms of active size, participation banks compared to deposit banks displayed a higher growth. The total assets of four operative participation banks between 2005 and 2013 annually grew 32% while for the same period, deposit banking sector growth rate was 19%. As it is also emphasized in the Table 2, the growth rate of Islamic banks' financial assets (24.4%) is above world average (17.8).

In 2017, one of the most important move the sector made was the start of studies regarding Treasury Undersecretary lease certificate opportunities for sukuk export. In general, it is expected that Turkey will take share of 8-10% of sukuk market in the World reached 70 billion dollars. On the other hand, Malesia carries out 60% of the total sukuk export in the World.

The main rule in sukuk is the certificates are based on physical assets. In 2030 it is expected that 11 million households in Turkey will reach approximately 30 thousand dollars income level. This development signifies that with the help of the young population in Turkey and important legislation reforms in the field of participation banking, Islamic principles based financial institutions will gain power. The numerical data regarding the development of Islamic finance in Turkey backs these expectations. For these promising developments to be able to continue on the right line, there is a need for serious studies. The Table 3 provides an analysis of participation banking in Turkey.



As it is seen from the table, for the participation banking to assure the deserved development, it must increase its market share via developing different financial products. And this is only possible with a formation of a scientific infrastructure.

*Table 3. Participation banking in Turkey and SWOT analysis*

STRENGTHS	WEAKNESSES
Strong and active increase in credit and deposit in the recent years	Inadequate Market share in the field of credit card
Increase in customer demand for non-interest products and services	Increasing orientation for internet and mobile banking, yet still behind the traditional banks in that regard
Providing high equity capital and active profitability compared to medium size banks	Compared to traditional banks low liquidate rate.
Having strong correspondent banking network in the Middle East and North Africa (MENA)	Inability to compete with traditional banks in all products due to the restrictions resulting from non-interest products
Being able to create interest-free earnings from valuable mining products	Low geographical accessibility compared to traditional banks
	Compared to traditional banks no primary product diversity
OPPORTUNITIES	THREATS
Young and large population	Rising power of leading banks with the advantage of economy of scale
Increasing support of the government for SMEs, especially in the Anatolian part of Turkey	Problems in Global economy
Making progress in strategies and tax regulations for increasing the size of formal economy	Increase in countervailing response rates influencing credit growth
Increase in external trade in the MENA region and in Muslim countries	Low level of local saving rate
Rising customer/participant awareness about banking system	Lack of knowledge of investors regarding participation banking's products
Potential of increasing non-interest income through making a difference in banking services	
Population inadequately receiving bank services	
Products and services reaching saturation point and/or not marketed sufficiently	

*Reference: Türkiye Katılım Bankacılığı, 2014, p.13*





# The Need For **Interdisciplinary Studies**



# The Need For Interdisciplinary Studies

The most important deadlock of Muslim world in economics is the problem of intellectual infrastructure. Those who knows traditional Islamic jurisprudence(fqih) discussions do not know economics and those who knows economics do not know fqih. Without doubt the ideal one would be that those who are in the position of making decisions, making analyses, producing theories or finding solutions to practical problems to both know traditional Islamic fqih and economic debates and the Western origin modern economics as well. However, the majority of people who know Arabic, so does being able to understand classical Islamic texts, generally are deprived of knowledge of modern economics.

Another handicap; people, who are good at modern economics and economy regardless of whether they acquired the expertise from the best universities in Turkey or in any Western country, although they have a good level of English, their Arabic is at a basic level. As a result of this, these people are deprived of the equipment enabling them to access at first hand to classical Islamic sources.

This situation causes debates. Those who look from the classic fqih perspective without producing an alternative, label financial transactions as `Haram` (forbidden by the religion). In return, those who possess the knowledge of science of contemporary economics by using the arguments `need`, `necessity`, and `business` almost calling all transactions as religiously `permissible`. This situation paves the way to emergence of serious contradictions.

Although almost 50 years have passed on the discussions regarding Islamic banking or participation banking or so called `tekaful` system (Islamic insurance) or also meant the system based on sharing both profit and loss, it is seen that both Gulf countries and Malesia have become self-sufficient in this area. Whereas, the searches for alternatives in our countries due to various reasons could not catch the necessary developmental acceleration.

The most dramatic one is that still solutions for economic problems have been searched in the Islamic catechism books. In the recent years there has been a strong orientation for gaining unemployed capital or mattress saving into the real



“Klasik fıkıh perspektifinden bakanlar herhangi bir alternatif üretmeden yapılan finansal işlemlere dini içerikli “haram” ifadeleri ile karşılık verirken, çağdaş iktisat bilimine vakıf olanlar “ihtiyaç” ve “zorunluluk” ile “maslahat” argümanına dayanarak nerdeyse tüm işlemlere “caiz” fetvası verebilmektedirler. Bu durum ciddi çelişkilere yol açabilmektedir.”

economy. Together with private sector, state supported finance institutions started to provide service in the field. However, not having enough intellectual capital brought anew on the table the legitimacy crises resulting from the religious perspective. Therefore, in that regard while ASBU on the one hand wants to do studies of creating new theories based on Islamic thought, at the same time, it sees its responsibility to raise academics, and consultants and experts for the financial systems. As it is also stated above finance institutions in our country due to various reasons could not reach the point of being self-sufficient. The number of people in our country who possess necessary intellectual capacity on this field is such low that can be counted on the fingers of one hand. These institutions with the reflex of meeting their urgent needs, solve their problems through consulting experts on this field in the Gulf countries. Therefore, for Islamic finance to develop and increase its share in International financial system, it is must to train necessary human resources and doing scientific studies under an interdisciplinary roof.

After 2012, within the body of some universities some research centers, focused on Islamic economy and finance, have been opened. However, for the gap between our country and other countries to be closed, there is a need for a special education strategy. It is evident that in order for participation banking to take solid steps in future, there is a need for qualified human resources. Because the Islamic sector in this period is seen as a strategic field, there have been some changes in the education field too.

When the institutes of higher education are taken into consideration, before 2014 in the field of Islamic finance there was no any courses. Whereas, starting from the end of 2016 in multiple universities elective courses are provided and at the level of undergraduate, master and PhD there are departments providing education. As part of Turkey's 2023 goals aimed at increasing qualified human resource, Council of Higher Education (CoHE) initiated the 100/2000 Project.

Within this framework, for 100 priority areas, 2000 people will be given a PhD scholarship. Participation banking is also among these 100 priority areas and in this context three different universities have started to admit PhD students.

In the recent years the courses given about Islamic economy and finance, programs



opened at undergraduate and graduate level and national and international conferences held in our country have contributed in filling a gap in this field. However, it can obviously be said that in the field of Islamic finance education we are pretty fine behind our potential rivals. To illustrate; In England in universities, such as Oxford and Durham it has been almost more than 20 years that there are Islamic finance programs. In these universities, especially students coming from Malesia, Indonesia, Gulf countries and many other countries receive

education thanks to scholarships given them by their governments. At the same time, in leading countries in Islamic finance, such as Malesia, there are public sponsored Islamic finance programs and research centers.

“

Türkiye’de 2012 sonrasında bazı üniversitelerin bünyesinde İslam ekonomisi ve finansına yönelik araştırma merkezleri açılmıştır. Bunlar dikkate değer adımlar olmakla birlikte çok yetersizdir. Uluslararası alanda varlığını hissettiren ve özgün modeller ve çözümler üreten girişimlere ihtiyaç bulunmaktadır.

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# Activity Areas Of The Center



# Activity Areas Of The Center

The research center that is planned to be established is going to provide service in the fields stated below.

## **Doing Scientific Research About Islamic Economy and Participation Banking**

For this purpose, two kinds of periodical are projected. Under the name of monthly newsletter, it will contain developments in the sector and interviews done with leading figures in the sector. Additionally, development statistics related to financial sector and participation banking will be published. The other periodical will be an international peer-reviewed journal that will be published at least four times a year.

Academic competency of this periodical will be high, and it will have a quality of determining agenda. Another activity area that will support these studies will be interacting with similar national and international institutions, organizing conferences, seminars and workshops. With these activities, a high-quality discussion and development platform will be established. Furthermore, thanks to these meetings going to happen, different scientists and technocrats interested in the Islamic finance will be able to meet and an employment sector related to the field will be formed.

## **Providing Education About Islamic Finance and Participation Banking**

One of the goals of this education is to raise necessary academics related to field and the other one is to train personnel for growing participation banking sector and other similar institutions working in the same field. One of the dimensions of this education will be undergraduate, master and PhD programs, and the other one will be certificate programs under the framework of continuing education. Furthermore, based on the demand coming from institutions in the sector or through education packages prepared by the Center, education will be provided to the people working in these institutions to support their carrier development and help them to renew themselves.

## **Consultation Service for Interested Institutions in Public and Private Sector**

The Islamic finance markets have become a rapidly growing sector. However, in the coming years, it will frequently come to on the agenda in terms of its capability competing with conventional financial sector. In the fastest growing economies various investment tools opportunity are provided.



Only with deposit collection and giving credit, it is not possible to support current growth trend. In order to compete in growing markets, particularly in leasing transactions, it is necessary to develop products compatible with Islamic principles. Additionally, there will be a need for strong academic support regarding the competitiveness of these products and sustainability in that regard. In that respect, a serious contribution is expected from the Center.

Another important topic is lack of researchers and experts in the sector. A lot of finance institutions maintains experts-researchers within themselves and these experts via media organizations inform public about economic and financial developments. In modern societies, economy and finance news catch attention of individuals and at least as much as political developments economic developments also are wondered. Participation banks and alike institutions in order to create awareness and follow up the developments, for the development of the sector, it is significant that they maintain experts within themselves. It will be one of the main activity areas of the planned center to satisfy the demand by raising experts.

### **Establishment of Non-Interest Finance Standards Agency**

The priority will be to develop a mechanism to monitor standards set by international institutions such as, Islamic Financial Services Agency (IFSA) and Accounting and Auditing for Islamic Financial Institutions (AAOIFI). Additionally, this mechanism will include determining main rules for the transactions carried out by non-interest financial organizations in order to minimize differences between these transactions. Even though interest free financial activities have long history in our country, there is no established mechanism yet to audit/control whether provided services are compatible with Islamic principles. Moreover, fundamental principles and rules providing uniformity to opposing implementations have not yet been determined. This picture causes internal and external stakeholders to form a negative perception about the sector. This situation prevents our country from receiving deserved value in non-interest finance development index.

“Modern toplumlarda ekonomi ve finans haberleri bireylerin dikkatini çekmekte ve en az politik gelişmeler kadar ekonomik gelişmeler de merak edilmektedir. Katılım bankaları ve benzer kurumların da farkındalık oluşturmak için bünyelerinde uzman bulundurmaları sektörün gelişmesi açısından önemlidir.”

## Establishment of Central Consultation Board

Institutions operating in the field of Islamic finance in order to overcome religious legitimacy crises so that being able to sell their products, they need fatwas of consultation board. Every participation bank operating in our country has its own consultation board. Products provided by some participation banks may not be welcomed as appropriate by other participation banks and such instances create confusions among the public. Therefore, it is very significant to have a central consultation board providing standardization to the sector.

Together with Malesia, the leading country in Islamic finance, UAE, Bahrain, Indonesia, Bangladesh and Pakistan each has its own central consultation board apart from Islamic finance institutions in these countries have their own central consultation boards too. By having a central consultation board, the doubts about the transactions of Islamic finance institutions can be avoided and these institutions can be audited whether their activities are compatible with Islamic principles or not.

Countries like Saudi Arabia, Iran, Qatar, Kuwait and Turkey, who are in the top first ten list, on the other hand, do not have a central consultation board. Non-interest Finance Coordination Board's studies for a central consultation board will be an important step positively influencing the direction of the sector provided that these studies are quickly finalized. By virtue of the importance of this topic, it is known that Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) also set a new standard. Thanks to new standards going to be set by the Central Consultation Board, confusions among the public will be eradicated and trust for the Islamic finance institutions will be increased.

## Establishment of Islamic Index Center

In our country, there is a need for a credit rating system evaluating Islamic finance products. In 2011 for the companies operating in accordance with the principles of participation banking and whose shares are traded at Istanbul Stock Exchange Market, 'Participation Index' was formed. This presented an alternative opportunity to investors.

Inspired by other Islamic Indexes, such as Dow Jones Islamic Market Index and FTSE Shariah Global Equity Index, this index has a limited function. This kind of studies and efforts should be expanded. For example, for `Sukuk` and `takaful` also such an index can be created. It is obvious that Standard&Poor's does not evaluate whether sukuk exports are compatible with Islamic norms or not. It only focuses on analyses on the credibility of an exporter.

“ Hızla büyüyen ekonomilerde değişik finansal araçlarla yatırım imkanı sunulmaktadır. Sadece mevduat toplama ve kredi verme biçiminde mevcut büyüme trendinin desteklenmesi mümkün görünmemektedir. Başta leasing işlemleri olmak üzere hızla büyüyen piyasalarda rekabet edebilmek için islami ilkelere uygun ürün geliştirilmesi gerekmektedir. ”









# Areas Of **Academic Studies**



# Areas Of Academic Studies

The structuring of the center in terms of research areas will be dispersed in different professorships. Because of enlarging scale of modern economic activities and diversification in needs of Muslim societies, forming expertise fields will increase the efficiency and effectiveness of the center. In that regard, study areas are planned to be liked that, as proposed below:

- Studies of Islamic Economics
- Islamic Finance and Participation Banking
- Wealth Management and Islamic Capital Markets
- Politics of Macroeconomics: Islam
- Theory of Finance and Monetary
- Law and Economics
- Human Development and Practices of Social State
- Financial Risk Management
- Development of Islamic Financial Products

Although in Islamic Finance, Islamic banks are the most widely known topic, the importance of financial institutions out of the realm of banking have increased in the recent years. In lots of countries, financial services are provided to public by non-bank Islamic financial institutions. Some of these institutions are as follows below:

- Institutions of Islamic Microfinance
- Islamic Cooperatives
- Pawn brokering Institutions
- Money Foundations
- Zakat(alms) Foundations
- Hybrid Enterprise Models
- Karz-ı Hasen banks
- Islamic Investment Funds
- Rural and Village Banks
- Microtakaful corporations

Majority of these institutions provide funds to people who are in the low-level income category and are aimed at minimizing poverty. Although the main function of the center is to do research and provide education service in the field of Islamic finance and participation banking, related to this, another crucial topic is people experiencing hardship in accessing finance. To do studies on this topic is not just only a social responsibility, yet at the same time, in terms of inclusion of this segment of society, has a potentiality of creating serious positive economic results.

“Kurulacak merkezin temel işlevi islami finans ve katılım bankacılığı alanında araştırma ve eğitim-öğretim hizmeti vermek olmakla birlikte, bununla bağlantılı ve önemli bir konu da, finansa erişim konusunda sorun yaşayan kesimlerin sisteme dahil edilmesine destek sağlaması olacaktır.”



# Sonuç

While it has been a serious need for World economic system to establish a healthy relationship between financial sector and real sector, Islamic finance sector has a great potential to respond this demand. Therefore, not just only in Muslim countries, but in a number of Western countries also, such as England markets are formed, and academic centers and programs related to the sector are opened. In the recent years, in our country also there has been increase in such attempts.

Because Islamic finance requires expertise in economics, management, and law together with Religious studies, it makes interdisciplinary studies compulsory. Therefore, International Islamic Finance Researches Center that is going to be established within the body of Social Sciences University of Ankara, is designed in a way to respond this need. ASBU is a thematic and research intense university focused on the fields mentioned before and our university's academic units and academics have started for preparations to carry out interdisciplinary studies, which is needed.

Although Islamic finance and participation banking has a great potential in our country, it is still at developmental stage. In that regard, ASBU as a public university if necessary, support is provided, is ready to open master and PhD programs and focusing on the social, administrative, economic and fqih related problems. In that context, it will try to provide unique solutions to these problems, do researches and arranging education programs intended for raising necessary labor force. By doing so, we declare that we are ready to shoulder the responsibility for contributing to the development of the sector and its enlargement.

Küresel bir ihtiyaç haline gelen finansal sektör ile reel sektör ilişkisinin sağlıklı kurulması dünya ekonomik sistemi için ciddi bir ihtiyaç haline gelirken islami finans sektörü bu ihtiyaca cevap verecek dikkate değer bir potansiyel taşımaktadır.

Bu yüzden sadece Müslüman ülkelerde değil, başta İngiltere olmak üzere birçok batı ülkesinde de piyasalar oluşturulmakta ve konuya ilişkin araştırma merkezleri ve akademik programlar açılmaktadır.





# Annex:

# International Examples

## The Islamic Research and Training Institute (IRTI) Saudi Arabia

The Islamic Research and Training Institute (IRTI) is an entity within the Islamic Development Bank Group and serves as the IDB Group's primary organizational unit for the delivery of Islamic Finance research, training, information, advisory, technical assistance and Islamic Financial Products development services within the Group and to its Member Countries.

IRTI's principal functions are to:

Enable the development of a dynamic, innovative and sustainable Islamic Financial Services Industry, including assisting Member Countries and Non-Member Countries to create and foster an enabling environment for Islamic Finance sector development.

- Conduct applied research on how the principles and best practices of Islamic Economics and Finance can be harnessed for the socio-economic development of Member Countries and Muslim Communities worldwide.
- Promote the development of Islamic Economics and the Islamic Financial Sector and related institutions in Member Countries, in collaboration with relevant other business units in the IDB Group and external Islamic Finance research institutions.
- Conduct policy dialogue and collect, synthesize and disseminate the results of Islamic Economics and Finance research conducted by external entities, and the lessons of internal and external experience in Islamic Finance operations, to IDB Group members and Member Countries.
- Provide training in Islamic Economics and Finance sector and project financing

modalities to IDB Group staff and Member Country officials.

- Provide advisory services and technical assistance related to Islamic economics, banking and finance.
- Be the focal point, collaborate and coordinate with Islamic Infrastructure institutions, multilateral bodies and other public and private sector organizations to promote Islamic economics, banking and finance.
- Collect, systematize and disseminate data and knowledge in Islamic economics, banking and finance in Member and Non-Member Countries.
- Assess existing Islamic Finance products and instruments used by IDB Group members and identify areas of further improvement.
- Develop innovative Islamic Finance products and instruments and promote their use by the IDB Group and Member Countries.

Publications by the Institute:

Developing a Model for Corporate Governance and Conflict of Interest Deterrence in Shari'ah based Cooperatives, Zurina Shafii, Mohamed Obaidullah, Rose Ruziana Samad, Rochania Ayu Yunanda.

Challenges Facing Intra-Regional Trade among North African Countries, Abdelrahman Elzahi Saaïd Ali.

Determinants of Islamic Banking Growth: An Empirical Analysis, Tamsir Cham.

Competition, Banking Stability and Growth: Evidence from the dual banking system in OIC countries, Wajahat Azmi, Turkhan Ali Abdul Manap.

For Impact: Blending Islamic Finance and Impact Investing for the Global Goals, Islamic Research and Training Institute - IRTI.

Islamic Microfinance Experience in a Secular State: Case of Benin, Ousmane Seck.



An Investigation into Goodness of Zakat Laws in Selected Countries, Mohammed Obaidullah.

Competitiveness and Economic Integration in IDB Member Countries, Khalifa Mohammed Ali.

Macprudential Policy and Tools in Dual Banking System: Insights from Islamic Finance Literature, Muhamed Zulkhibri, Muhammad Rizky Prima Sakti.

Managing Climate Change: The Role of Islamic Finance, Mohammed Obaidullah.

Behavioral Dimensions of Islamic Philanthropy: The Case of Zakat, Mohammed Obaidullah, Turkhan Ali Abdul Manap.

IRTI Knowledge Review, Islamic Research and Training Institute – IRTI.

The Catalysts for Change Strategic Priorities in Governance and Regulation in Islamic Finance Practice, IRTI and Deloitte.

Corporate Sukuk: Building the Ecosystem to Finance Sustainable Infrastructure, Deloitte Islamic Finance Insights Series: Leading by Engaging, IRTI and Deloitte.

Risk Management Practices in Islamic Banking Institutions: A Comparative Study between Nigeria and Malaysia, Aliyu Dahiru Muhammad.

Challenges in Infrastructure Financing Through Sukuk I ASBUncE, Rami Abdelkafi, Housseem Eddine Bedoui.

Global Report on Islamic Finance 2016- Islamic Finance: A Catalyst for Shared Prosperity?, Islamic Research and Training Institute – IRTI.

Poverty Alleviation through Microfinance in North-East Kenya Province, Abdelrahman Elzahi Saaid ALI.

Beyond Traditional Microfinance: Financial Inclusion for Unbanked Kenyans, Abdelrahman Elzahi Saaid Ali.

Are Islamic Banks Any Different in Financial Stability? An Empirical Investigation, Dawood Ashraf, Mohamed Ramady, Khalid Albinali.

## International Center for Education in Islamic Finance (INCEIF)

### Malesia

INCEIF was set up by Bank Negara Malaysia in 2005 and has been mandated to develop

and nurture talent and experts in the Islamic financial services industry. As a university, INCEIF offers postgraduate studies in Islamic finance.

INCEIF aims to be the knowledge leader in Islamic finance through providing excellent teaching, research and thought leadership. In achieving this vision, it is important for INCEIF to bridge both academia and industry.

### Publications by INCEIF:

Does Trust Contribute to Stock Market Development? With Adam Ng. and Mansor H. Ibrahim. In *Economic Modelling*, Vol.52, Part.A, (January 2016), Pages 239-250.

On Building Social Capital for Islamic Finance. (With Adam Ng. Mansor, Hj. Ibrahim). In *International Journal of Islamic and Middle Eastern Finance and Management*, Vol.8, Issue.1, (2015), Pages 2-19.

The Moral Foundation of Collective Action Against Economic Crimes. (With Vicary, D. Askari, H.). In *PSL Quarterly Review*, Vol.68, Issue.272, (2015), Pages 9-39.

Regulatory Framework for Islamic Finance: Malaysia's Initiative. In Zulkhibri, Ghafar, Sutan Emir (Ed.). In *Macroprudential Regulation and Policy for the Islamic Financial industry*, (2016). Pages.177-192. Springer.

Muslim Contribution to Economics. In Murat Cizakca (Ed.), and Challenges. In *Western Capitalism*. (2014). Edward Elgar Publication.

Performance and Trading Characteristics of Exchange Traded Funds: Developed Vs Emerging Markets. In *Capital Markets Review*, Vol.23, Issue 1&2, (2016). Pages 46-64.

Testing the Conventional and Islamic Financial Market Contagion: Evidence from Wavelet Analysis. (with Buerhan Saiti & Mansur Masih). In *Emerging Markets Finance and Trade*, Vol. 52, (2016), Pages 1832-1849.

Growth and Development of the Malaysian Islamic Capital Market. In *Islamic Finance in Malaysia Growth & Development* Pages 207-241, (2016). Pearson Malaysia Sdn. Bhd.

Islamic Capital Markets: in Issues, Challenges and Future Directions. In *Islamic Capital Markets Principles and Practices* (2016), ISRA.

Risk Taking Behavior and Capital Adequacy in a Mixed Banking System: New Evidence from Malaysia Using Dynamic OLS and Two-Step Dynamic System GMM Estimators. In *Emerging*





Markets Finance and Trade, (2016).

Measuring Shariah-Compliance Risk (SCR): Claw-back Effect of Al-Bai-Bithaman Ajil in Default. In Journal of Business and Accounting, UK 2015.

Linkages and comovement between international stock market returns: Case of Dow Jones Islamic Dubai Financial Market Index (with Abdelkader O. el Alaoui, Ginanjar Dewandaru and Mansur Masih) In Journal of International Financial Markets, Institutions and Money, Vol.36, (2015), Pages 53-70.

Islamic Banking in Malaysia: Unchartered Waters. (Abdul Kareem). In Asian Economic Policy Review, Vol.6 , No. 2, (2011), Pages 301-319.

Shariah Parameters Reconsidered. In International Journal of Islamic and Middle Eastern Finance and Management, Vol.3, No. 2, (2010), Pages 132-146.

### **International Institute of Islamic Economics (Pakistan)**

International Institute of Islamic Economics is a pioneering institution in the Muslim World dedicated for the cause of Islamic Economics. It was established in August 1983 with the primary objective to endeavor for an Islamic Economic Paradigm and to prepare scholars equipped with appropriately blended knowledge of Shariah injunctions and the mainstream economics. The ultimate objective is Islamization of the economic and financial system of the Muslim societies. The School of Economics is organizing the academic programs of the institute.

#### **Functions of the Institute**

- To organize teaching of modern economics, Islamic economics, Islamic banking and finance and other related disciplines at Bachelor, Master and Doctoral levels.
- To conduct advance studies & research in the relevant areas and to provide training programs & consultancy services to public and private organizations.
- To promote cooperation with other leading educational and research institutions

of east and west, particularly in the Muslim countries, in the field of modern economics, Islamic economics and allied disciplines through seminars, colloquia, conferences, staff and students exchange, scholarships, stipends and bursaries.

### **Journals**

Islamic Studies Islamabad Law Review  
Journal of Social Sciences Review

### **Publications**

Riba aur Bank ka Sood, Urdu - translated from Arabic book " Fawa-e-dal Banook hiyya al-Riba al-Muharram" by Dr. Yousuf Al-Qardavi, Institute of policy Studies Islamabad Pakistan, 1995.

Bank ka Sood, Urdu - translated from Arabic book written by Dr. Muhammad Ali al-Qari, Institute of Policy Studies Islamabad Pakistan, 1996.

Economic System of Islam, a course guide prepared for M. Sc.(Economics) program of AIOU, Published in 1998. RESEARCH

### **RESEARCH PUBLISHED OR ACCEPTED:**

Islamic Insurance: A survey of Ideas, Al-Adwa , Research Journal of University of the Punjab, Vol. VIII, No. 11, Dec. 1998.

Insurance and Takaful: Some Clarifications, Journal of Islamic Banking and Finance, Vol. 16, No. 4, Oct. - Dec. 1999.

Islamization of Insurance in Pakistan, Al-Howliyyah, Research Journal of IIUI.

IIIE's Blue Print of Islamic Financial system, Published by IIIE, IIUI in November 1999, (Member Draft Committee).

Insurance from Islamic Perspective: A Survey of unresolved issues, Paper presented in international seminar "Business and Economic Challenges" organized by IPS in November 1996. Accepted for publication in the proceedings of the seminar.



Takaful : Objectives and Methodology, Paper submitted in an International Competition on Islamic Economics, arranged by the Islamic Foundation U.K., which has been selected for first prize, and will be published by the organizers.

Insurance and opinions of Collective Fiqhi Bodies (Urdu), Paper presented in National Seminar "Role of Collective Fiqhi Bodies in Solving Present Days Problems", Organized by IRI, International Islamic University Islamabad in March 2005.

Analyzing Performance of Banks in Pakistan: Conventional versus Islamic Banks, Journal of Islamic Business and Management, Volume 5, Number 2, 2015.

Capital Inflows and Exchange Rate Volatility in Pakistan, International Review of Applied Economics Research, Volume 5, Number 1, Pages 111-118, 2010.

Leverage, Size of Firm and Profitability: The Case of Pakistan's Automobile Industry, Pakistan Business Review, Volume 9, Number 1, Pages 31-48, April 2007.



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