

# FINANCING FOR DEVELOPMENT

Alternative Perspectives on  
Challenges and Opportunities of  
Financing Development



ORGANISATION OF ISLAMIC COOPERATION  
STATISTICAL, ECONOMIC AND SOCIAL RESEARCH  
AND TRAINING CENTRE FOR ISLAMIC COUNTRIES





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Alternative Perspectives on Challenges and Opportunities  
of Financing Development

*Editors:*

*Kenan Baęcı and Erhan Türbedar*



ORGANIZATION OF ISLAMIC COOPERATION  
THE STATISTICAL, ECONOMIC AND SOCIAL RESEARCH AND  
TRAINING CENTRE FOR ISLAMIC COUNTRIES (SESRIC)



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*Dr. Mehmet Bulut & Dr. Cem Korkut*

# Cash Waqfs as a Fund Collection Instrument for Turkey

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One of the biggest problems of the modern era for developing countries is that they are not able to develop/grow with their own insufficient savings. The developing countries generally use the savings of developed countries for development and pay interest to developed countries for the loan. Therefore, the development gap between the developing countries, which need savings for development, and the developed countries, which have very large interest income, is not closed. In order to overcome this development gap, especially the labor force (overpopulation) and low labor cost methods are being tried. These methods only straighten the general economy in terms of growth not development and the developing countries cannot make a serious breakthrough in total welfare of people. The majority of Islamic countries are in the category of developing countries. In other words, the Islamic countries also need capital for new investments. For this reason, it is important to establish funds that will be managed according to the procedures accepted in Islamic fiqh, which will provide capital accumulation and resources for Islamic countries. In this study, the proposal of the Cash *Waqf* Fund (CWF), which can be used for Islamic countries as a financial instrument for development, will be examined.

Unlike real estate waqfs, the entire or some part of capital consists of cash money at CWs. The CWs became quite widespread during the Ottoman period. The main priority of these institutions was charity. On the other hand, the funding needs of entrepreneurs in the market were provided by CWs. Another feature of CWs is that they are the pioneers of Islamic financial institutions with their operation methods for cash. The CWs, which lent money to the entrepreneurs through Islamic financial methods, spent the income of this money for the purposes of the waqf. In this way, while the continuity of the charity activities, the market's need for cash was provided. Thanks to the CWs, the financial institutions of capitalism, like the

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banks, could not enter the Ottoman geography for many years. In this study, a fund proposal for Turkey in the implementation of the CWFs, will be presented.

## **Introduction**

Funds are portfolios in which banks or authorized financial institutions distribute the savings among various types of derivatives in order to gain income for capital owners. These derivatives include government securities, stocks, foreign exchange and precious metals or other income-generating securities. In addition to this, another definition for fund is the money that is set aside to perform a particular investment service (Afşar, 2007).

When used in place of the money definition, funds that are in excess can be invested directly by the owners or brokers. These funds are requested by entrepreneurs who want to make investments and develop their projects. The fund transfers may also be in the form of interest-rate transactions within the credit system or profit-loss partnerships that are not based on interest. Equity instruments such as bills, bonds and stocks are securities that meet the cash requirement. The stocks offer partnership opportunities, while papers such as bills and bonds are credit-based securities and they generate interest income. Today, participation-based funds are also being established. Therefore, the applications and importance of interest-free securitization are a current debate issue (Bayındır, 2007: 250).

Capital accumulation is inevitable for economic growth and development. Funds play an important role in ensuring capital accumulation. Thus, the provision of fund-raising proposals is important in society. The main benefit and reason of establishing a CWF is to provide sustainable resources for the wellbeing of society. The CWF will be operated for many years because it only distributes income of the fund. Moreover, establishing a fund based on the partnership model will minimize the damage to the debt-based financial system. In this study, we will examine the establishment, effects, and importance of the CWF proposal for Turkey in economic and financial development.

## **Importance of Capital Accumulation and Equitable Economic Development**

If a country wants to be strong in social and political terms in the world today, one of the most important steps is to gain economic power. One of the indicators of the economic power is having enough capital accumulation for development and growth. However, the capital accumulation in today's world is largely assessed in the conventional (interest-based) financial sector. The share of participation (interest-free and partnership-based) banks from this pie is quite low. One of the reasons to have a low share in the financial system of participation banks in Turkey is the lack of capital accumulation of people those do not want to engage with interest bearing transactions. Income and wealth inequality caused by the capitalist system has led to the accumulation of large amounts of capital and wealth in certain groups and individuals. However, one of the most fundamental principles of Islamic economics is to spread the wealth in all layers of society and to prevent unfair distribution of income. In the Islamic states established throughout history, the middle class were strengthened in general. The religious principles and choosing the middle way method (between overdoing/ifrat and

understatement/tefrit) that are recommended by Islam prevented the formation of extreme rich and extreme poor groups. Thus, the economic and social life of middle-class became the largest and most important part in Islamic societies with the establishment of income justice. For this reason, the sharp class differentiations such as the bourgeois and the proletariat, distinctions and conflicts were not shown up in Islamic societies. For example, while the distinction between serfs and lords in the West during the period of feudalism was very specific and sharp, the conflicts between the rights of the peasants and the positions of the timariots (sipahis) in the Ottomans were not extreme hierarchical. Even the peasants are protected against the timariots because they are one of the basic elements of production (Tabakoğlu, 2009).

The Islamic economic mentality establishes an economic system free of appetite for gaining wealth without stint. Therefore, Islamic financial institutions prioritize spiritual development before material gain. Many studies have revealed that the capitalist system leads to income injustice. In a socially segregated society, the income gap between the richest and the poorest will increase as long as there is no fair distribution of income, capital and wealth. It is important to act in line with the aim of spreading wealth to all segments of society if there is an aim to provide income justice. Furthermore, the CWF prioritized distribution rather than accumulation. The proposed CWF in this study is an infaq institution from that the donator do not have income expectation.

It is possible to create an alternative financial system and provide economic growth and development within the framework of economic principles envisaged by Islam for Muslim societies. In this respect, CWF can be directed to the predetermined important industrial branches. As a result, even capital and wealth holders who do not participate in the CWF will have a desire to make investment on these important preferential areas, which is based on real production and trade. The CWs financed production and trade in the past and they still have the potential to do it today.

### **Historical Background of CWs**

The meaning of the word *waqf*, which is an Arabic term, can be defined as “stopping, making to stop and incarceration” terms. From the history to the present, cooperation and solidarity have existed among people. The concept of solidarity gained institutional character with recommendations in the religion of Islam. Waqfs play an important role in the institutionalization of solidarity. The waqfs found the chance to develop in Islam that has also institutions such as infaq, sadaqah, and zakat etc. Thus, the legal organizations and definitions of waqf also included in Islamic fiqh books. When looking the definitions, it can be seen that the faqihs have very different opinions on waqf. Abu Hanifa, who was the founder of Hanefi sect to which Ottomans were subjected, defined the waqfs with religious and social aspects. Abu Hanifa stated that the real estate waqfs in the form of renting could be allocated for religious services, needs or social purposes of society. Abu Yusuf and Imam Mohammed emphasized the religious size of the waqfs and they evaluated waqf term with a large meaning.

Hanafi faqihs claimed that the waqf goods are belong to Allah and they use *Vakfullâh* term (Kurt, 2010: 180).

The CWs were closely influencing social and economic life in Ottomans. Thus, the Ottoman scholars also discussed CW issue and decided that they were important and necessary for society. In the past, only rich and wealthy people were able to form waqfs. Thanks to the CWs, the waqfs were not established by only the rich class. Ordinary citizens, called *reaya*, came together and could establish CWs with their small savings. With the expansion of the Ottomans and the growth of the economy, the need for cash for enterprises and investments increased the need for capital in society. In order to eliminate the financing need in the society, CWs had a very important function. Thanks to CWs, the banks could not enter the Ottoman society either for corporate or mentally for many years.

The CWs are different from the banks. The profit of capital did not transfer to the founder in CWs. The profit was distributed according to the purposes of the waqf. The benefits of CWs were for welfare of the society. The Ottoman CWs were established not only in the city centers, but also in the most remote villages. The CWs financed the religious services, educational institutions and infrastructure. Thanks to the CWs, entrepreneurs in need of cash were able to make investments by providing financing in appropriate proportions. The structure of CWs in the Islamic world did not changed despite years.

CWs show the financial mentality of the Ottomans. It was requested as a waqf condition that the donated money should be operated with halal methods. This is defined as *mu'âmele-i sher'iyye* (shari transactions) on the waqfiyahs. In addition, the conditions of avoiding interest risk were added to the waqfiyahs. Especially, the methods such as istiglal, bidaa, mudarabah and murabahah used in CWs are the pioneers of the today's Islamic financial instruments. Moreover, there are conditions about financing only merchants and artisans in some CWs. This shows that CWs financed production and trade.

### **Cash Waqf Fund (CWF)**

It is aimed that the goods and money that are donated will be in the service of the people longer with CWF. The cash operated by Islamic methods also will be useful to those who benefit from this money through debt or business finance. In addition, thanks to the distribution of the income of the fund instead of the main capital, continuous help is provided for needs. Thanks to the based on Islamic financial principles, interest-based bank loans will not be required in production-based areas. In addition, other funds will be encouraged to invest in relevant production fields. It should not be forgotten that this fund will bring loss as well as profit. With this fund, the accumulated capital and wealth will be evaluated in large production projects, not in interest banks.

It should not be forgotten that the development of Islamic countries is possible through production-based growth. Therefore, investments based on production should be encouraged. These targets also overlap with the financing instruments of the Islamic economy. Therefore, the establishment of a financial system structured in the light of the principles of

Islamic economics, not modern economic practices, is very important for Muslim countries. The proposal presented in this study aims to deepen and expand the Islamic finance practices in addition to the aim of developing this infrastructure.

There are those who claim that CWs are institutions that provide capital accumulation, as well as those who claim that they are capital distribution institutions because they are waqf. In studies claiming that CWs provide capital accumulation, it is supported that CWs financed consumption rather than investment. These claimants show the mortgages that the CWs demanded while lending money. However, in other studies, it is seen that CWs did not want large collateral when lending and they can only ask for a guarantor (Kaya, 2003: 191). Consequently, if the CWs are operated in accordance with the purpose of establishment, they have the potential to be the determining institutions in the fair accumulation and distribution of capital.

## **Conclusion**

The economic thought that prevails in the world today is the result of capitalism, which developed as a continuation of mercantilism in the West from the 15<sup>th</sup> century. Therefore, if the solution of today's economic and financial problems is to be sought, first of all the birth and roots of this system should be examined. It is a mistake to wait for the system causing the problem to produce solutions to these problems. Today, the banking and reserve system, which has a great weight in the global economy, has created a significant difference between the financial sector and the real sector with the money creation mechanism in the market for many years. Due to this difference, virtual growth has been extinguished and crises occurred after a while. The definition of economy based on the principles of mainstream economic ideas cannot offer a solution to problems. We need to find the solution to these problems in the institutions of our civilization. This knowledge is in our history.

The CWs operate and serve for the basic needs of the society. Moreover, CWs supplied the financial needs of the important factors of economic life such as farmers, tradesmen, entrepreneurs, merchants and producers with Islamic financial procedures and practices. CWs unlike banks prevented capital from collecting certain classes. In addition, they established a mechanism that distributed wealth from rich to poor.

Nowadays, after the financial crises caused by the modern financial system, the search for alternatives brings the Islamic finance methods to the forefront. The Islamic thought and the practices in history provide a serious alternative to modern financial problems. One of these alternatives is CWF, which are both charity-based and financing-based institution. In this regard, the CWF establish the connection between financial sector and real sector again because of using Islamic/interest-free financial methods based on partnership. Moreover, CWF can prevent moral problems since it is not a commercial institution. The primary function of CWF is charity. CWF has the necessary features to provide solutions to current financial problems. There is enough experience for the establishment of this fund in Turkey.

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