



# IS SMALL THE NEW BIG? ISLAMIC BANKING FOR SMEs IN TURKEY

**Source:** Aysan, A. F., Disli, M., Ng, A. B. K. & Ozturk, H. (2016). Is small the new big? Islamic banking for SMEs in Turkey. *Economic Modelling*, 54, pp. 187-194.

**FULLTEXT AVAILABLE AT INCEIF KNOWLEDGE REPOSITORY (IKR)**

<https://ikr.inceif.org/handle/INCEIF/2175>

## KEYWORDS



Islamic banks



Small business leading



Turkey

## INTRODUCTION

- 1 Small and medium-sized enterprises (SMEs) constitute the backbone of economic systems and are the key drivers of long-term economic growth.
- 2 SMEs face higher obstacles to their operation and expansion than large enterprises.
- 3 Obstacle: Lack of access to external financing for business activities (Beck et al., 2005, 2006).
- 4 In Muslim-majority countries, Islamic banking has emerged as an alternative way of financial intermediation.
- 5 This study examines whether Islamic banks differ from conventional banks in their financing decisions toward SMEs in Turkey by controlling bank-specific characteristics.

## DATA

### Data set

- Small business data set from the Central Bank of the Republic of Turkey for the period 2006Q4 to 2014Q.
- Comprise of **40 commercial banks: 36** conventional banks and **4** Islamic banks.

## ESTIMATION RESULTS

The authors focus the discussion on whether Islamic banks differ from their conventional counterparts with respect to:



Banks' willingness to finance SMEs



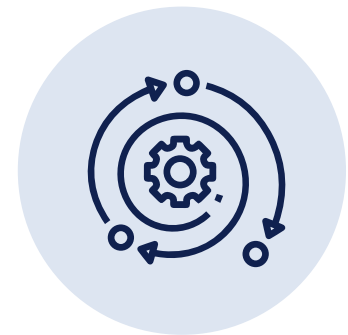
Banks' processing ability of the SME portfolio

## EXTENSIONS AND ROBUSTNESS

To verify the robustness of the main results, the authors:



**1** Extend their analysis by comparing Islamic banks with different conventional ownership forms



**2** Explore the impact of fixed effects.

## CONCLUSION AND POLICY IMPLICATIONS

**1** More strategic operational adjustments are needed to assist Islamic banks to target SMEs more effectively in the case of both Turkey and other countries.

**2** Islamic finance can play an important role in closing the financing gap for SMEs.

**3** Policy makers and stakeholders should promote risk-sharing financial instruments and develop an enabling environment for risk-sharing to thrive.

