

Savings Account with Merit: Suggestion of a Social Benefit Oriented Savings Account

Sevaplı Hesap: Sosyal Fayda Odaklı Bir Tasarruf Hesabı Önerisi

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ABSTRACT In this study, in accordance with the principle that social solidarity and complimentary lending are a merit in Islam and the principle of protecting the lender and the borrower together, a savings deposit account suggestion is presented under the name "savings account with merit". The existence of the moderate views on the interest as much as the inflation and the fact that it is still being discussed have been effective in bringing up this idea. It has also been observed that the social use of interest income has been supported by the state even though it brings about interest discussions as in the case of the Ottoman Monetary Foundations. The hypothetical example describes how the account is operated and what benefits it offers. It is recommended that the lender should receive an interest as much as the inflation rate calculated according to the Islamic principles with the "savings account with merit" and transfer the interest income above the inflation rate to social assistance institutions.

Keywords: Savings account with merit; islamic finance; interest

ÖZ Bu çalışmada, İslâmiyet'te sosyal yardımlaşmanın ve karşılıksız borç vermenin sevap olması ve borç alan gibi borç verenin de zarar görmemesi ilkesi doğrultusunda Türkiye'de bunu gerçekleştirecek bir tasarruf mevduatı önerisi "Sevaplı Hesap" adı ile Türk Bankacılık Sistemine sunulmak istenmektedir. Bu fikrin ortaya atılmasında enflasyon kadar faize ılımlı bakan görüşlerin varlığı ve halen tartışılıyor olması etkili olmuştur. Faiz gelirinin sosyal amaçlı kullanımının, tıpkı Osmanlı Para Vakıfları örneğindeki gibi faiz tartışmalarını beraberinde getirirse de devlet tarafından desteklendiği de görülmüştür. Bu hesabın nasıl çalışacağı ve faydalarının neler olacağı hipotetik bir örnekle gösterilmektedir. "Sevaplı Hesap" ile borç verenin İslâmî esaslara göre hesaplanan enflasyon oranı kadar faiz alması, enflasyonun üzerinde olan faizin ise sosyal yardım kurumlarına aktarılması önerilmektedir.

Anahtar Kelimeler: Sevaplı hesap; islâmî finans; faiz

Upon examining the history of economics and history of religion, the concept of interest has been addressed in different dimensions, and it still remains one of the most discussed subjects. Within the Islamic rationale, it can also be said that this concept should be addressed not only from the economic and legal aspects but also as a concept related to moral and social justice. In Islam, the "karz-ı hasen", in other words, the benevolent loan, is regarded as a great source of merit as one of the ways of non-compulsive solidarity. It is called karz-ı hasen to receive back the

same amount as that provided to a materially troubled person in need as financial support without seeking any interest. It is emphasized that the main purpose of lending money to the other party is to provide complimentary support, that interest should not be regarded as a source of profit, and this is also considered a merit. The idea that the savings account suggested in this study is named the "savings account with merit" is based on this.

Interest rate prohibition is a very controversial issue in the Islamic economics and philosophy. It is how the definition of interest is made that makes it controversial. Solidarity, complimentary good deeds, the idea of not harming the lender, and the use of interest income for social solidarity purposes from time to time have been regarded as permissible in Islam. Furthermore, it is also allowed to protect the purchasing power of the money so that the lender is not damaged by this act. It was considered important not to harm the purchasing power of the lender's money as *karz-ı hasen* due to the inflation rate and thus to make social solidarity sustainable. President Recep Tayyip Erdoğan's opinion that "the interest as much as inflation" can be interpreted as an indication of moderate views on this subject in Turkey.

This savings account, which is suggested under the name of "savings account with merit", is designed as an account type that can be used by both commercial banks and participation banks. It is thought to become an investment tool to meet the needs of people who do not want to accept interest due to their religious beliefs and people who are sensitive to social and environmental problems, although they are not against the interest. It will be possible for support to be carried out in a recorded system that is under the control of the state.

The interest of those who deposit money in the savings account with merit will be transferred to their own account as much as the CPI rate to be announced each month and (bank interest rate - CPI rate = SURPLUS) will be transferred to the charities and environmental organizations to be determined by the investor. These organizations to be chosen by local investors are required to reside in Turkey. On the other hand, the foreign investor may ask for the transfer of SURPLUS to charities and environmental organizations abroad.

It can be said that the idea of complimentary help and the hadith of the Prophet Muhammad "keep the principal, and spend its fruit, i.e. the income, for the sake of charity" play a role in the establishment of foundations in the history of Islam, especially in the Ottoman economy. The savings account with merit is also similar to the functioning in the monetary foundations which emerged in the 15th century in the Ottoman Empire and were characterized as unique to the Ottoman Empire, in which the principal capital was protected and the money earned from the management of money was spent for social assistance and social security services. It is observed that these foundations have acquired an important place in the Ottoman financial market, provided the poor people, handicraftsmen, etc. with very important services and contributed to the state economically at a significant level thanks to the fatwas (fetva) given by the shaykh al-islam (şeyhülislam) in accordance with the monetary foundations, even though it brought about the arguments about interest.¹

In this study, the concept of interest will be addressed from the perspective of Islam, and the appropriateness of paying interest as much as inflation will be discussed so that the person lending in the form of *karz-ı hasen* (benevolent loan) will not suffer a loss and will be able to recover the money given in

¹ İrfan Türkoğlu, "Osmanlı Devletinde Para Vakıflarının Gelir Dağılımı Üzerindeki Etkileri", *Süleyman Demirel Üniversitesi İİBF Dergisi*, 2013, c.18, sayı: 2, s.9.

terms of purchasing power. Furthermore, the fact that Mr. Tayyip Erdoğan expressed his opinion that "the interest as much as inflation must be halal" during the visits to Malaysia in 2003 and Indonesia in 2006² and that it has found an important place in the discussions in the political platforms, the economic circles and among the public have played a role in the consideration of the subject "the interest as much as inflation". Whether the interest rate as much as the inflation rate is halal is one of the topics discussed with great importance and unfortunately there is no consensus on this issue. In this study, it is obvious that definite conclusions cannot be reached with these arguments.

The study will also try to put forward the basic functioning principles of the "savings account with merit", which is presented as a savings account suggestion that will make it possible to apply the interest as much as inflation in the Turkish banking system.

METHODOLOGY OF THE RESEARCH

Islamic financial products are not widely used in the financial system in Turkey. While the classical financial product variety is constantly increasing, Islamic financial product range does not increase.

In this context, as a solution to this problem, this Islamic financial investment proposal, which encourages social assistance, has been proposed. Due to the fact that there is a new investment proposal, a hypothetical example has been tried to be clarified.

In this study, interest rate debates are given to determine the constraint of Islamic financial products.

The fact that there are no financial instruments on interest as much as inflation causes insufficient literature on this subject. For this reason, this issue has been formed in the light of interest rate discussions.

A HISTORICAL LOOK AT THE CONCEPT OF INTEREST

Even before the use of money, the existence of transactions with loans indicates that the concept of interest actually dates back to the history of mankind. Discussions on interest, which has been addressed together with its economic, legal, social and moral aspects throughout history, go a long way back to the ancient civilizations. For example, one of the First Babylonian emperors, Hammurabi who ruled between 2067-2025 BC, enacted a 20% interest on the loaned land products and a 17% interest on the money. The interest rates of 4-12% were accepted in the Roman Law.³ In the Sumerian and Babylonian civilizations, there are provisions on how to give and receive money and goods, and what the interest rates will be. The Code of Hammurabi includes provisions concerning lending and borrowing regulations related to the temples and sanctuaries engaged in lending activities, cancellation of the interest in case of natural disasters, and collectability of the debts. In ancient Egypt, there were *karz-ı hasen* (complimentary and interest-free loans) and lending with interest for cash and agricultural products. In Asian tribes, especially the Assyrians, Chaldeans, and Babylonians, it is noted that the rate of interest was determined, and *riba* and usury were widespread. In Ancient Greece, it is known that sanctuaries, which were wealthy institutions, provided high profits by lending, companies that lent money to merchants

² G ng r Uras, <http://www.milliyet.com.tr/yazarlar/gungor-uras/sn--erdogan-enflasyon-kadar-reel-faizi-2003-te-ortaya-atmisti-1384864/> (09.02.2018).

³ Neşet ağatay, "Osmanlı İmparatorluğunda Riba - Faiz Konusu Para Vakıfları ve Bankacılık", *Vakıflar Dergisi*, 1971, sayı: 9, s. 9.

and craftsmen with interest were encountered, and on the other hand, there were foundations and associations that lent money to people in need without any return payment. In Ancient India, interest was completely prohibited for high castes, while a fair interest for lower castes was mentioned. In Ancient Rome, it is also known that in the year 342 BC, interest was completely prohibited by law, while people under a heavy tax burden borrowed with high interest from knights secretly in order to pay their taxes.⁴

On the other hand, great philosophers also reflected upon this issue and tried to determine what the money should mean and the basic principles of money exchange so that social justice, economic functioning, and sharing can be better in society. Aristotle argued that the money is a means of exchange and that the profit cannot be directly attributed to the existence of money, that money should result from increase in production, that the money means production, and that in the fourth century BC, interest was the most unnatural way of profit.⁵ He saw interest as a shameful way of earning profits that could put the state's welfare at risk by pitting the rich and the poor against each other.⁶

It is observed that the divine religions, that is to say, Judaism, Christianity, and Islam, prohibit interest, but the economic and social dynamics are constantly feeding the discussions about this prohibition and that clergymen, administrators or economic actors have realized detailed interpretations of different aspects of the prohibition of interest. It can be said that there have always been contradictions about the prohibition of interest throughout the history and that it has been tried to be regulated in such a way that borrowing and lending would be fair and continue to function within the system. We need to hardly mention that which culture, which country or which religion they are connected to, or the prohibitions are not important for those who aim to obtain excessive and illegitimate profits by interest. Throughout the history, for example in the pre-Islamic Arabic culture, in Medieval Europe, or within or outside the present system, it is observed that they obtain profits in this way, disrupting social justice and morality.

Interest was also prohibited in Judaism and Christianity, but in Judaism, this prohibition was only validated when Jews exchanged with each other, and interest was received from non-Jews. In Christianity, the prohibition of interest was laid on a legal basis with the French Revolution. It is observed that discussions about the prohibition of interest developed on the basis of separation between the consumer loan and the commercial loan, which is also observed in the Islamic world, and that the method of rejecting the consumer loan by calling it “ribâ” and accepting the commercial loan by calling it “interest” is used for the purpose of reconciling the need for interest loans with the prohibition of the religion. According to the supporters of this opinion, interest is legitimate due to the productivity of capital, at least due to its applicability to productive uses. As a matter of fact, Christian reformer Jean Calvin, who for the first time seriously advocated that it was permissible to borrow an interest loan for commercial purposes despite his earlier opposition, used the method of separating the consumption loan and the production loan, thus interest and ribâ, from each other by trying to take interest from sin. After that, with the consideration of ribâ and interest as different from each other and subjecting them to different pro-

⁴ Süleyman Uludağ, *İslam'da Faiz Meselesine Yeni Bir Bakış*, Dergâh Yay., İstanbul 2010, s. 282-285.

⁵ Uludağ, *a.g.e.*, s. 282-285.

⁶ Kürşat Haldun Akalın, “Orta Çağ İktisat Zihniyeti Sınırlarında M. Luther ve J. Calvin’in Tefecilik Yorumları”, *Çukurova Üniversitesi İktisadi ve İdari Bilimler Fakültesi Dergisi*, 2006, c.10, sayı: 1.

visions, interest-based transactions were officially permitted within the framework defined by law after the French Revolution in 1789.⁷

Furthermore, it is observed that the "Riba" and "Ribh" distinction is made in the Islamic world. It can be said that the Ottoman government regarded "Riba" as excessive interest, excessive income, and excessive profit to the extent of illegitimacy. The social danger aspect of this extremism comes to the fore. Riba, which contains within itself an effortless profit, is prohibited in Islam because economics and morality cannot be regarded separately from each other. The moral and social values such as the sense of responsibility, fraternity, solidarity, justice, integrity, not misappropriating and deceiving, etc. are also included in the business ethics. Although the word interest is generally regarded as synonymous with the word riba, it is not certain that all of the transactions made under the name of interest fall under the scope of riba nowadays.⁸ For example, it is known that foundations established for social assistance have interest-bearing transactions under the name of ribh in terms of the money management. When it comes to social assistance and sharing, a reasonable interest has been considered acceptable in order to make the functioning of foundations effective within the current economic system.

RIBA AND INTEREST IN THE ISLAMIC ECONOMICS

Interest arises when money, goods or services are borrowed. Considering that loan transactions existed before cash transactions, it becomes evident how much the concept of interest goes back to. In Islam, interest is addressed from the legal, economic and moral perspectives.

Even today, the concept of "interest", for which Islamic scholars, law makers, and economists still cannot agree on the same definition, is often used synonymously with the word "riba" in Arabic. The Arabic word "riba" means "redundancy, growth, increase, multiplication; ascending; (body) flourishing and developing". Since they are relatively higher than the plain land, hills are called "rabiye" in Arabic, and feeding and growing the living beings are called "terbiye (nurturing)". It can be said that riba includes the meanings of surplus within itself that arises from a comparison between one thing and another. In the Islamic law literature, it means receiving back the money or goods which have been lent together with a certain amount of surplus at the end of a certain period. Granting an extension of time for the overdue receivable and receiving it with a surplus in return for this additional time also include riba.⁹

Within the Arabic economic and social life in the 7th century, lending seems to have been done with very ruthless measures. Two forms of lending have emerged. The exchange of things in kind, i.e. of the same or similar type, was called "riba-i fadi", while lending money in cash in order to receive a certain interest in certain periods, and lending money with a doubled interest by prolonging the payment period in case of failure to pay the principal amount on time were called "riba-i nesie". In the pre-Islamic Arabic society, riba-i nesie was an application that went on and on incrementally in case of failure to pay a debt and granting an extension of time. For example, if an extension of one year was granted, the debt in the amount of ten scales of wheat would be 20 scales of wheat, 100 pieces of gold

⁷ Turkish Religious Foundation, "the Encyclopaedia of Islam", 1995, vol. 12, p.111.

⁸ Esmâ Çubukcu, *Enflasyon Ortamında Karz Akitlerinin Riba Bağlamında Değerlendirilmesi*, IV. Türkiye Lisansüstü Çalışmalar Kongresi Bildiriler Kitabı, 2015, s. 327.

⁹ Turkish Religious Foundation, "The Encyclopaedia of Islam", 1995, vol. 12, p.110.

would be 200, and 400 if the period was extended for another year. Before Islam, the debtor's failure to pay his/her debt could have caused his/her house and garden to be sold, and even the loss of his/her freedom. This is the situation that is described and prohibited in the III, the 130th verse of the Quran stating "do not consume usury, doubled and multiplied".¹⁰

There is a perception of riba that it has a non-moral dimension such as usurious interest, illegal interest, usury.¹¹ Interest not exceeding twenty percent per year is expressed with the words "menfaa", "faide", "nema", "faiz", "rihb" in Arabic, "sud" in Urdu and Persian, and "income", "earnings" in Turkish.¹²

The concept of interest in the Islamic economics is one of the most discussed subjects. These discussions are based on whether "riba" and "interest" are the same concepts as mentioned above. Moreover, if capital is accepted as a factor of production, whether the price of capital will be regarded as interest in the sense prohibited by the Quran, and which tools interest-free banks can or cannot use compared to classical banks are the subjects of discussions.¹³

A strict understanding of the interest rate prohibition with the idea that "lending anything that brings a profit is a riba" leads to an impasse within the current system. In practice, a situation called "muamelei şer'iyе" that is very difficult to understand arises, which the public properly calls fraudulent sharia (şer'iyе) and in which the acquirement of interest indirectly will be accepted as legal and religious.¹⁴

Regarding the devoted money (Nukud-ı Mevkufe), it is noted that the term "rihb" is used instead of "riba". In the Ottoman period, the word "interest" began to replace ribh in edicts and laws, and in decisions and contracts after the Tanzimat Reform Era. It is observed that the normal "interest (rihb)" was considered beneficial and necessary in terms of social and economic reasons, and therefore, in the Ottoman Empire, in the governments and especially in the foundations, the word "rihb" was used.¹⁵ Despite the fact that "monetary foundations" and "tax (avarız) funds" unique to the Ottoman Empire did not include any interest-bearing transactions, they are seen as the institutions that offer important contributions to the state and society. In the next section of the study, interest applications in the Ottoman Empire will be tried to be explained on the basis of monetary foundations.

There seems to be a consensus on the fact that riba covers all interest forms. It can be said that every riba contains interest, but every interest does not contain riba. Islam is "opposed to the predetermined price of capital". Accordingly, even if borrowing is made for the purpose of doing business, the lender should not demand a fixed return.

All loan transactions for which a certain interest rate is determined from the beginning are strictly forbidden by the Quran and the Sunna. The compound or simple interest, or the imposition of the interest added to the principal amount in the first contract or during the re-extension of the overdue debt maturity, the loan for consumption or production purposes, low or high interest rate, the surplus added to the principal amount being called riba, interest, benefit, growth or income share, real or nominal,

¹⁰ Çağatay, *a.g.m.*, s.41.

¹¹ Uludağ, *a.g.e.*, s. 34-36.

¹² Çağatay, *a.g.m.*, s. 41.

¹³ Mustafa Acar, "İslam İktisadının Başlıca Sorunları", *İslami Araştırmalar Dergisi*, 2003, c.16, sayı:4, s. 542.

¹⁴ Neşet Çağatay, "Osmanlı İmparatorluğunda Riba - Faiz Konusu Para Vakıfları ve Bankacılık", *Vakıflar Dergisi*, 1971, sayı: 9, s.42.

¹⁵ İsmail Otar, "Osmanlı Devleti'nde Faiz", *Yönetim*, 1999, sy.33, s. 56-57.

positive or negative interest, and whether those who receive or pay the interest are poor or rich, or person or institution do not change the fact that it is forbidden by religion. It is understood that the most important goal of Islam to be achieved by prohibiting the interest is to eliminate the imbalances that would be caused in the distribution of income.¹⁶

On the other hand, it can be said that the Islamic economics nowadays contains many areas that are not or cannot be completely independent of interest. For example, Islamic money markets seem to be not completely independent of interest. As is known, Libor is the interest rate generated by the inter-bank market in Euro markets. It is calculated based on the rates of 16 banks and is published by the BBA (British Banker's Association) and widely used in international financial transactions. Libor is used almost without exception in Islamic money markets and sometimes in capital markets. It is also used as an indicator in financial instruments such as Sukuk. The reason for this is explained by the use of Libor by the monetary system for deferred cash flows because Islamic banks operate like a sub-sector of traditional banks (JP Morgan example)¹⁷

For this reason, some researchers conduct studies on the use of indicators in accordance with the Islamic rules because LIBOR is riba. The recommended indicator in this regard is the profitability rates of the usury law (murabaha), the return on assets (ROA), and the retail deposit rates.¹⁸ Muradaba profitability rates can be calculated on a daily basis. In Malaysia, for example, these rates are known as the KLIRR rate (Kuala Lumpur Islamic Reference Rate). It is calculated by taking the average of daily values of 12 banks. The Return on Assets (ROA) is another option that can be used instead of LIBOR. The ROA is the expected or implicit funding cost for a bank by nature. The fund cost is a combination of short-term interbank fund cost, medium-term financing cost, and depositor funding. Thirdly, it is possible that retail deposit rates can be used as an alternative to LIBOR. Another suggestion against LIBOR came from Zamir Iqbal. Zamir Iqbal suggested using the Tobin's Q ratio as a benchmark since he considered Libor as a riba.¹⁹

Discussions about interest or riba arise from the discussion of this prohibition as a form, not taking into consideration the purpose and the reasons for the prohibition and how the prohibition was imposed, and the economic development and social necessities of the time while considering interest. It is also necessary to consider the interest not only as a legal transaction which has a more theoretical aspect, but also the economic activities that develop under various influences related to the needs of the society and the possibilities of meeting them.²⁰

By ensuring that capital is transferred to production, capital owners and laborers come together, and the earnings are shared fairly, the earnings acquired without undertaking a risk are avoided, the prohibition of interest is laying the foundation for an increase in prosperity, increasingly spreading to all segments of the society, both economically and socially. It is aimed to prevent unjust profit and labor exploitation. It is also important to discuss whether all the economic transactions, including borrowing and lending, lead to these problems.

¹⁶ Turkish Religious Foundation, "the Encyclopaedia of Islam", 1995, vol. 12, p.119.

¹⁷ Safdar Alam, "The Use of Libor by Islamic Banks", *Opalesque Islamic Finance Intelligence*, Issue: 1, p.13.

¹⁸ Islamic Alternatives to Libor, <http://www.financialencyclopedia.net/islamic-finance> (09.02.2018).

¹⁹ Zamir Iqbal, "The Benchmark issue in Islamic Financial System", <http://www.resaechgate.net/publication/265022153> (09.02.2018).

²⁰ Çağatay, *a.g.m.*, s.40.

MONETARY FOUNDATIONS IN TERMS OF INTEREST AND SOCIAL ASSISTANCE IN THE OTTOMAN EMPIRE

The dictionary meaning of the Arabic word “vakıf (foundation)” is “to hold, to retain, to bind”. There is no comprehensive explanation about the foundations in the Quran or hadiths. It can be accepted that the hadith of the Prophet Muhammad, “keep the principal, and spend its fruit, i.e. the income, for the sake of charity”, is the first sign for the foundation in Islam.

Fatwa records contain usury and interest subjects in a semi-tacit form with the terms “muamelei şer'iyeler”, and later “transaction” and “usury (murabaha)”, which are called “fraudulent sharia (hileşer'iyye)” among the people and in which the interest is associated with a so-called sales transaction. For example, it is stated in the fatwas that receiving a ribh (interest) with muamelei şer'iyye for the money a woman lends to a man with a one-year maturity is halal, or that it is possible to lend it at the rate of eleven-and-a-half (fifteen percent) with *istirbah kasdı* (rih acquisition, interest) and receive a ribh at the end of the year. In the fatwas, it is observed that there are more examples related to foundations rather than such interest transactions. This shows that monetary foundations were the first step at the beginning of banking in the Ottoman Empire, i.e. the formalization of interest transactions, the banking idea was born and developed in this way. It is stated in the records that Mehmet the Conqueror devoted twenty-four thousand golds to meet the price increases that would arise over time for the meat to be provided to the Janissary guilds with the interest, and that Suleyman the Magnificent gathered together the money foundations founded to help the butchers of Istanbul before him and devoted an amount of six hundred ninety-eight thousand coins. In the Janissary barracks, the money in the chests known as the "support fund" was lent at an interest.²¹

In order to generate income by maintaining the principal capital which is the subject of devotion in monetary foundations where some or all of the capital of the establishment is composed of cash money, the money is transacted in various forms and the income obtained is used in accordance with the purposes of the foundation. The funds collected in these foundations were transacted by means of *karz-ı hasen* (lending without expecting any surplus), *mudaraba*, *murabaha* (usury) and *bidaa* (transacting the devoted money for the sake of charity, and granting the whole of it to the foundation), in order to provide money to entrepreneurs and to spend the money earned for charity works. It can be said that monetary foundations emerged and developed uniquely to the Ottoman Empire. It is observed that during the Ottoman period, monetary foundations were accepted by financial circles although interest-oriented debates were brought along with it, but it is observed that as a result of the support by the state with legal bases, they continued to exist for centuries. In the Ottoman period, education, public works, health services, charity works and religious services were mostly financed by monetary foundations. There are records proving that monetary foundations did not exist before the Ottoman Empire, and after the conquest of Rumelia they began to be used, and the records of monetary foundations established during the periods of Murat II and Mehmet the Conqueror. *Hacı Muslihiddin bin Halil Foundation*, established in 1423, is the first one of these. The earliest monetary foundation in the Istanbul cadastral record books belongs to the year 1456 (Türkoğlu, 2013, p.190-193).²²

²¹ Çağatay, *a.g.m.*, s.48.

²² Türkoğlu, *a.g.m.*, s.190-193.

It is observed that in the Ottoman Empire, foundations were autonomous from the financial and administrative aspects, the conquered places were developed from cultural and commercial perspectives, they formed many business fields, and many services were provided free of charge. While real estate foundations solved this dilemma of tradesmen, who did not have the power of capital to build their workplaces, the monetary foundations, of which application is highly controversial in terms of the Islamic law, allowed tradesmen to meet their cash needs on a small scale. Tradesmen benefited from real estate foundations as a tenant, and from monetary foundations as a debtor (Kaya, 2014, p.36). It is noteworthy that small business owners who had solvency or civil servants who were not involved in any commercial activity generally benefited from monetary foundations that did not have a lending capacity in large amounts, but after the 17th century, debtors were rich merchants.²³

Among ancient Turks, there was a “Tax Reserve Fund (Avarız Akçesi Sandığı)” in every sanctuary, or every neighbourhood, where people gathered around, even when there were no companies, cooperatives, and banks. The capital of this fund was not provided by the government or municipality but by benefactors or the wealthy of the neighbourhood or village, without expecting any material benefit and receiving back. These funds were used for the works of the neighbourhood, the needs of sanctuaries, the poor, widows, orphans and the helpless. In addition, these funds were transacted by lending.^{24,25}

It can be said that monetary foundations emerged as a result of the needs of people and socio-economic cultures, played an important role as a financial instrument for that period, and they were the institutions that best combine and reinforce the economic benefit and the social benefit (for this reason, although they included interest-bearing transactions, these are also in the nature of "rihb"), and that they were accepted in the eyes of a considerable part of Islamic scholars and the people of the Ottoman state, and that their existence was tried to be continued.

As mentioned above, Karz-ı hasen forms the basis for the functioning of monetary foundations. The loan contract is that one person gives cash money or fungible goods used for consumption, without expecting any surplus, to another person. It is declared that lending without expecting any surplus is encouraged in the verses from the Quran and the rewards of those who demonstrate this virtuous behavior are to be multiplied. In the Qur'an, the word “karz (loan)”, which is mentioned in six verses, is always been declared as “karz-ı hasen (benevolent loan)” together with the adjective “hasen”, indicating the merit that lenders will acquire. The Prophet Muhammad’s statements regarding the protection of the rights of the borrower and the lender and that he allowed lending by companions are evidence of the legitimacy of the loan contract.²⁶

When it comes to protecting the rights of both borrowers and lenders, it is taken into account that inflation is a factor that causes the lender to suffer a loss without expecting a surplus, and whether the interest rate as much as the inflation rate is halal becomes open to argument.

²³ Türkoğlu, *a.g.m.*, s.193.

²⁴ Çağatay, *a.g.m.*, s.49.

²⁵ Mehmet Şeker, *Müslüman-Türklerde Sosyal Dayanışma Müessesesi Olarak Vakıflar*, DİB. Yay., 7. bsk., Ankara, 2007.

²⁶ Ahmet Özdemir, “Karz Akdinin Mahiyeti ve Faizli İşlemleri Önleme Fonksiyonu”, *Çukurova Üniversitesi İlahiyat Fakültesi Dergisi*, c. 12, sayı: 1, s. 126.

DISCUSSIONS AS TO WHETHER THE INTEREST RATE AS MUCH AS THE INFLATION RATE IS HALAL

Measures to prevent the devaluation caused by inflation and protect the real value of money are considered outside the interest rate prohibition. However, a concern such as the protection of the value of the money against inflation should not be the reason why the interest rate is considered permissible as a rule, and measures should be taken against inflation for the purpose of protecting the value of money, not stipulating a fixed rate. However, it should be noted that the interest rate constitutes one of the most important causes of inflation, so an increase based on the inflation rate in the term debts will bear at least the interest suspicion.²⁷

“If you repent and give up your interest, your capital is yours. So you neither do injustice nor suffer injustice” (al-Bakarah 2/279). It is pointed out in the Quran that the interest can be an injustice for both sides and that the rights of the borrower and the lender should be protected. It is essential that all the consequences of lending are shared equally between the two sides in Islam.²⁸

In an interest-bearing lending contract, the fact that the total of the main money and the interest at the end of maturity allows the purchase of goods and services in a lesser amount than at the beginning of the maturity is the negative interest, which arises if the interest rate is below the inflation rate. This surplus in the debt interest occurs in favour of one of the two sides, and against the other. However, when it comes to interest, it is generally thought that the person who lends money suffers the loss, and it is not taken into account that the borrower can also suffer a loss. Since the interest can be realized in both ways, the negative interest should be subjected to the same provision as the positive interest. If the interest is positive for one of the sides, it is negative for the other. Accordingly, interest in the Islamic sense is not just the real interest, surplus, profit without effort, and surplus above inflation, as it is in economics. The surplus that impairs the balance in favour of one side and the deficiency which is against the other side are both an interest. The loss due to inflation in case of the delay of debt arising from *karz-ı hasen* or a sale contract cannot be considered as negative interest. In such a case, it is possible to say that there is an agreement among the lawyers of today that the creditor should be compensated for the loss caused by inflation. Compensation for the decrease in the purchasing power of money due to inflation, especially the protection of the value of money against inflation in the term debt relationship, and the development of some methods to achieve this are also necessitated by the principle of equality, clarity and equity that Islam takes into account in legal proceedings.²⁹

The fatwa, which is the basis of Prof. Hayrettin Karaman's opinion as the starting point of many theologians who think that the increase due to inflation is not interest and think in a similar way, is as follows: If there is interest, whatever the rate is, it will not be halal. The surplus at the inflation rate is not interest. For example, if you lend one hundred lira to someone, and you receive 130 lira because of the inflation rate of thirty percent after six months, the surplus is not interest. That amount is the equivalent of the purchasing power of the money you have lent six months before. Furthermore, it is not permissible to deposit money in banks engaged in interest transactions and receive interest at the inflation rate; because: (a) These banks earn money by selling the money they receive from you at the real

²⁷ Turkish Religious Foundation, “the Encyclopaedia of Islam”, 1995, vol. 12, p.119.

²⁸ Turkish Religious Foundation, “the Encyclopaedia of Islam”, 1995, vol. 12, p.119.

²⁹ Turkish Religious Foundation, “the Encyclopaedia of Islam”, 1995, vol. 12, p.119.

interest (more than the inflation rate), and they pay you from that money too; (b) Depositing money in a bank is a contract; this contract is an interest-bearing money transaction contract, it is not legitimate according to Islam because it is an interest-bearing contract, regardless of the profit or loss.³⁰

The opinion of the interest rate as much as the inflation rate is an opinion that Mr. Tayyip Erdoğan has defended since 2003. In a sense, it is the extension of the belief that interest is unlawful. The prohibition of interest by Islam cannot be covered up in any way. An "interest fatwa" cannot be taken from any authority. However, it can be argued which transaction is interest and which is not. According to some Islamic jurists, "the interest as much as inflation is not in the nature of a riba".³¹ Participation banks also express *karz-ı hasen* as the interest-free loan and indicate that the creditor in money debts is also the creditor of a difference as much as the inflation rate during the indebtedness period. It is deemed appropriate by Islamic lawyers that Participation Banks demand the inflation difference during the indebtedness period from the customers to whom they lent for consumption loan (*karz*).³² They argue that demanding the inflation difference is not considered interest.³³

The possible outcomes of the interest as much as inflation are summarized below:³⁴ (1) People save money, not for interest, but for their needs. Saving is the part of income that is not consumed. It is the deferred consumption. People do not consume all of their income for their future needs. The future need is the shroud. It is the grandchildren's school payment, a car or a house. The additional concern of those who save money is that their savings do not depreciate or disappear. For this, our grandmothers, our grandfathers made their savings as gold. Gold does not bring any interest-riba. It maintains the value of savings. Those who save money are entitled to a return (interest as much as inflation) to prevent their money from depreciating if they keep their money in cash (by opening a deposit account, lending to someone else). The idea of real interest as much as inflation is based on this opinion. (2) Those who expect a return more than inflation on their savings can bind their money to the means of production. This type of investment is in the form of a profit and loss partnership. There is no interest-riba. From the growing product, there is a share received at the proportion of contribution made to production (this is the working principle of interest-free financial institutions). The nature of the interest system as much as inflation is as follows: (3) The nature of the interest system as much as inflation is that: (a) It eliminates the meanness. (b) It allows savings to be directed towards production directly. (c) It is a fair-halal system because it depends on the sharing of the risk as much as the return. (d) Money is prevented from tending towards risky investment instruments (high-risk instruments-derivatives).

Dinç (2016) emphasized that there is no consensus on which price index to be taken as a basis, even though there are arguments that the interest rate at the inflation rate is halal. According to Dinç, if a new price index suitable for Islamic rules is not introduced, this situation would be even more problematic. Dinç suggested that the calculation of the CPI should be free from alcoholic beverages, tobacco products, and chance games. Current product groups and recommended product groups within the CPI are as follows (Table 1):

³⁰ Gültekin Çetiner, "Enflasyon Oranında Faiz Caiz midir?" <http://www.haber7.com/yazarlar/prof-bgultekin-cetiner/804100-enflasyon-oraninda-faiz-caiz-midir> (20.02.2018).

³¹ Güngör Uras, <http://www.milliyet.com.tr/yazarlar/gungor-uras/sn--erdogan-enflasyon-kadar-reel-faizi-2003-te-ortaya-atmisti-1384864/> (09.02.2018).

³² <http://tkbb.org.tr/Documents/Yonetmelikler/Faizsiz-Finans-Sozlugu-revised.pdf> (12.04.2018).

³³ Ali Bakkal, "Katılım Bankalarında Murabaha Dışı Gelir Kaynaklarının Artırılması", *Harran Üniversitesi İlahiyat Fakültesi Dergisi*, 2016, sayı: 36, s. 23.

³⁴ Güngör Uras, <http://www.milliyet.com.tr/yazarlar/gungor-uras/sn--erdogan-enflasyon-kadar-reel-faizi-2003-te-ortaya-atmisti-1384864/> (09.02.2018).

Table 1: Suggested expenditure groups in the Islamic CPI.

Main expenditure groups	Group weights	Expenditure groups suggested for the Islamic price index
Foods and non-alcoholic beverages	21.77%	Foods and non-alcoholic beverages
Alcoholic beverages and tobacco	5.87%	(Not applicable)
Clothes and footwear	7,33%	Clothes and footwear
Housing	14.85%	Housing
Furniture	7.72%	Furniture
Health	2.63%	Health
Transportation	16.31%	Transportation
Communication	4.12%	Communication
Entertainment and Culture	3.62%	Entertainment and Culture (except those with alcohol and chance games)
Education	2.69%	Education
Restaurants and hotels	8.05%	Restaurants and hotels (except those with alcohol and chance games)
Miscellaneous goods and services	5.04%	Miscellaneous goods and services
Total	100%	

Source: Dinç (2016)

The CPI acquired with the establishment of a new index by means of the removal of alcoholic beverages and tobacco groups, which have a weight of 5.87% in these groups of goods, completely from the calculation, the exclusion of chance games in the entertainment and culture group, and the exclusion of those with an alcohol service in the restaurants and hotels group will support the system of the interest rate as much as inflation.

As can be seen, the issue of whether the interest as much as inflation is halal takes an important place in discussions about riba in Islam. As these discussions continue, over the centuries, Islamic products, processes and practices will continue to develop, while creating solutions in practice for the functioning of the present system and meeting needs. It is important that these products, services, and practices are developed and improved in accordance with the way of thinking and purposes of the Islamic economics. The contribution to Islamic morality and social justice and the problem of sharing should be examined rather than legal conformity.

SAVINGS ACCOUNT WITH MERIT: THE MODEL OF THE TRANSFER OF INTEREST ABOVE INFLATION TO CHARITIES

With this account suggestion, it has been attempted to introduce an investment instrument suggestion for interest-sensitive depositors within the current banking system. The investor will be paid the interest as much as inflation to protect the purchasing power of money, and the lender will not suffer any losses, so it will be possible to operate a lending transaction in the form of *karz-ı hasen*. Since the deposit interest rate will be calculated according to the inflation rate for the period related to the payment, the interest rate between the depositor and the bank is not predetermined. The depositor does not know in advance how much interest he will receive (or the bank does not know how much it will pay). This also ensures compliance with the Islamic understanding of debt exchange. The inflation rate will be calculated according to the Islamic CPI as mentioned above. Furthermore, there will be no negative interest for the depositor, and the lender will not suffer any losses.

In particular, the main feature of this account is that income from the fund presented will be spent for social assistance purposes.

According to the data from the Turkish Statistical Institute (TUIK), the total amount of deposits is 930 billion 271.5 million TL as of 2017. Saving deposits increased by 14.4% as 117 billion 97.2 million TL compared to the year 2016.

Considering the volume of social assistance in Turkey in general, the donation incomes for the year 2016 of the Red Crescent, one of the Turkey's most reliable social assistance institutions recognized by the public, is 1 billion 173 million TL, donation to the TEMA Foundation is 11,654 million TL and donation to Mehmetçik Foundation as of 2017 is 82,167 million TL.

It was reported that the social benefits provided through the Ministry of Family and Social Policies in Turkey are 22 billion 499 million TL for the year 2016, the total amount of social assistance together with the amount of benefits provided by other institutions is 32 billion 7,123 million TL.³⁵

When the total savings amount and social assistance amounts are examined, it can be said that the saving volume has the potential to increase the level of social assistance. Assuming that even 10% of the money accumulated in saving deposits is held in the savings account with merit, considering the real interest rate around 1%, the fund in the amount of 1 billion TL will have been transferred to social assistance institutions.

Besides attracting the owners of savings that reject the interest due to their beliefs, the exclusion of groups that unlawfully collect the funds of well-intentioned persons, who are willing to help due to their religious beliefs, and groups that cannot give an account as to where these funds are used or have malicious intentions, from the system will significantly expand the level of savings and therefore social assistance volume.

Such an account will ensure that investor's social assistance under state control, in a manner that is really relevant to its purpose, and many regulation-free formal or informal institutions, which contain within themselves political, legal, moral problems or even bad intentions, that control capital savings in large amounts with the excuse of social assistance will be prevented. In this type of account, the bank depositor will first inform the bank about where to donate the interest income (nominal interest - Islamic CPI) to, for example, social assistance, charity, environmental protection, animal rights protection, etc. institutions approved by the state, and this transfer will be performed automatically during each interest payment period. The bank depositor will acquire a gross interest income at the rate of a monthly Islamic CPI, and the net interest income will be calculated by deducting the withholding tax rate. It is assumed that a surplus interest income will not be taxed. The surplus interest is defined as follows:

Surplus Interest = Periodical Interest - Periodical Islamic CPI

This account type will be explained with an example as follows.

A Hypothetical Example of the Savings Account with Merit:

It is assumed that the data for this example are as follows:

Deposit amount = 10,000 TL

³⁵<https://www.birgun.net/haber-detay/turkiye-de-her-8-kisiden-biri-sosyal-yardim-aliyor-166167.html> (14.04.2018).

Annual Interest Rate = 15%

Deposit maturity = 1 month

Income withholding tax rate = 15%

The social institution to which the surplus interest will be transferred = TEMA Foundation (*The depositor may also choose another government-approved institution or request the surplus to be transferred to more than one institution. If the depositor is foreign, foreign charities may also be selected.*)

If the monthly Islamic CPI is 0.95%, calculations will be as follows:

Monthly Islamic CPI rate = 0.95%

Monthly Interest rate = $0.15 / 12 = 0.0125$

Residual Interest = $0.0125 - 0.0095 = 0.003$

Monthly income transfer to the TEMA Foundation = $10,000 \text{ TL} \times 0.003 = 30 \text{ TL}$ (It is assumed that no tax cut will be made from the surplus interest income.)

Monthly (gross) deposit interest income = $10,000 \times 0.0095 = 95 \text{ TL}$

Monthly (net) deposit interest income = $95 (1 - 0.15) = 80.75 \text{ TL}$

Interest calculation in case of no withholding tax;

Monthly (net) deposit interest income = $10,000 \times 0.0095 = 95 \text{ TL}$

So there will certainly not be any negative interest for the depositor, i.e. the loss for the lender.

Application of interest in treasury bills and government bonds as much as inflation;

By applying the same system in government domestic debt securities, government bonds and treasury bills can be issued. Thus, funds can be collected from the circles with interest sensitivity.

CONCLUSION

In this study, in which the concept of interest is discussed both historically and in terms of Islamic economics and philosophy, it has been argued that interest and usury have been tried to be distinguished, but that interest is forbidden under any circumstances. However, if there is no interest in the inflation environment, the lender will not be able to receive his money with the same purchasing power. In case of interest-free lending, the borrower benefits from it, while the lender suffers a loss. Despite the favourable opinions that the lender may receive the interest rate as much as the inflation for the prevention of this loss, there are still objections to it.

In the light of these discussions, it is thought that it is possible to obtain an interest income at a level that does not allow any change in the purchasing power of the lender's money with the "savings account with merit" suggested here. Such an account, which can be defined by the Central Bank within the current banking system, will be able to transfer the surplus interest income to social assistance accounts under the state control without any loss for the lender. Considering the total deposit amount of

2017, it can be observed that around 1 billion TL can be transferred to social assistance institutions if even 10% or less of these accounts are held in the "savings account with merit".

It is desired to attract investors, who keep their savings away from the banking system due to their beliefs, to the system, to encourage those who are already in the system to participate in this account, and to increase the volume of social assistance in Turkey with the help of the "savings account with merit".

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