Ottoman Cash Foundations
A Historical Model for Islamic Finance

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International Islamic Finance and Economics Conference
Nov. 19, 2015, İstanbul
Agenda

- Theory and History
  - What is Cash Foundation/Waqf?
  - Debates on Cash Foundations: How it Was Legitimized?

- How Cash Foundations Worked?

- Cash Foundations and Islamic Financial Institutions
Ottoman’s Contribution to the Waqf System

Developments in legal theory & application

- Development in Legal Aspects of Waqfs
- New Applications by the Ottomans
  - Cash Foundations
  - Double-lease (İcareteyn)
  - Gedik
  - Semi-Public (İrsadi) Waqfs
Waqfs in the Ottoman Financial System

According to the 16th Century Budget Figures
### Table: 1 Number of Waqfs in Istanbul

Established or in Operation in the 16th Century (Within the City Walls, According to the Waqf Censuses)

<table>
<thead>
<tr>
<th>Census Year</th>
<th>Property Waqfs</th>
<th>Property and Cash Waqfs</th>
<th>Cash Waqfs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>%</td>
<td>Number</td>
<td>%</td>
</tr>
<tr>
<td>953/1546</td>
<td>1292</td>
<td>53.15</td>
<td>294</td>
<td>12.09</td>
</tr>
<tr>
<td>986/1578</td>
<td>2325</td>
<td>83.42</td>
<td>437</td>
<td>15.68</td>
</tr>
<tr>
<td>1005/1596</td>
<td>2653</td>
<td>83.43</td>
<td>444</td>
<td>13.96</td>
</tr>
</tbody>
</table>
Cash Foundation: The Waqf Founded with Cash (Dirham and Dinar)

A unique application considered as a contribution of Ottomans to the waqf system

Also considered as contradicting to the Islamic law
Most of the buildings constructed by the waqfs, including shops, workshops and trade centers, hostels, and residential buildings such as houses, rooms, yahudihanes.

These buildings provided necessary facilities for residents, traders and artisans of the city.

These buildings were the main source of income for waqf services.

Many facilities such as roads, bridges, sidewalks, public fountains, and water lines were among the waqf investments.
Services Provided by Ottoman Waqfs II
Religious and Cultural Services

• All kind of religious service buildings (mosques and masjids, prayer rooms, libraries, dervish lodges) were supported from the construction to every kind of spendings to keep them fully operational.

• Their staff were paid by waqfs in addition to all the maintenance and repair works.

• This includes all kind of religious and cultural service units together with muvakkithanes, the centers for determining time for the prayers.
In the classical period of the Ottomans, all educational institutions from primary schools to the higher ones were established and financed by the waqfs (except Enderun School). Ottoman State Budgets had no funds allotted for educational services, since all spending were made by the waqfs. All the professional schools such as darülhadis, darülkurra and darültıp, and public education held in mosques and other institutions were also part of the waqf system. Students were provided accommodation and some pocket money during their educations (they didn’t pay even a penny as tuition, including the medical school students!!). Most of the modern schools in the 19th century were also financed through waqf sources.
Services Provided by Ottoman Waqfs IV

Health Services

• Health services given by the institutions such as dârüttîp and darüşşîfa were also part of the waqf system.
• They were medical schools
• They were hospitals where patients were treated free of charge.
• All their services were financed by the waqfs and the salaries of personnel and the staff were also paid by the related waqfs.
• All of the expenditures made for the patients including medicines were paid out of the waqf sources.
• Waqf deeds had detailed information about the personnel employed by health institutions, the quality of the services given to the patients and such.
Services Provided by Ottoman Waqfs V
Social Security and Mutual Support

• Waqfs provided a kind of social security or mutual support for the members of certain groups such as soldiers, artisans and inhabitants of certain quarters.

• Janissary corps had their own waqf funds to help their members and their families.

• Artisans also had such funds to provide finance for their common activities, and members or their relatives when they were in need.

• Some waqfs were established directly to help the poor or needy,

• Some waqfs which had extra income also supported disadvantaged groups such as poor, elderly and disabled.
Some waqfs were designed to pay pensions for those unable to work.

Some payments made out of waqf sources can be interpreted as a kind of unemployment benefit.

*Avâriz* waqfs of quarters and villages were also mutual support and social solidarity institutions, which

- helped the inhabitants of the quarters,
- helped them to pay extraordinary taxes levied by the state.
Services Provided by Ottoman Waqfs VI
Philanthropy

- Waqfs were philanthropic institutions in their essence.
- Every kind of philanthropic services were provided by the Ottoman foundations.
- Helping the poor, students and other needy groups, providing
  - food through soup kitchens, and
  - health services for patients.
- These services include not only human beings but also animals and the environment. Ottoman society produced many waqfs serving to the animals and helping to improve environmental conditions.
History of Cash Foundations

• It is not known when cash foundations were first initiated, but there is no application of cash foundations before Ottomans.

• The first known example of cash foundations dated back to 1423.

• We have some examples by the times of Sultan Murad II (1421-1451) and Mehmet II, the Conqueror (1451-1481).

• During the 15th and early 16th centuries, cash foundations were only a tiny percentage of the general waqfs.

• During the reign of Sulaiman I, (1520-1566), cash foundations gained an important role in the waqf system.

• They became common and customary in the Anatolian and Eastern European (Balkan) provinces of the Ottoman State, but few cash foundations were established in the Arab provinces.
Debate over the Legitimacy of Cash Foundations

• Pro-Legitimization Scholars
  • İbn Kemal
  • Ebussuud Efendi
  • Bali Efendi of Sofia
  • Mehmed Fenari

• Against the Cash Foundations
  • Çivizade Muhyiddin Mehmed Efendi
  • Mehmed Efendi of Birgi

• The Sultan: Final Authority
  • Based His Authority on a Decision Reached by a Commission of Scholars and Religious Authorities (Mufti, kazaskers, mufti of Istanbul and some others)
The Main Points of Discussion over Cash Foundations

• The condition of perpetuity in immovables
• The condition of perpetuity in cash (dirham and dinar)
• Legal consequences of legalization of cash foundations
• Political, social and economic consequences of cash foundations
• The methods of transaction (istiğlâl, istirbâh)
How the System Worked

Cash (Nukud-ı Mevkûfe, Asl-ı mal, dirham and dinar)

Given as Credit (istiğlâl, istirbâh, muâmele)

Income (Ribh, Faide)

Expenditures (Management And Services)

Service Giving Units (Müessesât-ı Hayriye) or Persons

Services
Terminology and Concepts

- Ribh
- Faide
- Murabaha
- İstiğlâl
- İstirbâh
- Muâmele
  - Muâmele-i Şer’iyye
- Bey’
  - Bey’ bât
  - Bey’ bi’l-vefâ
  - Bey’ bi’l-istiğlâl
  - Mudarabe
  - Bidâ’a
  - Karz, Karz-1 Hasen
Rates of Return

- 10%
- 11.25%
- 12.5%
- 15%
- 20%
- (No return above 20%)
Ways for Establishing a Cash Foundation

• Directly (in the lifetime of the founder)
• By the way of testament (in connection with the death of the founder, valid at most for 1/3 of the founder’s wealth)
• There are some legal differences between two ways
• After the establishment both were subjected with the same rules and regulations
• Registration of the waqf deed (waqfiya) at the court
• Waqfiya is the main code for the waqf
Management and Inspection

- People
  - Mütevelli (Ruler)
  - Nâzîr (Inspector)
  - Kâtip (Script)
  - Câbî (Collector)
  - Courts and Kâdîs
  - Other State Official as Nâzîr (Inspector)

- Rules and Regulations
  - Waqfiya (Waqf Deed) as the Constitution of the Waqf
  - General Rules and Regulations
  - Traditions,
  - Moral/Ethical Codes of the Society
Transaction Methods Applied by Cash Foundations

• Muamele-i şer’iyye 92,68%
• Bey’
  (Bey’ bât, bey’ bi’l-vefâ and bey’ bi’l-istiğlâl) 5,31%
• Karz 2,01%
• Mudarabe ---

(The rates belong to Usküdar Cash Foundations which were in operation during the Reign of Süleyman I, Kanûnî)
Contributions of Cash Foundations

- Cash foundations became an important part of Ottoman waqfs which provided necessary funds to finance different services. Cash foundations helped the waqf system to enlarge its sources and widen the services by injecting additional sources from limited/small savings of the people to the waqf system.

- They were unique and only legal credit institutions lending to individuals as an alternative for illegal usurers.

- They also helped the development of new institutions which acted as social security organizations or insurance institutions among the members of certain groups such as soldiers, craft members, local community of a quarter or a village.
New Institutional Forms

• Cash Foundations (forefather of Vakıflar Bankası)
  • 1. Avarız Foundations
  • 2. Craft Chests/Boxes/Funds (Esnaf Sandıkları)
  • 3. Janissary Chests/Boxes/Funds (Yeniçeri Orta Sandıkları)

• Similar Institutions (Not Waqf)
  • 1. Orphans Chests/Boxes/Funds (Eytam Sandıkları, forefather of Emlakbank)
  • 2. Country Chests/Boxes/Funds (Memleket or Menafi Sandıkları; forefather of Ziraat Bankası)
Cash Foundations and Islamic Financial Institutions

• Similarities and Differences
  • **The Main Intention:** Both system developed and designed as an alternative for interest based system and transactions.
  • **Theoretical Approach and Main Structure:** The Idea of Waqf and Sadaka versus Traditional Banking System
  • **In Application:** The main objective in cash foundations was producing finance for social services while it is personal gain in Islamic financial institutions.
  • **Transaction Methods:** While mudaraba proposed in theoretical discussions, other methods providing a guaranteed return are preferred in both system.
Related/Selected Publications


• “İbn Kemal’in Para Vakıflarına Dair Risalesi” (A Treatise by Ibn Kemal on Cash Foundations), İslâm Araştırmaları Dergisi (Turkish Journal of Islamic Studies), v. IV (2000), pp. 31-41.


Thanks for your participation

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