



## EVALUATION OF ISLAMIC BANKING ACTIVITIES IN THE ORGANIZATION OF TURKIC STATES

TÜRK DEVLETLERİ TEŞKİLATINDA İSLAMİ BANKACILIK FAALİYETLERİNİN DEĞERLENDİRİLMESİ

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### ABSTRACT

The Organization of Turkic States (OTS) is an international organization founded in 1992 in Ankara, and consisting of Azerbaijan, Kazakhstan, Kyrgyzstan, Uzbekistan, and Türkiye. These countries collaborate to promote cooperation among Turkic nations, strengthen cultural ties, and develop economic relations. In this study, Islamic banking activities in TDT member countries are evaluated on a comparative basis. Islamic banking is a system that provides interest-free financing and operates in compliance with Islamic law. It provides financing through alternative methods such as profit-loss sharing (mudarabah and musharakah), the buying and selling of goods and services (murabaha), sukuk (lease certificates, Islamic bonds), and leasing (ijara). In the study, existing regulations and practices related to Islamic banking were utilized. A literature review, country reports, and financial analyses. Data were collected and examined using qualitative and quantitative methods such as the legal frameworks of countries and banking sector reports. The findings reveal that the level of development in Islamic banking varies among TDT member countries. Türkiye and Kazakhstan are more advanced in this field, while Azerbaijan and Uzbekistan are seen to be in the development stage. Kyrgyzstan, on the other hand, is striving to expand in this area by offering microfinance and small-scale Islamic financial services. The development and expansion of Islamic banking activities among the member countries of the OTS, where the majority of the population is Muslim, will significantly contribute to regional development and financial integration. Furthermore, the use of Islamic financial products has the potential to enhance banks' economic performance and financial stability, contributing to sustainable growth.

**Keywords:** Organization of Turkish States, Islamic Finance, Islamic Banking.

### ÖZET

Türk Devletleri Teşkilatı (TDT), temeli 1992 yılında Ankara'da atılan ve Azerbaycan, Kazakistan, Kırgızistan, Özbekistan ve Türkiye'nin üyesi olduğu bir uluslararası kuruluştur. Bu ülkeler Türk dünyası ülkeleri arasında işbirliğini teşvik etmek, kültürel bağları güçlendirmek ve ekonomik ilişkileri geliştirmek amacıyla bir araya gelmektedir. Bu çalışmada, TDT üyesi ülkelerdeki İslami bankacılık faaliyetleri karşılaştırmalı olarak değerlendirilmektedir. İslami bankacılık, faizsiz finansman sağlayan ve İslam hukukuna uygun faaliyet gösteren bir sistemdir. Bu sistem, kâr-zarar ortaklığı (mudaraba ve müşaraka), mal ve hizmet alım satımı (murabaha), sukuk (kira sertifikası, İslami tahvil) ve kira (icara) gibi yöntemlerle finansman sağlamaktadır. Araştırmada, literatür taraması, ülke raporları ve finansal analizler kullanılarak İslami bankacılıkla ilgili mevcut düzenlemeler ve uygulamalar incelenmiştir. Veriler, ülkelerin yasal çerçeveleri, bankacılık sektörü raporları gibi nitel ve nicel yöntemlerle toplanmış ve analiz edilmiştir. Bulgular, TDT üyesi ülkelerin İslami bankacılık gelişmişlik düzeylerinin farklılık gösterdiğini ortaya koymaktadır. Türkiye ve Kazakistan bu alanda daha ileri seviyede, Azerbaycan ve Özbekistan gelişme aşamasındadır. Kırgızistan ise mikrofinans ve küçük ölçekli İslami finans hizmetleriyle büyümeye çalışmaktadır. Nüfusunun büyük bir bölümü Müslüman olan TDT üyesi ülkelerde, İslami bankacılık faaliyetlerinin geliştirilmesi ve yaygınlaştırılması bölgesel kalkınmaya ve finansal entegrasyona önemli katkılar sağlayacaktır. Ayrıca, İslami finans ürünlerinin kullanımı, bankaların ekonomik performansını ve finansal istikrarını artırarak sürdürülebilir büyümeye katkıda bulunma potansiyeline sahiptir.

**Anahtar Kelimeler:** Türk Devletleri Teşkilatı, İslami Finans, İslami Bankacılık.

## 1. INTRODUCTION

Cooperation, or mutual aid, is a fundamental aspect of life. Just as inanimate elements support plants, plants sustain animals, and animals benefit humans, people also rely on one another for support. This need for collaboration extends beyond individuals and becomes essential on a global scale. Thus, institutional frameworks, organizations, alliances, and assemblies emerge as natural responses to this need. While an individual's power is limited alone, collaborating with others who share common goals enhances their ability to act efficiently and achieve their objectives. A notable example of such a collective effort is the Organization of Turkic States (OTS). This organization aims to foster cooperation among Turkic-speaking nations, strengthen cultural connections, and advance economic partnerships. It unites its members to revive a historical sense of unity. The OTS, previously known as the Cooperation Council of Turkic-Speaking States, includes Azerbaijan, Kazakhstan, Kyrgyzstan, Uzbekistan, and Türkiye as full members. Additionally, Hungary, Turkmenistan, and the Turkish Republic of Northern Cyprus, participate as observer states alongside the Economic Cooperation Organization (Organization of Turkic States, 2024).

The foundation of the OTS was laid during the Turkic-Speaking Countries Summit held in Ankara in 1992. By 2006, the idea of transforming the initiative into an official organization was proposed, and on October 3, 2009, it was formally established through the Nakhchivan Agreement. Subsequently, during the 8th Summit held on November 12, 2021, in Istanbul, it was rebranded as the "Organization of Turkic States" (Wikipedia, 2024). At the 9th Summit on November 11, 2022, the theme "A New Era for the Turkic Civilization: Towards Common Development and Prosperity" was introduced, along with the 2040 vision for the Turkic World (Organization of Turkic States, 2024).

**Figure 1.** Map of the Organization of Turkic States



**Source:** flashhabertv.com.tr, Accessed Date: 01.10.2024

The general status of the member countries of the Organization of Turkic States is presented in the table below.

**Table 1.** General Data of the Organization of Turkic States 2022

Country	Azerbaijan	Kyrgyzstan	Kazakhstan	Uzbekistan	Türkiye
<b>Capital</b>	Baku	Bishkek	Nur-Sultan	Tashkent	Ankara
<b>Population</b>	10,127,145	6,654,000	19,767,000	35,271,000	85,279,553
<b>Surface Area</b>	86,600 km <sup>2</sup>	199,950 km <sup>2</sup>	2,724,900 km <sup>2</sup>	448,924 km <sup>2</sup>	785,350 km <sup>2</sup>
<b>Currency</b>	Manat (1 EUR = 1.8434 AZN)	Som (1 EUR = 97.0341 KGS)	Tenge (1 EUR = 481.5500 KZT)	Uzbekistan Som (1 EUR = 13,769.2900 UZS)	Turkish Lira (1 EUR = 34.4418 TRY)
<b>Annual GDP [+]</b>	\$78.721 billion	\$11.672 billion	\$225.529 billion	\$80.418 billion	\$905.841 billion
<b>GDP Per Capita [+]</b>	\$7,751	\$1,754	\$11,409	\$2,280	\$10,622

Source: World Bank, Accessed Date: 05.04.2024

**Azerbaijan:** As one of the founding members of the Organization of Turkic States, Azerbaijan actively works to strengthen its cultural and economic ties with other Turkic countries. It is particularly engaged in joint projects with other member states in economic sectors such as energy. Azerbaijan has a population of approximately 10 million and a land area of 86,600 km<sup>2</sup>.

**Kazakhstan:** Kazakhstan, a large Turkic nation in Central Asia, is another founding member of the organization. It collaborates with other members in areas such as energy, transportation, culture, and education, often acting as a bridge between Turkic countries. Kazakhstan, with a population of nearly 20 million, is the 9th largest country in the world by land area, covering 2,724,900 km<sup>2</sup>. It also boasts the highest GDP per capita among the members, reaching \$11,409.

**Kyrgyzstan:** Kyrgyzstan, located in Central Asia, is a founding member of the Organization of Turkic States. The country engages in cooperation with other members through the organization in various areas, notably agriculture, energy, and education. According to 2022 data, Kyrgyzstan has a population of 6.654 million and holds the lowest GDP among the members, with an annual GDP of \$11.672 billion.

**Türkiye:** As a founding member, Türkiye plays a key role within the organization, particularly in economic, cultural, and political cooperation. The organization's headquarters is located in Istanbul, Türkiye. Through the Organization of Turkic States, Türkiye fosters relationships with other Turkic-speaking nations and supports various joint projects. With a population exceeding 85 million and an economic valued at \$905.841 billion, Türkiye is both the most populous and the leading economy within the organization.

**Uzbekistan:** Though not a founding member, Uzbekistan joined the organization as a full member at the 7th Summit in Baku in October 2019. Located in the heart of Central Asia, Uzbekistan has a population of over 35 million, making it one of the most populous countries in the region. The country's rich cultural heritage has significantly contributed to the growth of its tourism sector.

The Organization of Turkic States was established to foster mutual trust, maintain regional and global peace, combat terrorism, promote bilateral cooperation, create favorable conditions for trade and investment, ensure balanced economic growth, and expand collaboration in science, technology, education, and culture. Economic cooperation is one of the primary objectives of the

organization. A significant factor in the economic achievements of the member states is their banking systems. While central banks manage monetary policy, commercial banks influence credit distribution and deposit acceptance. By converting savings into credit and investment funds, banks contribute to economic growth and demand. They also facilitate payment systems, support fiscal policies, and enhance efficiency through financial intermediation. A strong banking sector is essential for economic stability, and governments regulate and oversee banks to ensure financial stability. Among various banking systems, Islamic banking holds particular importance.

Islamic banking operates according to Sharia law, offering interest-free financial solutions. It emphasizes social justice and ethical values, differentiating itself from conventional banking through profit-and-loss sharing, trade, Sukuk (Islamic bonds), and leasing. Islamic banks also allocate a portion of their profits to social initiatives, embracing social responsibility and zakat. They ensure compliance with Sharia law of a Sharia advisory board and operate on a risk-sharing basis. Islamic banking offers an ethical and socially responsible alternative to conventional banking for those seeking interest-free financing.

The first instance of Islamic banking dates back to January 13, 1913, with the establishment of the "Hacı Adem Beyzade İbrahim Sipahizade Hamdi ve Şürekası Adapazarı İslam Ticaret Bankası" in Adapazarı, within the Ottoman Empire. However, due to global conflicts, its growth was halted. In 1963, Ahmed El-Najjar founded the Savings Bank in Egypt, followed by the creation of the Islamic Development Bank in Jeddah in 1974. Since the 1970s, Islamic banking has steadily expanded as part of the global financial system (Türkan, 2019).

While Islamic banking is widespread in many Muslim-majority countries, it has also gained traction in Western nations; Several European countries, including the United Kingdom, now host Islamic banks. Member states of the Organization of Turkic States have recently taken significant steps to establish and regulate Islamic banking. Today, countries such as Türkiye, Kazakhstan, and Kyrgyzstan are witnessing rapid growth in Islamic banking activities. This study aims to evaluate Islamic banking practices within the Organization of Turkic States, identify any existing gaps, and provide recommendations for further development. This study employs various research methods to examine Islamic banking activities among OTS member countries in a comprehensive manner. A literature review was conducted to review existing academic studies, reports, and international regulations related to Islamic banking in OTS countries. Additionally, official banking sector reports, economic data, and relevant financial analyses were examined. During the research process, the legal frameworks governing Islamic banking activities in each country were analyzed in detail. This analysis aimed to understand the role of Islamic banking within each country's financial system, legal regulations, and the differences in its application across the region.

In the data collection phase, secondary sources such as country reports, legal documents related to Islamic banking, regulations, and sectoral reports were utilized. Furthermore, more direct and up-to-date information was obtained through surveys and interviews with local financial institutions. This approach allowed for a better understanding of developments within each country's banking sector, the popularity of Islamic financial products, and their impact on economic growth. Additionally, practical data on the banks' operations in this field was collected, enabling a comprehensive evaluation of the system's efficiency and potential areas for development.

The collected data was processed through comparative analysis, and gaps and challenges in the Islamic banking systems of OTS member countries were identified. This process highlighted each country's roadmap for Islamic banking, its implementation strategies, and the challenges it faces.

## 2. LITERATURE REVIEW

A review of the literature indicates a scarcity of studies specifically examining Islamic banking activities within the Organization of Turkic States. However, there are studies focusing on countries grouped within the Commonwealth of Independent States (CIS) and Central Asia, as well as country-specific analyses.

One of the studies that approaches the topic from a group perspective is Nagimova's (2021) work titled "Islamic Finance in the CIS Countries." Using data from the Islamic Development Bank, the study provides a theoretical analysis of Islamic banking development in CIS countries such as Kazakhstan, Uzbekistan, Azerbaijan, Turkmenistan, Kyrgyzstan, Tajikistan, and Russia. The study emphasizes the importance of investments by the Islamic Development Bank in the growth of Islamic banking, noting that in each country, Islamic banking has developed along distinct paths. For instance, in Kazakhstan, this development has been a top-down process driven by state policy, while in Russia, it has been more of a bottom-up development. The study also highlights that in Kazakhstan, Islamic banking has developed through the corporate sector, whereas in Kyrgyzstan, it has progressed via microfinance services aimed at the public. Finally, it is noted that Uzbekistan is newly embracing Islamic banking concepts, while Azerbaijan has distanced itself from these ideas.

Another study focusing on country groups is "Islamic Finance in Central Asia and Russia," organized by IKAM and edited by Nagayev R. and Jahangir, R. (2022). This work analyzes the state of Islamic finance in Central Asia, including Kyrgyzstan, Kazakhstan, Tajikistan, Turkmenistan, Uzbekistan, and the Russian Federation. Given that the majority of the population in these countries is Muslim, the study acknowledges the substantial potential for Islamic finance in the region. However, it also identifies a significant challenge, which is the lack of financial literacy regarding Islamic finance and the scarcity of qualified human capital. To stimulate the growth of the Islamic finance sector in the region, the study suggests the need for a comprehensive Islamic finance infrastructure encompassing all segments, such as Islamic banking, Islamic capital markets, Islamic insurance (Takaful), Islamic social finance, and the halal sector.

Country-specific studies indicate that Türkiye has been the primary focus of Islamic banking research, where the growing number of studies reflects the ongoing development of Islamic banking activities. These studies cover a broad range of topics, including the general status of Islamic banking in Türkiye (Canbaz, 2022; Bağış & Yılmaz, 2020; Kevser, 2020; Türkan, 2019, etc.), as well as specific areas like securities, participation indexes, participation insurance, and sukuk. Research interest then shifts more toward Kazakhstan (Nagimova, 2023; Kurash et al., 2021; Hoggarth, 2016; Abduh & Omarov, 2013). In Central Asia, Islamic banking activities began in Kyrgyzstan, and studies dating back several years reflect this development (Nagimova, 2022; Zhoraev & Yüksel, 2021; Sabi, 2015; Bekkin, 2008). In Uzbekistan, Islamic banking and finance have only recently emerged (Muzaffrova & Muneeza, 2024; Nazarov & Sayfullaev, 2023). In Azerbaijan, however, the number of studies remains relatively limited (Aliyev & Gasimov, 2014).

This study, focusing specifically on the Organization of Turkic States, aims to offer a unique perspective that distinguishes it from previous works.

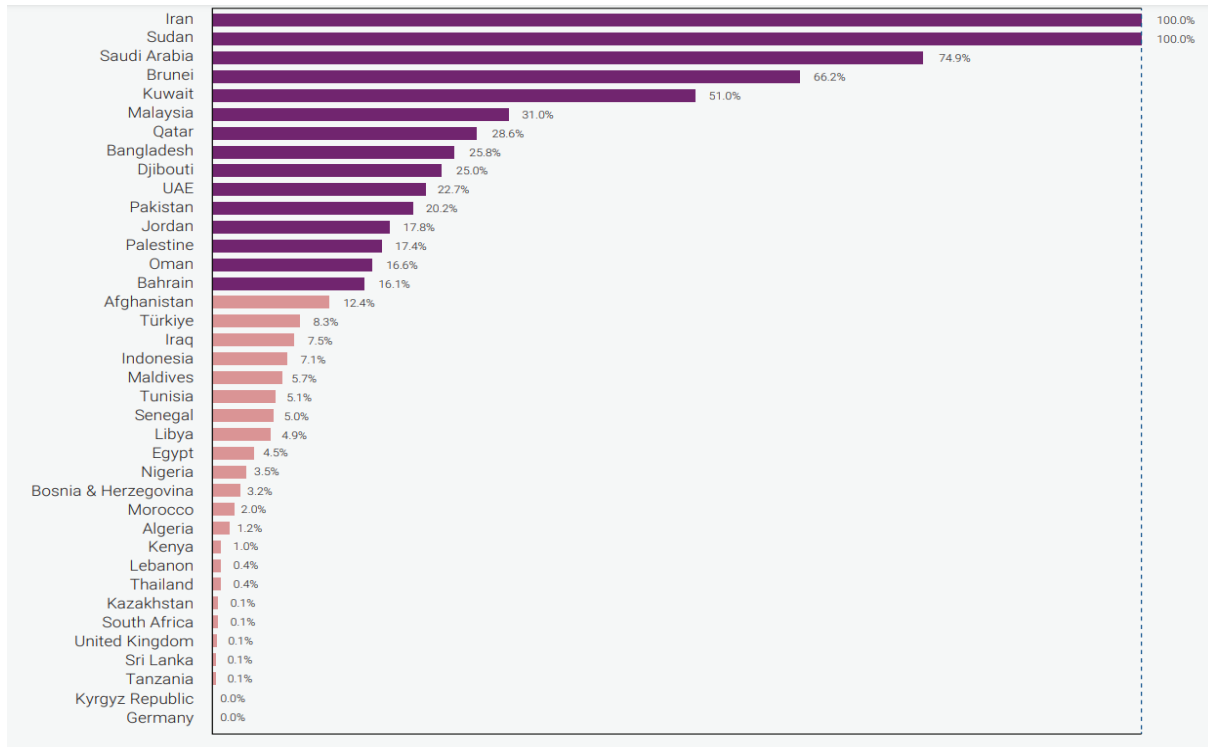
### **3. EVALUATION OF ISLAMIC BANKING ACTIVITIES IN THE MEMBER COUNTRIES OF THE ORGANIZATION OF TURKIC STATES**

Islamic banking began to spread globally in the mid-1970s and has continued to evolve since then. (Görmüş at all, 2019). The primary goal of Islamic banking is based on the principle of interest prohibition. Islamic banking, established within the framework of Islamic law, is developed through the teachings of the Qur'an, the Sunnah, Ijma (consensus), and Qiyas (analogy), and is offered to the society as a whole (Atar, 2017).

According to Gasimli (2023), Islamic finance—including Islamic banking—has the potential to act as a catalyst for economic development and integration among Turkic states. He argues that by providing a framework compatible with Islamic values, Islamic finance can mobilize savings, promote financial inclusion, support trade and investment, develop capital markets, and encourage cooperation. Furthermore, he believes that its principles and practices will contribute to sustainable and inclusive economic growth while preserving cultural and religious identities in the region.

Islamic banking is a comprehensive system that encompasses various financial transactions. These transactions include profit-and-loss sharing partnerships (mudarabah and musharakah), trade-based financing methods (murabaha), fixed-income instruments (sukuk), leasing, Islamic insurance (takaful), and the Individual Pension System (BES) (Türkan, 2019). Mudarabah and musharakah are types of partnerships where profit and loss are shared between parties providing capital and/or labor. Murabaha is a trade transaction where the purchase price and profit margin are determined, and the sale is made at a fixed price instead of involving interest. Sukuk are interest-free fixed-income instruments that generate income through specific assets or projects. Leasing is a method that allows the long-term rental of goods or assets. Takaful is a model where participants provide mutual insurance support by contributing together. BES is a system that allows individuals to accumulate savings for a secure income during retirement. Additionally, the istisna and salam methods are also used in the Islamic finance system. Istisna involves fixing the sale price before the delivery of goods, while salam entails prepayment for goods to be delivered in the future. These methods are based on the core principles of Islamic finance, which aim for interest-free and fair transactions (Türkan, 2019). The Islamic Financial Services Industry (IFSB) has outlined the status of Islamic banking in Islamic countries in 2023, as shown in the figure below.

**Figure 2.** Share of Islamic Banking in Total Banking (2022) (%)



**Source:** Islamic Financial Services Industry (IFSB), 2023

Figure 2 shows that Islamic banks account for 8.3% of total banking in Türkiye, 0.1% in Kazakhstan, and even lower percentages in other Turkic States members. The support of the Islamic Development Bank in promoting Islamic banking activities in the countries of the Organization of Turkic States stands out. The relationship between the member countries of the Organization of Turkic States and the Islamic Development Bank is presented in the table below.

**Table 2.** The Status of the Member Countries of the Organization of Turkic States in the Islamic Development Bank

	Membership Date	Number of Projects	Total Capital Share (%)	Total Financing	Area of Use
<b>Azerbaijan</b>	1992	79	0,1	1.2 Billion USD	Renewable energy, clean drinking water, agricultural equipment, etc.
<b>Kazakhstan</b>	1995	71	0,11	1.6 Billion USD	Financing and infrastructure, etc.
<b>Kyrgyzstan</b>	1993	78	0,05	526 Million USD	Restructuring, etc.
<b>Türkiye</b>	1974	561	6,45	-	Financing, etc.
<b>Uzbekistan</b>	2003	156	0,03	3.7 Billion USD	Trade and investment, etc.

**Source:** IsDB (Islamic Development Bank), 2024a. 04.03.2024

Table 2 indicates that Türkiye was the earliest member of the Islamic Development Bank among the listed countries. In fact, Türkiye stands out as one of the founding members of the Islamic Development Bank. With a capital contribution of 6.45%, Türkiye also plays a significant role as one of the most important members of the Bank. Uzbekistan leads the countries benefiting from total financing. By presenting Islamic finance projects to the Islamic Development Bank and

obtaining the necessary support, the development of Islamic banking within the Organization of Turkic States can be facilitated. The country-specific situation of Islamic banking activities is discussed below under various headings.

### 3.1. Azerbaijan

In Azerbaijan, the concept of Islamic banking is not extensively addressed due to the emphasis on national state ideology and secularism (Cyberleninka, 2024). Efforts aimed at eliminating barriers to the establishment and operation of Islamic banks, including proposed changes to national banking legislation, often encounter resistance due to the lack of understanding by regulatory bodies, particularly referencing Article 7 of the Azerbaijani Constitution, which stipulates that Azerbaijan is a democratic, legal, secular, and unitary state (Cyberleninka, 2024).

The Islamic Development Bank (IsDB) has provided significant financial resources to Azerbaijan for the establishment of an Islamic banking infrastructure. Most recently, on January 30, 2024, an agreement was made between the IsDB and Azerbaijan to increase cooperation between the IsDB Group and the country, expand potential areas of collaboration, and strengthen the Bank's support for socio-economic development in Azerbaijan. One of the key elements in this agreement is digital transformation and Islamic finance (IsDB, 2024b).

Regarding Islamic banking activities in Azerbaijan, the first notable institution is "Kauthar Bank." This bank, primarily emphasized as a non-interest bank, is one of Azerbaijan's first commercial banks. The bank obtained its license during the Soviet Union era in 1988 and was known as "Universal Bank" until September 2001. On October 21, 2002, the National Bank of Azerbaijan granted a new license to "Kauthar Bank" to conduct all banking activities. That same year, "Kauthar Bank" began the process of cleansing its old credit and deposit portfolios of interest and ceased all operations, including lending. All interest-bearing debts owed by customers were sold to a specialized company. "Kauthar Bank" is recognized by the global Islamic banking community as an Islamic bank (Cyberleninka, 2024; Aliyev and Gasimov, 2014). Additionally, there are banks operating with Islamic windows. Nicoil Bank, for example, offers some products to individuals and legal entities within the framework of Islamic banking system rules, although it only opens deposit accounts in compliance with these rules (Aliyev and Gasimov, 2014). Traditional banks in Azerbaijan are also able to simultaneously engage in non-interest banking activities (Xalqqazeti, 2024). Banks that provide non-interest banking services in Azerbaijan are listed in Table 3.

**Table 3.** Islamic Banks in Azerbaijan

Banks	Period	Notes
<b>Kapital Bank</b>	1874 – Present	It is the oldest bank in Azerbaijan. Generally a traditional bank, but occasionally offers non-interest banking services.
<b>Kauthar Bank</b>	1988 – 2002	The first bank to start Islamic banking activities in Azerbaijan. However, its operations ceased in 2002.
<b>International Bank of Azerbaijan</b>	1992 – Present	Offers both traditional and Islamic banking services.
<b>Nicoil Bank (Yelo Bank)</b>	1994 – Present	Changed its name to Yelo Bank in 2019. A traditional bank that sometimes offers non-interest banking services.
<b>Turan Bank</b>	1992 – Present	Generally a traditional bank, but occasionally provides non-interest banking services.
<b>Azeri Bank</b>	1992 – Present	Generally a traditional bank, but sometimes offers non-interest banking services.

Source: Created by the author.



When examining Table 3, it is observed that although Islamic banking activities in Azerbaijan date back to earlier years, there are no fully operational Islamic banks, and only some banks carry out these activities through interest-free loans. Despite the high Muslim population, it is stated that the potential for the development of Islamic banking in Azerbaijan is weak. As a solution, it is suggested that the promotion of Islamic banking be conducted properly and that a legal framework be established, along with the training of professional personnel (Memedov et al., 2020).

### 3.2. Kazakhstan

In Kazakhstan, the first legal regulations regarding the organization and activities of Islamic banks and Islamic finance were included in the Kazakh Law on February 12, 2009. This marked the creation of the first legal framework. Subsequently, amendments were made to the "Securities Market" law, which allowed for the issuance and circulation of Islamic securities (sukuk). On June 7, 2009, an agreement was signed between the Government of Kazakhstan and the Government of the United Arab Emirates, leading to the establishment of the first Islamic bank, JSC "Al Hilal Bank" (a 100% subsidiary of Al Hilal (UAE)) (AIFC, 2024).

In the following year, the necessity for introducing Islamic financial instruments, linked to real industrial processes and secured by real assets, was emphasized to create an effective financial system. As a result, on January 29, 2010, the President of Kazakhstan, in his annual State of the Nation address titled "New Decade - New Economic Growth - New Opportunities" in Almaty, highlighted the need to establish a local exchange to create a regional Islamic banking center with access to the top ten financial hubs of Asia (Nationalbank, 2024).

On July 22, 2011, Kazakhstan adopted the law "On Amendments and Additions to Some Legal Regulations Regarding Islamic Finance in Kazakhstan" (Nationalbank, 2024). This law allowed the state to issue Islamic securities and expanded the list of institutional entities capable of issuing Islamic securities. There are no restrictions on the participation of Islamic banks in corporate equity in Kazakhstan, and no restrictions exist preventing Islamic banks from engaging in non-banking activities, including financing production and trade activities. This allows Islamic banks to engage in commercial activities and share profits and losses with their clients. By July 2012, JSC "Kazakhstan Development Bank" issued a debt security (Sukuk "el-Murabaha") in compliance with Malaysian law, valued at 240 million Malaysian Ringgit (approximately 76.7 million USD), of which 38% was distributed (Nationalbank, 2024).

On April 27, 2015, Kazakhstan adopted the "Law on Amendments and Additions to Some Legal Regulations Regarding Insurance and Islamic Finance in Kazakhstan" (Nationalbank, 2024). This law included provisions related to Islamic insurance, the recognition of Murabaha commodities as Islamic banking transactions, financial leasing, Takaful, Wakalah, and other regulations. On November 24, 2015, a law was passed establishing the framework for the issuance of Islamic securities by the state and the conversion of conventional banks into Islamic banks (Nationalbank, 2024). The purpose of this law was to improve the structure of the existing state sukuk issuance and create conditions for the transformation of traditional banks into Islamic banks, further promoting the development of Islamic finance in Kazakhstan. Banks engaged in Islamic banking activities in Kazakhstan are listed in Table 4.

**Table 4.** Islamic Banks in Kazakhstan

Banks	Period	Notes
Al Hilal Bank	2010 – present	Part of the Abu Dhabi Commercial Bank Group
Zaman Bank	2017 – present	Converted from a traditional bank
Tayyab Digital Bank	2021 – present	Registered with the Astana International Financial Center (AIFC)

Source: Nagayev, R. and Jahangir, R. 2022

At present, three banks in Kazakhstan actively conduct Islamic banking operations. Among the member countries of the Turkic Council (TDT) in Central Asia, only Kazakhstan has banks that exclusively conduct Islamic banking activities. In other countries, there are generally traditional banks that operate Islamic windows or provide interest-free loans. Kazakhstan’s strong economic infrastructure also plays a significant role in the development of Islamic banking. The distribution of Islamic finance activities in Kazakhstan is presented in Table 5.

**Table 5.** Distribution of Islamic Finance Assets in Kazakhstan

	2019Q3 (1.000 Tenge)
Total Assets	81.477.860
Total Sharia-compliant financing (excluding interbank financing)	71.114.630
Sukuk assets	...
Other Sharia-compliant securities	...
Interbank financing	6.153.082
Other assets	4.210.148

Source: IFSB, 2024, Data & Metadata, Access Date: 02.10.2024, <https://www.ifsb.org/data-metadata/>

According to the Islamic Financial Services Board (IFSB) data on Islamic finance in Kazakhstan published in 2024, the total assets in the third quarter of 2019 amounted to 81 billion Tenge, with the majority consisting of Sharia-compliant financial instruments. Of these financial instruments, 94% were Commodity Murabaha/ Tawarruq, while 4% were Leasing (<https://www.ifsb.org/data-metadata/>). It is noted that Sukuk assets have not been issued so far.

### 3.3. Kyrgyzstan

Kyrgyzstan is one of the first countries in Central Asia to implement Islamic finance and has made much greater efforts in the development of Islamic finance compared to other Central Asian countries (Nagimova, 2021). Initially, on May 16, 2006, an agreement was signed with the Islamic Development Bank to establish a pilot Islamic bank, JSC "EkoIslamiBank," a commercial bank based on Islamic finance principles. Over the next 10 years, this bank operated alone, and later, four conventional banks opened Islamic finance windows to provide support. These banks are listed in Table 6 below.

**Table 6.** Islamic Banks in Kyrgyzstan

Bank Name	Period of Operation	Notes
JSC "EkoIslamiBank"	2006 – present	First Islamic bank in Kyrgyzstan, founded with the support of the Islamic Development Bank.
DemirBank	2007 – present	Opened an Islamic finance window.
Halyk Bank Kyrgyzstan	2010 – present	Opened an Islamic finance window.
Optima Bank	2011 – present	Opened an Islamic finance window.
Kapital Bank	2013 – present	Opened an Islamic finance window.

Source: Nagayev, R. & Jahangir, R. 2022

Subsequently, on September 15, 2009, Government Decree No. 57816 approved the regulation on 'Insurance based on Islamic principles (Takaful).' The financing of commercial structures does not rely on interbank liquidity markets but is conducted independently. In 2013, with the support of ICD, the first leasing company, Ijara Company Kyrgyzstan, began its operations (IKAM, 2022). This situation requires further organization of interaction, including within the framework of the Turkic States. The creation of a foundation for attracting Islamic investments and investing in the real sector of the economy is currently under review. Currently, the 'Ijara' leasing company operates based on Islamic financial principles in the republic (Vikentievna et al., 2023: 188).

### 3.4. Türkiye

It is noted that the first Islamic bank in the world was the Adapazarı Islamic Commercial Bank, established in 1913 in Adapazarı, within the Ottoman territories (Türkan, 2019). However, it is observed that the desired success was not achieved due to the effects of the world wars. After the establishment of the Republic of Türkiye, a new institutional structure called "Private Finance Institutions" (renamed as "Participation Banks" as of 12.12.2005) was established by the Council of Ministers' decision No. 83/7506, published in the duplicate issue of the Official Gazette dated December 19, 1983, and numbered 18256. Accordingly, Islamic banking activities resumed in 1984 under the name "Private Finance Institutions." (Özgür, 2008). The first Islamic bank established in Türkiye was Albaraka Türk Participation Bank. Subsequently, Faysal Finans entered the sector in 1985, followed by Kuveyt Türk in 1989 and Asya Finans in 1996. Years later, Faysal Finans transformed into Family Finans and later merged with Anadolu Finans in 2005 to form Türkiye Finans as it is known today (Türkan, 2019). In order to support the development of state participation banks, in May 2015, Ziraat Participation Bank was established, followed by Vakıf Participation Bank in 2016, and finally Emlak Participation Bank in March 2019 to carry out Islamic banking activities. By the end of 2023, three more banks entered the participation banking sector. The first of these was Dünya Participation Bank, while the other two were Hayat Finans and TOM Participation Banks, which provide digital banking services (TKBB, 2024a).

**Table 7.** Islamic Banks in Türkiye

Banks	Period	Notes
Albaraka Türk	1984 – ongoing	The first Islamic bank in Türkiye after the Ottoman period
Kuveyt Türk	1989 – ongoing	Privately owned
Türkiye Finans	2005 – ongoing	Privately owned
Ziraat Katılım	2015 – ongoing	State-owned
Vakıf Katılım	2016 – ongoing	State-owned
Emlak Katılım	2019 – ongoing	State-owned
Dünya Katılım	2023 – ongoing	Adabank A.Ş., which started operations in 1985, transitioned to participation banking as Dünya Bankası in 2023
Hayat Finans Katılım	2023 – ongoing	Digital Bank
T.O.M. Katılım	2023 – ongoing	Digital Bank"

Source: TKBB, 2024a

As of January 2024, the total assets of Islamic banks in Türkiye have exceeded 2 trillion Turkish Lira, accounting for 8.7% of the total banking sector share. It is reported that 9 Islamic banks are actively operating, with no window-based operations, and a total of 1,469 branches and 20,408 employees (TKBB, 2024). This indicates that Islamic finance plays a more prominent role in Türkiye compared to other member countries of the Organization of Turkic States. Furthermore, Islamic banks have issued Sukuk worth 409.3 billion Turkish Lira between 2013 and 2023, while the government has issued 304.3 billion Turkish Lira in Sukuk, in addition to issuing Sukuk in various foreign currencies (TKBB, 2024b). The distribution of Islamic finance assets in Türkiye is shown in Table 8.

**Table 8.** Distribution of Islamic Financial Assets in Türkiye

	2024Q1 (Million)
Total Assets	2.199.464,5
Total Sharia-compliant Financing (excluding interbank financing)	1.229.700,9
Sukuk Assets	329.130,3
Other Sharia-compliant Securities	57.365,0
Interbank Financing	147.159,4
Other Assets	436.109,0

Source: IFSB, 2024, Data & Metadata, Accessed on: 02.10.2024, <https://www.ifs.org/data-metadata/>

When examining Table 8, it is evident that the value of Islamic financial assets in Türkiye has surpassed 2 trillion Turkish Lira, making a significant contribution to Islamic finance and banking among the member countries of the Turkic Council. This is further reflected in studies that show Islamic finance positively influencing economic growth (Koçak, 2018).

### 3.4. Uzbekistan

Uzbekistan has been relatively late in initiating Islamic banking activities. It was in mid-2018 when a presidential decree announced the establishment of an infrastructure for Islamic banking and finance in Uzbekistan, and a special commission was formed. In May 2019, a decree was signed between Uzbekistan and the Islamic Development Bank (IDB), which anticipated the withdrawal of a grant from the IDB. As a result, several Uzbek banks expressed their intentions to develop Islamic banking through an Islamic window. With the support of approximately 38 million dollars from IDB, many banks began offering Islamic financial services to the Uzbek public through these windows. Consequently, the Private Sector Development Islamic Institution

(XSRIK), part of the Islamic Development Bank, signed an agreement to provide technical consultancy services to Kapitalbank in establishing an Islamic window (Kapital Bank, 2024). The Murabaha method is commonly used. Additionally, on May 18, 2023, a Memorandum of Understanding (MoU) was signed between the Participation Banks Association of Türkiye (TKBB) and the Uzbekistan Banks Association (UBA) to collaborate on developing Islamic banking activities in Uzbekistan (TKBB, 2024c). The banks engaged in Islamic banking activities in Uzbekistan are listed in Table 9.

**Table 9.** Islamic Banks in Uzbekistan

<b>Banks</b>	<b>Period</b>	<b>Notes</b>
Kapital Bank	2001 – present	Islamic Window
Anor Bank	2020 – present	A digital bank that conducts conventional operations, also offering Islamic banking products in window format.

**Source:** Created by the author

Overall, the issue with the country's banking system is that large state-owned banks account for 85% of total assets. These banks essentially act as agents for government programs and development plans, disproportionately lending to the public sector, which constitutes more than 50% of their credit portfolios. Other banks, including five foreign-owned banks, operate under market conditions. The banking sector in Uzbekistan is relatively large, but the high concentration around state-owned banks and government loans restrict access to capital outside of government programs. Consequently, despite double-digit growth in loans over the past five years, financing remains a fundamental issue for small and medium-sized enterprises (SMEs). A survey conducted by the IMF in 2017 revealed that only about 25% of SMEs developed through bank loans, and more than 80% of these businesses financed their investments from their own resources. This rate is significantly higher compared to other Central Asian countries. In Uzbekistan, Islamic banking activities are conducted through windows opened by conventional banks. (Dubko at all, 2022)

#### **4. COMPARISON OF ISLAMIC FINANCE AND BANKING DATA**

In this study, Islamic banking data is analyzed on a country-by-country basis. Among the member countries of the Organization of Turkic States, the level of development of Islamic finance and banking varies. Türkiye is the most advanced in Islamic finance under the name of "participation banking," with participation banks holding approximately 9% of the total banking sector. Kazakhstan is another leading country in this field and aims to increase the share of Islamic banking to 5% by 2025. Although Islamic banking activities in Kyrgyzstan started earlier, they have not shown significant development. In Azerbaijan, although Islamic finance has not fully developed, interest is increasing. Uzbekistan is a country that is just beginning to take steps in Islamic banking and is currently establishing the regulatory framework for this sector. Overall, Türkiye and Kazakhstan are the countries where Islamic finance is more widely addressed and implemented, while the other countries are still in the development phase. Comparative data for the member countries of the Organization of Turkic States is presented in Table 10 below.

**Table 10.** Comparison of Islamic Finance and Banking Data of the Member Countries of the Turkic States Organization

Variables	Azerbaijan	Kazakhstan	Kyrgyzstan	Türkiye	Uzbekistan
Islamic Banking Assets	Low	Medium	Medium	High	Low
Number of Islamic Banks	-	3	1	9	-
Market Share	%0-1	%2-3	%1-2	%9	%0-1
Islamic Finance Regulations	Initial Phase	Developing	Developing	Developed Regulatory Framework	Initial Phase
Growth Potential	Low	Medium	Medium	High	Low
Total Value of Islamic Banking (Local Currency)	-	81,477,860 (Thousand Tenge) Q3 2019	3,072,372.1 (Thousand Som) (Q2 2023)	2,199,464.5 (Million TL) (Q1 2024)	-
Sukuk Assets	-	240 million Malaysian Ringgit	-	329,130.3 (Q1 2024)	-

**Source:** Created by the author

Although Islamic banking activities in Azerbaijan have a long history, the presence of Islamic banks remains low, with only a few banks offering such services through interest-free loans. Despite the high Muslim population, it is clear that the growth potential of Islamic banking in Azerbaijan is also low. Among the member countries of the Turkic Council (TDT) in Central Asia, Kazakhstan is in a better position, having focused more on Islamic banking activities. However, the situation is still not ideal, as only three banks are involved, and Islamic banking activities account for about 3% of the market. Nevertheless, there is potential for growth if the legal infrastructure is developed. A similar situation exists in Kyrgyzstan, where banking activities are progressing weakly. Among the TDT member countries, Uzbekistan stands out as the weakest in terms of Islamic banking activities. Despite hosting many Islamic scholars, the limited development of Islamic finance and banking in Uzbekistan indicates that the country's structural infrastructure is insufficient. Türkiye, on the other hand, is very active in the Islamic banking sector and has a well-established regulatory framework. The Islamic banks, known as participation banks, make up nearly 9% of the total banking sector's market share.

When examining the impact of Islamic finance products on the economic performance of Islamic banks, it is evident that interest-free instruments provide a more stable capital structure. For example, profit-loss-sharing products, such as Mudarabah and Musharakah, enable banks to achieve more sustainable growth due to risk-sharing. Research has indicated that such products balance risk and return, especially in emerging markets, and positively influence banks' capital adequacy ratios (Khan & Bhatti, 2008). Moreover, the profitability and liquidity levels of Islamic banks improve in parallel with the use of Islamic finance products. Interest-free products have different risk dynamics compared to conventional banking products, which affects banks' long-term revenues. Specifically, Islamic bond products, such as Sukuk, are known to enhance liquidity and strengthen asset quality in banks' balance sheets (Ahmed, 2010). These instruments contribute to banks' financial flexibility during crisis periods, supporting stable growth (Türkan, 2021). Türkiye has taken significant steps in this regard, increasing Sukuk issuance in recent years, thus contributing to Islamic finance and banking. Additionally, Islamic finance products have a significant impact on financial stability. These products are structured

in a way that prevents speculative investments and promotes transactions based on the real economy. As a result, the asset quality of Islamic banks tends to be higher, which mitigates the negative effects of financial system fluctuations on banks (Beck, Demirgüç-Kunt, & Merrouche, 2013). Specifically, studies conducted after the 2008 global financial crisis highlight that Islamic banks suffered fewer losses compared to conventional banks. Considering all these factors, it is essential to give serious attention to Islamic finance and banking, which are relatively weak in TDT member countries, and to establish the necessary infrastructure to increase its added value.

## 5. CONCLUSION

This study aimed to evaluate Islamic banking activities within the Turkic Council, which consists of the founding member countries; such as Azerbaijan, Kyrgyzstan, Kazakhstan, Uzbekistan, and Türkiye. The organization aims to strengthen mutual trust, maintain peace both regionally and globally, combat international terrorism, enhance bilateral cooperation, create favorable conditions for trade and investment, achieve comprehensive and balanced economic growth, and expand cooperation in the fields of science, technology, education, and culture. One of these goals is the effective use of Islamic finance. Considering the rich history, cultural ties, and economic potential of the Turkic world, it is evident that Islamic banking could play an important role in this region. The opportunities provided by Islamic banking should be well utilized to achieve the economic growth and development goals of the Turkic Council. However, findings indicate that these opportunities are not fully utilized, as Islamic banking and financial instruments remain underdeveloped.

When examining the Islamic banking activities of the Turkic Council member countries, it is seen that while Azerbaijan has a long history of Islamic banking, its secular and unitary nature, as stipulated in Article 7 of its Constitution, hinders the development of Islamic banking activities. It has been observed that Islamic banking activities could develop with the establishment of a legal framework, professional staff training, and public awareness campaigns. In Kazakhstan, Islamic banking activities began as early as the 2000s, with efforts to create a legal infrastructure dating back to 2009. This has allowed the development of Islamic banking activities and the establishment of relevant banks. Currently, three Islamic banks are operating in Kazakhstan. It is believed that Kazakhstan's international economic policies have also contributed to the development of Islamic banking. In Kyrgyzstan, the first Islamic bank, EcoIslamicBank, was established in 2006, just after Türkiye. However, it appears that this development did not continue. In subsequent years, traditional banks began offering Islamic banking services through windows, providing microfinance opportunities for investors.

Research shows that Islamic banking activities in Uzbekistan began quite late. Islamic banking activities, which started with the support of the Islamic Development Bank (IsDB) in 2018, continued with a memorandum of understanding signed with the Participation Banks Association of Türkiye. However, these activities did not lead to the establishment of full-fledged Islamic banking operations in Uzbekistan, with only a few banks operating Islamic banking windows. One of the main issues in Uzbekistan is the underdevelopment of private banks, with the government owning a large percentage of existing banks. It is believed that the presence of international Islamic banks in Uzbekistan would contribute to the development of Islamic banking activities, as Uzbekistan has the largest Muslim population in Central Asia and is a member of the Turkic Council.

Lastly, Türkiye is the first country in the Turkic Council to initiate Islamic banking activities. With its population, economic potential, strategic location, and international political policies,

Türkiye has demonstrated success in this field compared to other member countries. As of now, nine Islamic banks operate in Türkiye, including two digital banks. These banks account for about 9% of the total banking sector, with assets exceeding 2 trillion Turkish Lira. This represents a significant success in Türkiye's goal of becoming an Islamic finance hub. Sharing this success with other Turkic Council member countries and engaging in joint ventures and agreements will further promote the development of Islamic banking activities. Furthermore, Islamic finance products provide important advantages in terms of economic performance, profitability, liquidity, and financial stability for Islamic banks. These products strengthen risk management while contributing to sustainable growth. Expanding the use of Islamic finance products in Turkic Council member countries could positively impact the overall structure of the banking systems in these countries.

The total population of Turkic Council member countries exceeds 160 million, with a total GDP exceeding 1.2 trillion USD. A significant portion of this population is young and economically active. With such potential, the organization is expected to play an effective role in Islamic banking as well. Research indicates that the most significant contribution to the development of Islamic banking within the Turkic Council has been made by the Islamic Development Bank. Through its support, Islamic finance has developed, and Islamic banking activities have commenced with several memorandums of understanding.

To further develop Islamic banking activities in Turkic Council member countries, the following recommendations are made:

- **Appropriate Legal Framework:** A legal framework consistent with the fundamental principles of Islamic banking should be established. This would allow for the recognition and regulation of financial products that comply with Islamic law (Shari'a).
- **Regulatory Bodies:** Specialized regulatory institutions or units within existing regulatory bodies should be established to oversee and guide Islamic banking activities.
- **Education:** Specialized educational programs and certification courses in Islamic finance and banking should be organized. This includes the opening of relevant departments in universities and the training of current finance professionals.
- **Public Awareness and Education:** Public awareness campaigns should be organized to increase Islamic financial literacy, informing the public about the principles, benefits, and products of Islamic banking, and explaining the differences between Islamic and conventional banking.
- **Product and Service Development:** The diversification of Islamic banking products to offer various financial solutions tailored to customer needs is necessary. This could include products such as Murabaha (cost plus profit financing), Mudarabah (profit-loss partnership), Sukuk, Salam, Istisna, and Leasing.
- **Innovation:** The integration of fintech and digital banking technologies into Islamic finance products should be encouraged.
- **Financial Infrastructure and Market Development:** Access to capital markets for Islamic banks should be facilitated, the Sukuk market should be developed, and Islamic investment funds should be promoted.
- **Partnerships and Cooperation:** Inter-country collaborations and joint projects should be supported to help the growth of the Islamic finance market. This also involves sharing experience and knowledge regarding Islamic finance among Turkic Council member countries.



- International Standards: Cooperation with international organizations such as AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) and IFSB (Islamic Financial Services Board) should be established to ensure the alignment of Islamic finance with international standards.
- Regional Cooperation: Joint Islamic banking projects, mutual investments, and financial integration projects should be developed among Turkic Council members.
- Risk Management: Islamic banks should be encouraged to develop their risk management practices and operate in accordance with transparency principles.
- Transparency and Accountability: Islamic banks should be ensured to comply with international best practices in financial reporting and transparency.

These steps can foster the growth of Islamic banking in Turkic Council countries and enhance financial system diversification. This will establish an efficient organization where economic actions are implemented, and resources are converted into investments within the member countries, rather than remaining merely a nominal union. We hope this study contributes to the member states, the Islamic banking sector, and the global Islamic community.

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