

CASH WAQFS AND THEIR ACCOUNTING APPLICATIONS AT THE END OF THE 18th CENTURY IN THE OTTOMAN EMPIRE

Dilek DEMİRHAN^(*)
Türker SUSMUŞ^(**)
Seçkin GÖNEN^(***)

Abstract: The private sector in the Ottoman Empire was not able to develop because of the statist approach that was prevalent at those times. This led to the use of the private sector's wealth for social purposes in the public area. To be able to meet this necessity, waqf foundations were formed. Since the private sector could not develop, there were small-scaled enterprises in the economy and cash waqfs were founded in the waqf system to meet the financing requirements of these enterprises. Because of the Islamic view that interest was forbidden, the foundation of cash waqfs was only allowed in the 16th century provided that the interest revenues were used for social purposes. At the end of the 18th century, which is the analysis period for this paper, there were about 500 cash waqfs operating in the Ottoman economy. Notably, cash waqfs showed an immediate development in the Ottoman waqf system and supported the Ottoman economy by granting credits.

Because of the interest rates that could not increase above a specified level and the necessity to use interest revenues for social objectives, both the foundation procedure of cash waqfs and necessity to control their operations were crucial. The foundation procedure problem was solved by the preparation and approval of a waqf foundation document (*vakfiye*) as a legal order. The problem of following and controlling the cash waqfs' operations was solved by utilizing the accounting applications.

The accounting method that was used in the Ottoman Empire for state accounting was the stairs method. This method was also utilized in waqfs' accounting. However, the accounting requirement of cash waqfs was different from state accounting and indeed the cash waqfs needed an accounting system of a financial institution. But, Ottoman accountants did not know any accounting method other than the stairs method. For these reasons the cash waqfs also had to use the stairs method and in fact they used it for centuries. However the use of this method could only be realized sometimes by making concessions about the principles of the method, and sometimes by not going into details in the accounting applications. In fact, the end of 18th century which is the analysis period of this paper was the period when the stairs method was hardly meeting the increasing necessities. As a matter of fact, when the modernisation process started in Ottoman enterprises by the announcement of administrative reforms in 1839, the search for a new accounting method became more important and in the second half of the 19th century (1879) the stairs method was abandoned and the double-entry method started to be used. Reforms in 1839, the search for a new accounting method became more important and in the second half of the 19th century (1879) the stairs method was abandoned and the double-entry method started to be used. The aim of this

^(*)Yrd. Doç. Dr. Ege Üniversitesi İİBF İşletme Bölümü

^(**)Doç.Dr. Ege Üniversitesi İİBF İşletme Bölümü

^(***)Doç. Dr., Dokuz Eylül Üniversitesi İİBF İşletme Bölümü

paper is to suggest how cash waqfs existed by having both economic and social aims despite the hesitation of the Islamic view's acceptance of interest, and the role of accounting in this existence. The time period of analysis is between the end of the 18th century and beginning of the 19th century. The findings reveal that, the diligent process in giving permission for the establishment of cash waqfs and controlling of activities depending on accounting applications played an important role in the long-term success of cash waqfs.

Keywords: Waqf system in the Ottoman Empire, cash waqfs, stairs method This paper was presented in 13th World Congress of Accounting Historians, Newcastle, on 17th-19th July 2012.

Özet: Osmanlı İmparatorluğu'nda devletçilik anlayışı hakimdir ve özel kesim gelişmemiştir. Bu durum, özel kesimin zenginliğinin kamusal alanda sosyal amaçlı olarak kullanımı zorunluluğunu ortaya çıkarmıştır. Bu ihtiyacın karşılanması için de vakıf kurumunun oluşturulduğu gözlenmektedir. Özel kesim gelişemediğinden işletmeler küçük boyutta kalmıştır ve bu küçük işletmelerin finansman ihtiyaçlarının karşılanabilmesi için de vakıf sistemi içinde para vakıfları ortaya çıkmıştır. İslami anlayış faizi haram kıldığından para vakıflarına, faiz gelirlerinin sosyal amaçlarda kullanılması koşulu ile XVI. yüzyılda izin verildiği gözlenmektedir. Bu bildirinin inceleme yüzyılı olan XVIII. yüzyılın sonlarında beş yüz dolayında para vakfının Osmanlı ekonomisi içinde yer aldığı anlaşılmaktadır. Yani para vakıfları uygulamaları, Osmanlı vakıf düzeni içinde hızlı bir gelişme göstermiş ve kredileri ile Osmanlı ekonomisine destek olmuştur.

Faiz oranlarının belirli seviyenin üzerine çıkamaması, faiz gelirlerinin sosyal amaçlar için kullanılma zorunluluğu gibi nedenler para vakıflarının hem kuruluş prosedürünün önemini ve hem de faaliyetlerinin denetlenmesi zorunluluğunu öne çıkarmıştır. Bunlardan ilk sorunun, yani kuruluş prosedürü konusunun, vakıf kuruluş belgesinin (vakfiye) hazırlanması ve tescilinin hukuki bir düzen içinde yapılması ile çözüldüğü gözlenmektedir; para vakfı faaliyetlerinin izlenmesi ve denetlenmesi konusunun ise, muhasebe uygulamalarından yararlanılarak çözülebildiği görülmektedir.

Osmanlı'da bilinen muhasebe yöntemi, merdiven yöntemi denilen, devlet muhasebesi için kullanılan bir yöntemdir. Vakıfların muhasebesinde de bu yöntemden yararlanılmıştır. Ancak, para vakıflarının muhasebe ihtiyacı, devlet muhasebesinden farklıdır ve daha çok bir finans kurumu muhasebesine ihtiyaç duyulmaktadır. Ama Osmanlı muhasebecileri merdiven yöntemi dışında bir muhasebe yöntemi bilmedikleri için, para vakıflarında da merdiven yönteminden yararlanmak zorunluluğu ortaya çıkmıştır. Nitekim merdiven yönteminden bu vakıfların muhasebelerinde asırlar boyu yararlanılmıştır. Ama bu yararlanma, kimi zaman yöntemin ilkelerinden taviz verilerek, kimi zaman da muhasebe uygulamalarında ayrıntılara fazla girilmeyerek gerçekleştirilebilmiştir. Esasen bu bildirinin zaman boyutunu oluşturan XVIII. yüzyıl sonları, merdiven yönteminin artan ihtiyaçları karşılamada giderek zorlandığı bir zaman dilimi özelliğini taşımaktadır. Nitekim, 1839 yılında ilan edilen Tanzimat Fermanı ile Osmanlı kurumlarında çağdaşlaşma süreci başlayınca, yeni bir muhasebe yöntemi arayışlarının önem kazanmaya başladığı ve XIX. yüzyılın ikinci yarısında (1879) merdiven yönteminin bırakılarak çift yanlı kayıt yöntemine geçildiği gözlenmektedir.

Anahtar Kelimeler: Osmanlı'da Vakıf Düzeni, Para Vakıfları, Merdiven Yöntemi.

I. Introduction

In the Ottoman Empire, a waqf was defined as the continuous allocation of an asset (real estate or security) to serve the public for charitable purposes¹. In Arabic language the word “waqf” means holding, confinement or prohibition, and it is used with the meaning of holding certain property, preserving it for the confined benefit of certain social objectives and prohibiting the use of it for other purposes than the specific objective of the waqf². Waqfs are not-for-profit organizations and they have survived in the Ottoman Empire for centuries in a legal discipline. They were used as an important mechanism to support welfare of the ordinary people and provided services that the modern welfare state offers today³. These entities had a long life because they were under control of the central authority continuously and they had a systematic accounting method as well as a legal discipline. Stairs (Merdiban) accounting method, which was utilized for state accounting in the Ottoman Empire, was used in cash waqfs⁴. The accounting of waqfs was much more complicated than the state accounting which only consisted of revenue and expense accounts. Thus, to be able to use the stairs method in waqfs this method had to be improved. Moreover, cash waqfs, which are the subject of this paper, were the most complicated Ottoman waqfs. The factor that distinguished the cash waqfs from the standard real estate endowments was the nature of their capital, which was in the form of cash⁵. This capital was invested in these waqfs, and then it was granted as credit, the interest revenue was used both for social services and to pay expenses and salaries of waqf’s employees (manager, accountant, etc.). In this respect cash waqfs served as a bank. They were capable of making multiple loans at once and they earned returns by charging interest⁶. These bank-like features made cash waqfs different from others and so their accounting system had to be developed according to this difference.

¹ Mehmet Zeki Pakalın : Osmanlı Tarih Deyimleri ve Terimleri Sözlüğü, Vol.III, page 577, 1993, İstanbul

² Cengiz Toraman, Bedriye Tunçsiper, Sinan Yılmaz: “Cash Awkaf in the Ottomans as Philanthropic Foundations, and their Accounting Practices”, Paper, 11th World Congress of Accounting Historians, 2006, Nantes (France)

³ Sevinç Sevda Kılıçalp: “Centralization of the Ottoman State and Modernization of the Waqf System”, Master in International Studies in Philanthropy and Social Entrepreneurship, 4th ed., February 2008-July2009, University of Bologna

⁴ Yusuf Sürmen, Abdulkemim Daştan, Davut Aygün : “Cash Waqfs in the Ottomans the Case of Ahmet Pahsa Waqf in Trabzon -1713”, Paper, 12. World Congress of Accounting Historians (122 WCAH), July 20-24, 2008, İstanbul, Turkey.

⁵ Murat Çizakça: “Incorporated Cash Waqfs and Mudaraba, Islamic Non-Bank Financial Instruments From Past to the Future?”, Paper, International Seminar on Non-bank Financial Institutions, Jan.26-28, 2004 Kuala Lumpur

⁶ Timur Kuran: “The Logic of Financial Westernisation in the Middle East”, Journal of Economic Behaviour and Organization, Vol.56, 2005

In cash waqfs there are three factors that have to be examined:

- How were cash waqfs allowed since interest was forbidden in Islamic tradition?

- In the Ottoman Empire, waqfs were generally long lived, and most of the cash waqfs operated for more than a century. What were the factors that provided this long life? To answer this question, standardized information in a waqfs' foundation document called *vakfiye* is examined by citing an example from the 19th century, and also the central controlling system of waqfs is analysed in this paper.

- One of the reasons for the long-life of cash waqfs was its having an appropriate accounting system. In this paper, both the waqf accounting and the adequacy of the stairs method were emphasized by examining the accounting records of a waqf operated at the end of the 18th century.

The first thing to be emphasized is the allowance of cash waqfs in the Ottoman Empire even though interest was forbidden according to Islamic tradition. Cash waqfs were ignored in their early stages of development since they were not a big portion of the foundations, and did not play an important role until the 16th century. However, as the size and amount of cash waqfs gradually increased and became an important part of the waqf system by the mid-16th century, they became the subject of a fevered discussion among the Ottoman scholars⁷. Certainly, it was not kindly accepted for waqfs to owe cash and receive interest over a long period of time because of the Islam religion's forbidding of interest. The generally accepted principle in waqfs was allocation of revenues of an asset to a charitable purpose (like building a fountain in a neighbourhood or meeting the expenses of a school) without seeking any benefit. With this general principle it was possible to be in accordance with the use of the interest revenue for a social objective. To be able to guarantee this, it had to be generally accepted that the money could have a return just like the rent revenue of a property. This adaptation process was started in the 16th century. It can be observed that the report of Ebusuud Efendi, who was the Şeyhül İslam⁸ in the Ottoman Empire for a long time, was accepted in this respect in the 16th century. The basis of the accordance was the acceptance of cash as a moveable property (like house appliances, animals etc.) also. In this frame, the problem was solved with the acceptance of cash as a moveable property. A supplementary view was tried to be formed by setting the interest

⁷ Tahsin Özcan: "The Legitimization Process of Cash Foundations: An Analysis of the Application of Islamic Law of Waqf in the Ottoman Society", İstanbul Üniversitesi İlahiyet Fakültesi Dergisi, No:18, 2008

⁸ Şeyh ul Islam: The highest religion authority in Ottoman Empire who was in charge of religious issues in Şeriat courts and asserted opinions which led legal applications.(Ferit Develioğlu, Ottoman Language-Turkish Dictionary, 15th ed. , 1993, Ankara).

rate at 10% and so preventing high interest⁹. However, some scholars were still not supporting cash waqfs and were arguing that these waqfs were against Islamic rules. As a result of increasing opposition, a high committee including top religious authorities was organized by Kanuni Sultan Süleyman¹⁰, which discussed the issue and concluded that cash waqfs were legal and valid according to Islamic Law. The Sultan accepted this conclusion and issued a Sultan Decree in May 1548, saying that although cash waqfs were banned earlier, the issue had been analysed and now they were accepted as legal and valid, concluding that people who wished to found a cash waqf were free to do so¹¹. Consequently, the problem was solved by this decree¹².

Of course, by allowing the foundation of cash waqfs, principles like meeting the uncollected part of the credits by interest to protect capital, and strengthening the capital structure by adding unused interest to the main capital were accepted, which are the main principles that should be adapted by a financial institution.

Strict controls that were exerted by the Ottoman State were also applied to cash waqfs that started to operate in the waqf system after the completion of the legal regulation in the 16th century. The reasons that led to the necessity of controlling the waqfs and especially the cash waqfs are as follows:

- Waqfs were formed by legal entities or private persons by putting their properties in use for the benefit of people who needed them, without seeking any interest. In cash waqfs, this benefit occurred by using interest revenue for social purposes. In this case, the right of the state to ensure that the interest revenue was used for social objectives arose.
- Even if the person who founded the waqf died, the waqf continued to operate in principle. In this case, if there was no heir of the founder on the board of trustees, then the state would manage the waqf. And the state wanted to control the entity managed by professionals.

⁹ Zeynep Hatunoğlu, Ayşe Eser, Mustafa Kılıç: "The Application of Two Similar non-profit Organization: Cash Waqfs and Micro Credits", Paper, 2. Balkans and Middle East Countries Conference on Auditing and Accounting History (2 BMAC), September, 15-18, 2010, İstanbul, Turkey.

¹⁰ Kanuni Sultan Süleyman : Ottoman sultan between 1520-1566

¹¹ Tahsin Özcan: The Legitimization Process of Cash Foundations: An Analysis of the Application of Islamic Law of Waqf in the Ottoman Society, p.243

¹² - İsmail Kurt : Para Vakıfları, Ensar Neşriyat publication, 1996, İstanbul.

- Murat Çizakça : Risk Sermayesi Özel Finans Kurumları ve Para Vakıfları, İlmi Neşriyat Publication, 1993, İstanbul.

- Nazif Öztürk : Menşe-i ve Tarihi Gelişimi Açısından Vakıflar, Publication of Awkaf General Directorate, 1983, Ankara.

- Hüsni Koyuncuoğlu : Para Vakıfları : "Muhasebe Defterlerine Göre 17.Yüzyıl İstanbul Uygulaması", Din Bilimleri Akademisi Araştırma Dergisi, No: 1, 2008.

- Although a board of trustees existed in cash waqfs; a waqf was generally managed by professional directors. In this case, the adequacy of the management of the waqf's activities by professionals needed to be controlled by trustees. As a result the need for internal control arose.
- The control of cash waqfs was more important than the control of others. Because, in other waqfs controlling had to be done to find the answers to questions like, for example, whether the rents were being collected and whether the rent revenues were being transferred to the places prescribed by the waqf, where the rent revenue of a big enterprise was allocated to the needs of a poorhouse. However, in money waqfs, issues such as conditions of credit granting (with respect to credit security), collections of granted credits on time, collection of the interest, maintaining the interest rate at the prescribed level, usage of interest in the prescribed areas also had to be controlled.
- If controlling is so important in cash waqfs, first of all the organizational structure which allowed the foundation of waqfs and controlled them should be emphasized. In the next section this topic will be handled briefly and then the waqf accounting system, which was used as a controlling tool, will be examined.

II. Organizations Related to Cash Waqfs and the Foundation of Waqfs.

In the Ottoman Empire the foundation procedure for all waqfs was the same. Therefore, the assertion of general rules in the foundation of waqfs also introduced the foundation procedure of cash waqfs. The foundation of waqfs should be examined in two ways. First the state's organization in charge of waqfs should be described. Secondly, the conditions needed to found waqfs and characteristics of the documents that showed the allowance of a waqf, called *vakfiye*, should be handled. The developments in the Ottoman Empire about these two subjects are explained next.

A. Organization of Waqfs in the Ottoman Empire

In the Ottoman Empire, permission for waqfs under certain conditions and control of their activities' in accordance with their foundation objectives had always been the duty of the state. But it took time for the state to form the central organization which would fulfil this duty. When the duties of the state increased due to an increasing number of waqfs, firstly an organization called *Evkaf Teşkilatı* (waqf management) was formed. It was then raised to the level of ministry and called *Evkaf- ı Hümayun Nezareti*. In the second half of the 19th century, after the announcement of administrative reforms in 1839, this organization was renamed *Evkaf Nezareti* (Ministry of Waqfs)¹³. This

¹³ Muharrem Eminoğlu : "Osmanlı Tatbikatında Nakid Para Vakıfları ve Günümüz Ekomonisinde Uygulanabilirliği", Master Thesis, Kahraman Maraş Sütçü İmam Üniversitesi, 1996, Kahramanmaraş

organization continued its operations until the Republic and in the Republic period it was turned into the Directorate General of Waqfs, which is still carrying out its duty in Turkey today. Cash waqfs also operated under the control of this directorate after the announcement of the Republic, and finally they constituted an important portion of the start-up capital for Vakıfbank in 1954, which is a government bank in the Turkish Republic that is still continuing its operations today.¹⁴

The duties of *Evkaf-ı Humayun Nezareti* (the ministry in charge of waqfs) in the Ottoman Empire at the end of 18th century were: allowing the foundation of waqfs, approving the waqf foundation document called *vakfiye* through the judges and then controlling whether the waqfs' activities were continuing in accordance with *vakfiye* (the foundation document). Central Evkaf *Nezareti* fulfilled these duties in provinces by means of kadıs (judges).

B. Conditions for Foundation of Waqfs in the Ottoman Empire and Vakfiye Document.

Since in the waqf association the allocation of a private or legal person's asset (real estate, estate, revenue) to a social objective is in question¹⁵, it is important to determine the factors which will provide this condition at the beginning. A private person who wishes to allocate his asset should be of a certain age, should not have a conviction for a socially unacceptable crime, should behave independently, and should decide by his own without any compulsion. The legal person who wants to found the waqf should also be expected to have an attitude in line with these conditions. The type of the waqf management was determined by the waqf founder in principle. The manager of the waqf, who was usually called mutawalli, had the responsibility of administrating the waqf property to the best use of the beneficiaries¹⁶.

The process of waqf foundation was started by the submission, by the founder, to a *kadı* (judge) requesting that a *vakfiye* (waqf foundation document) be prepared. This document was prepared in the presence of witnesses and was registered by the judge. Registration was completed when the judge wrote his approval decision at the top of the document and recorded this approval in the waqfs' register book. After the registry of the document was completed the waqf was founded¹⁷. An example of a vakfiye which belongs to a cash waqf is

¹⁴ Tahsin Özcan, "Osmanlı Toplumuna Özgü Bir Finansman Modeli: Para Vakıfları", Çerçeve, Ekim 2008

¹⁵ In cash waqfs, the capital was granted as credit to the ones who needed finance, and interest revenues were allocated to public service for social purposes. Here, social purpose is the application of low interest rates and expending interest revenue for public

¹⁶ Cengiz Toraman, Bedriye Tunçsiper, Sinan Yılmaz: Cash Awkaf in the Ottomans as Philanthropic Foundations, and their Accounting Practices

¹⁷ Mahmet Zeki Pakalın: Osmanlı Tarih Deyimleri ve Terimleri Sözlüğü, Cilt 3, 1993, İstanbul.

given in annexes 1/A and 1/B. A photocopy of the original document is given in 1/A and the translation of it into English is given in 1/B. Before examining the information in these documents, it is necessary to mention that a waqf was managed by a board of trustees; the chair of the board was generally the person who allocated the asset, and the heirs undertook the management of the waqf if the founder died. If there were no heirs the state undertook the waqf's management¹⁸.

In Annex 1/A, the foundation document of a cash waqf at the beginning of 19th century is given¹⁹. The particular points in this vakfiye are summarized below:

- *In Istanbul, Seyyid Ahmet Paşa wanted to found a cash waqf worth 5,000 Guruş, submitted to Rumeli Kazaskeri (District Court) and wanted the preparation and registration of waqf foundation document.*
- *A court trial was carried out in the presence of witnesses, and the judge delivered 5,000 Guruş to a trustee who was charged to invest it at between 10%-11.5% interest rate.*
- *It was decided to use the interest of this cash to bring water to a group of villages in Ankara, to build fountains in several places and to repair current fountains.*
- *The names of the trustee and the person that would control him (district governor) were mentioned and also the salaries of these two people and the accountant were decided in the vakfiye. That means the activities of the waqf were delivered to three professionals and it was decided to give these people's salaries by interest revenue.*
- *It is understood that the protection of the main capital that was worth 5,000 Guruş was adopted as a principle. So, an addition of the remaining interest to the capital after using it for public interest was accepted. Moreover, if the interest revenue decreased so much that it became impossible to fulfil the public interest, another service was written as a substitute.*
- *Actions were taken to provide the survival of the waqf. The founder of the waqf decided on which of his children would take over the responsibility of the waqf after his death.*
- *People living in the villages which would be served by the waqf's revenues were asked to control the service quality of the waqf's activities. This represents really a very important and an advanced level of thinking.*
- *Furthermore, it was mentioned separately that the primary institution that would control the waqf's activities was Rumeli Kazaskerliği in İstanbul which had approved the waqf document.*

¹⁸ Hüsnü Koyunoğlu: Muhasebe Defterlerine Göre 17.Yüzyıl İstanbul Uygulaması, p. 280-282

¹⁹ Archive of Directorate General of Waqfs, No. 629, p. 749, Ankara

- The ordering format of the vakfiye document shows that there was a standard application.
- The first sentences of the vakfiye starting with religious motives draw attention. The reason for this is that waqf logic was based on Islamic rules.
- At the top of the document the writing of the kadı who approved and registered the document is seen. Also there were a couple of days between the preparation and registration of the document.

The above characteristics of a cash waqf operating at the end of the 19th century show the importance of the controlling problem. Protection of capital, applying the interest rate at the prescribed level, tracking the interest revenues, determining if the interest revenue was used in the prescribed areas, covering the salaries and waqf expenses, all highlight the importance of accounting. This point requires emphasizing waqf accounting separately. But before, it would be more appropriate to mention the effect of cash waqfs in Ottoman society and economy.

III. Development of Cash Waqfs

A statist approach was prevalent in the Ottoman Empire, as it was in other Middle East countries. The private sector could not develop because of several reasons. Among these reasons, the economic policy followed by Turks to be able to live with other communities (Rums- Byzantine Greeks- and Armenians) after entering Anatolia had an important effect, because, the first Turks entering Anatolia in 1000s were much more nomadic and busy with cattle breeding. However, the Turks who came to Anatolia because of the intensive coercion of Mongolians in 1200s were used to living in cities. To be able to settle in the cities these people firstly formed neighbourhoods next to the cities in Middle Anatolia and they were interested in meeting the requirements of small groups living in these neighbourhoods. They preferred to purchase agricultural and animal products in bulk and started to make production just to cover their needs. This economic system was named and prevailed as *Ahilik*. Other communities living in the cities also accepted this system for their own requirements and production system towards small community entrenched in Anatolia. Since the production for neighbourhood requirement, which was started in the 18th century, did not allow for capital accumulation, big enterprises could not be developed. This system had taken the name of *Lonca* with changing conditions after a while, and in the 18th century the system was called *Gedik*. When the Gedik system was cancelled in 1909, this production system that continued for seven hundred years ended²⁰. In this way, the Turkish

²⁰ Oktay Güvemli: "The Development of Accounting Thought in Luca Pacioli's Time in Turkey", Paper, II International Conference Before and After Luca Pacioli, June 16-19, 2011, Florence, Italy.

community was able to enter the 20th century with an economic approach that could form capital accumulation, but the developments led to a mixed economy.

In the economic structure of the Ottoman Empire that was mentioned above, big scaled enterprises to meet the military requirements were founded by state investments. Also it is appropriate to mention that some production facilities to meet the needs of the public were provided by a system called *mukataa* (renting the revenue centres like salt and other mines)²¹.

In the Ottoman Empire where the statist approach was prevalent, it was natural for the private sector to shift its wealth to social areas. For this reason waqfs were promoted, and with the improvements in the waqf system, the need to diversify them had also arisen. The first cash waqf was believed to be founded in Edirne at 1423 by Yagci Hacı Muslihuddin; however, the number and the popularity of cash waqfs increased starting from the 16th century when the usage of cash increased because of the sharp rise in the Ottoman population and the growth of economic relationships between villages and cities²². The credit granting role of cash waqfs in the economy has shown a rapid growth, since only cash waqfs were allowed to apply interest in the framework of the Islamic view.

In the Ottoman Empire, the cash waqf was founded by a generous person, who endowed cash for a charitable purpose. After the foundation of the waqf, this cash was lent to various borrowers whose number did not usually exceed 20. The borrowers transferred the ownership of their houses to the waqf as collateral and continued to use their homes. In turn, they paid rent to the waqf until they returned the money they borrowed. After paying the full amount that has been borrowed, the ownership of collateral reverted back to them. The total amount of rent paid to the waqf was divided into three parts. The first part was used to finance the charitable purpose for which the waqf was founded, the second part was used to pay administrative expenses, and the last part was added to the original capital²³. It is argued that cash waqfs constituted the banking system in the Ottoman Empire prior to modernism. However these waqfs were not able to transform to deposit banks such as their examples in Europe called “Monti di Pieta”, because of the Islamic view forbidding the interest. Also, the capital of these waqfs was generally donated by a single person. On the other hand, Monti di Pietas in Europe were able to increase their

²¹ Oktay Güvemli: “Türk Devletleri Muhasebe Tarihi, Osmanlı İmparatorluğu - Tanzimata Kadar”, Vol.2, 1998, İstanbul.

²² Cafer Çiftçi: 18.Yüzyılda Bursa’da Para Vakıfları ve Kredi İşlemleri, Tarih Araştırmaları Dergisi, Cilt XXIII, Sayı 36, 2004

²³ Murat Çizakça: Incorporated Cash Waqfs and Mudaraba, Islamic Non-Bank Financial Instruments From Past to the Future?, p.3

capital and improve their services, by collecting deposits from thousands of individuals.²⁴

To be able to give more information about the cash waqfs, research about the determination of interest rate levels applied by cash waqfs and life periods of cash waqfs will be utilized²⁵. In this research, 4 years were taken as a basis starting from 1667 and there is some time period between these years. Cash waqfs were examined for each of these four years, with respect to their numbers, interest rates and life periods. A table that summarizes this information is given below.

Table 1: *Development of Cash Waqfs in the 17th and 18th centuries*

Year	Number of Cash Waqfs	Interest Rate Range (%)	Life Span		
			Less than 50 years	Between 50-100 years	More than 100 years
1667-68	350	9.96-12.4	250	10	90
1749-50	310	9.97-12.5	305	5	-
1767-68	516	9.97-12.5	516	-	-
1785-86	538	9.94-12.7	538	-	-

Ref.: Murat Çizakça , *Risk Sermayesi ve Para Vakıfları*, Page 78-144,1993, İstanbul.

An evaluation of information in the table follows:

- “Number of cash waqfs” given in the table is not the number of waqfs founded in that particular year but the number of waqfs that were operating in that year.
- From the table we can understand that more than 500 cash waqfs were continuing their operations at the end of the 17th century and during the 18th century. The increase in the quantity of cash waqfs was especially high in the second half of the 18th century and about 200 cash waqfs were founded in 20 years. Even though this increase was slow at the end of the century, it is obvious that about 500 cash waqfs were in operation at the end of the 17th century and during the 18th century - which is the analysis period of this paper. These waqfs both supported the economy by granting credits, and contributed to the social benefit by the interest revenues.
- There was consistency in interest rates. There were very little differences between interest rate ranges in 120 years, whereas there was inflation in those years. The upper limit of 12.5% was set for interest rates as a general principle because of the Islamic rules.
- 1667 was taken as a base year when calculating their life spans. According to the information, 90 of the 350 cash waqfs operating in 1667-68 were also operating after 120 years in 1785-86. That means 26% of the cash waqfs that

²⁴ Murat Çizakça: “Osmanlı Dönemi Vakıflarının Tarihsel ve Ekonomik Boyutları”, Türkiye’de Hayırseverlik: Vatandaşlar, Vakıflar ve Sosyal Adalet Araştırması, TÜSEV, İstanbul

²⁵ Murat Çizakça : “Risk Sermayesi Özel Finans Kurumları ve Para Vakıfları” , İlmî Neşriyat, 1993, İstanbul, pp. 78-144

existed in 1667-68 have operated more than a century. This ratio shows that cash waqfs had an excellently strong legal structure and financial system. Certainly the controlling and the accounting system also had a role in this long life span of cash waqfs.

According to the information in Table I, it is obvious that during the 18th century, more than 500 cash waqfs had met an important necessity in the Ottoman economy and granted credit for small entrepreneurs. In this century, because of the prevalence of the *Lonca* and *Gedik* systems mentioned before, commercial and production enterprises were also small scaled, meaning that small enterprises were taking credit from small credit institutions (cash waqfs).

Even if there is not much research about the number of the cash waqfs' credit customers and their credit potential, we can benefit from some research about Bursa, which was an important silk textile centre of the Ottoman Empire, to be able to give information about this issue even if limited. In that research, 1767 was taken as a base year – in the 18th century, the analysis period of our paper²⁶.

Table 2: *Activities of Cash Waqfs in Bursa in the 18th Century*

Year	Total Credits Granted (Kuruş)	Number of Borrowers	Credit per Borrower (Kuruş)
1767	117,084	1662	70

Ref.: Murat Çizakça, *Cash Waqfs of Bursa, 1555-1823*, *Journal of the Economic and Social History of the Orient*, Vol. 35, Page 335,

If it is considered that the population of Bursa was 65-70,000 in those years, the effectiveness of cash waqfs in Bursa's economic life can be discovered. If we generalize it, we can understand that cash waqfs were very effective in the Ottoman economy.

Explanations until now show that it was popular in the Ottoman Empire for private and legal persons to allocate their assets under the name of waqfs. Also it is obvious that cash waqfs had an important place in the waqf system and in the economy, and they had a long life span. There were several factors that made cash waqfs long-lived credit institutions in social and economic life. These factors were a strong legal system, the establishment of detailed and long rules in vakfiye, and central controlling discipline based on accounting records.

Moreover, cash waqfs also had a strong and successful accounting system. Next this system will be emphasized.

²⁶ Murat Çizakça: "Cash Waqfs of Bursa: 1555-1823", *Journal of the Economic and Soscial History of the Orient*, Vol. 35, Page 335, 1995.

IV. Accounting System of Cash Waqfs

In the Ottoman Empire, the “Stairs Method” had been used for centuries²⁷. Since this method was used in state accounting, it developed through the aim of recording the state’s revenues and expenses. According to this method, the state’s revenues and expenses were forecasted at the beginning of the year based on the accrual principle; entries were recorded when they were realized and at the end of the year revenue and expense realizations were introduced as budget realizations which were taken as a base for the next year’s forecast²⁸.

The stairs method was so named because in the method the first main amount was written and then other amounts constituting the main amount were listed one under the other like stairs. This recording style was never changed according to its usage objectives. On the other hand of course the waqf accounting had different characteristics than state accounting. For example in a cash waqf capital existed, and this capital was granted as credit. So current accounts about credits and interests had to be monitored. Moreover, expending the interest revenues according to the prescribed conditions in waqf document (vakfiye), using the interest to pay salaries and expenses, and if any amounts remained the addition of them to capital were the specific transactions for cash waqfs. All these transactions were similar to bank transactions. Therefore the accounting system of a cash waqf was also similar to the accounting system of a financial institution.

However, in the Ottoman Empire only the stairs method was known and applied. Ottoman accountants did not learn any method other than the stairs method. Thus the right thing to do was to benefit from the stairs method also in waqf accounting, and make it compulsory for waqfs to use the stairs method. Therefore the stairs method was required to be developed according to the characteristics of cash waqfs. The Ottomans brought about this adaptation and utilized the stairs method in waqf accounting for centuries. So, it should be stated whether the stairs method was used in a successful way or not. It is important here to mention that the Ottomans tried to use the stairs method according to the requirements of the waqfs. It can be suggested that waqfs,

²⁷ The stairs method was first used by the Abbasid’s (750-1258) in the Middle East as a state accounting method. Mongolian king Hulagu brought this method to the Ilkhanate State (1256-1353) which was settled in today’s Iran. The Ottoman State took this method from the Ilkhanate State in the early stages of its establishment period and used it as its state accounting method until 1879 by making some improvements. When the double-entry method started to be used in 1879 the stairs method was abandoned. (Oktay Güvemli, Batuhan Güvemli: The Birth and Development of an Accounting Method in the Middle East (Merdiban Method) Paper, The Fifth Accounting History International Conference, 9-11 August , 2007, Banff , Canada).

²⁸ Oktay Güvemli, Mehmet Erkan, Cemal Elitaş ve Oğuzhan Aydemir: Osmanlı İmparatorluğunda 500 Yıl Boyunca Kullanılan Muhasebe Yöntemi: Merdiven Yöntemi, 2008, Ankara.

which were used extensively in the Ottoman Empire, had a separate usage system for the stairs method²⁹.

In this paper, cash waqfs at the end of the 18th century and at the beginning of the 19th century are being analysed. The foundation document of a cash waqf from the beginning of the 19th century is examined first, and next accounting records of a cash waqf that belongs to 1791 will be reviewed³⁰.

In Annex 2/A a page is displayed where showing annual records of a cash waqf. In Annex 2/B a translation into English is given. Annual operational outcomes for 1791-92 were as follows:

The founder of the waqf was Mehmed Efendi. Since Mehmed Efendi had died, Rukiye Hanım gave money to the waqf to make it continue its operations. Rukiye Hanım retained İshak Efendi as mutawalli (trustee) for the waqf. İshak Efendi had given the money of the cash waqf as credit and earned interest, and used this interest to meet the expenses of a school in İstanbul. Therefore, Rukiye Hanım was not taking the interest, but the interest was used for school expenses

<i>Capital Given as Credit for Interest</i>	313,320 Akçe (2,611 Guruş)
<i>Annual Interest Revenue</i>	33,530 Akçe (10,7 %)
<i>Annual expenditure of interest revenue:</i>	
<i>Salaries of school employees</i>	26,280 Akçe
<i>Salaries of waqf employees</i>	3,600 Akçe
<i>Expenses for school</i>	3,650 Akçe
<i>Balance at the end of the year : waqf cash</i>	228,000 Akçe
<i>Credits</i>	85,320 Akçe ³¹

Transactions of this cash waqf in one year is as follows according to the double-entry accounting system.

<i>Equity</i>	<i>Cash</i>	<i>Credits Granted</i>
----- 313,320(1) (2) 33,530 33,530 (3) (4) 228,000		(1)313,320 228,000 (4)
<i>Interest Revenue</i>	<i>School Salaries</i>	<i>Waqf Salaries</i>
----- 33,530(2)	(3) 26,280	(3) 3,600
		(3)3,650

²⁹ - Değer Alper, Canan Basdar: "Between 16th and 17th Centuries Cash Waqfs in Bursa and Their Effects on Bursa Economy", Paper, 12th World Congress of Accounting Historians, July 20-24, 2008, İstanbul.

- Murat Çizakça : Cash Waqfs of Bursa, 1555-1823, p. 335

- Sudi Apak, Mikail Erol, Osman Uluyol, Ahmet Akcan: "Waqfs in the Ottoman Empire and the Accounting Record System in the Waqfs", Paper, 2nd Balkans and Middle East Countries Conference on Auditing and Accounting History, September 15-18, 2010, İstanbul.

³⁰ İstanbul Müftülüğü, Şer'iyye Sicilleri Arşivi, evkaf muhasebeciliği defterleri, Mu 99, Varak 92 b. İstanbul.

³¹ In calculations 120 Akçe equals to 1 Guruş. Sometimes Guruş is used for short explanations

The accounting record in Annex 2/A was compiled according to the stairs method. According to this method, the first main amount was written and then other amounts constituting the main amount were written one under another like stairs. The records given in the annex were entered based on this principle, but since the details of the main amount did not exist, the stairs principle could not be applied appropriately and a concession had to be made for this. The first challenging point of the method was this issue.

On the other hand, the really important thing was the interest on the capital. Moreover, the determination of the areas for which the interest revenue has been used and the ending balance were also important. So, the transaction should have been followed as per a banking institution. The stairs method tried to meet this requirement and since the records were done without going into much detail the method proved sufficient. The second challenging point about the method was that cash given as credit and interest revenues taken from each credit could not be calculated separately. Therefore, without going into the details the total interest revenue could be controlled and the annual interest rate was determined as an average ($33,530 : 313,320 = 10.7\%$).

Despite all these challenges, it is observed that the method could emphasize the details of the expenditures. Since the controlling approach of the Ottomans highlighted the controlling of expenditures, it is understood that monitoring the details of expenditures were important.

To summarize, the stairs method had difficulties in meeting the accounting needs of cash waqfs. And the method tried to meet this requirement sometimes by making concessions about the principles and sometimes by not going into too much detail. In spite of these difficulties, the stairs method application helped the waqf system to live on for centuries.

The example given above belongs to the end of the 18th century (1791-92). The stairs method would disappear after a hundred years from this example giving up its place to the double-entry method by Sultan's Decree in 1879.

In the second fifty years of these hundred years (1791-1879) general adequacy problems of the stairs method started to arise. Especially with modernism movements, started by the announcement of administrative reforms in 1839, the stairs method started to prove inadequate in meeting the developing and changing recording requirements (especially the needs of industrial and profit-seeking enterprises). The biggest difficulties about the method were in the banking industry. These difficulties arose when the Ottoman Bank, which was founded in 1856, had to use the double-entry method in its accounting records³². The Ottoman Bank's success with the double-entry method was shown as a fine example in the decision to quit the stairs method and adopt the double-entry method.

³² Edhem Eldem : History of Banque Imperiale Ottomane, 1999, İstanbul.

V. Conclusion

Since a statist approach was prevalent in the Ottoman Empire and the private sector was not developed, it was essential to encourage people to use their wealth for social objectives. This necessity was met by the development of the waqf system that provided for people to use their assets and revenues for social aims. At the same time, to be able to meet the credit requirements of small enterprises in the private sector, small credit institutions were needed. This requirement for small credit institutions was met by the cash waqfs in the waqf system. Since the Islamic view had forbidden concept of interest, it was only possible to allow the foundation of the cash waqfs provided that the interest revenue would be used for social objectives. Moreover, factors like interest rates not being able to rise above a specified limit and the necessity of protecting the capital against losses had increased the management problems of cash waqfs.

All these factors made the permission granting procedure for cash waqfs and their control important. The permitting of the foundation of cash waqfs made the preparation and registration of a foundation document called *vakfiye* necessary. The control problem in cash waqfs introduces the importance of accounting data. Thus, the control of cash waqfs based on accounting records made accounting applications important. Ottoman accountants were using the stairs method, which was developed for recording the revenues and expenses of the state. However, the recording need of a cash waqf was similar to the recording need of a financial institution. In cash waqfs, capital, granted credits, interest revenues were in question and there was a need to monitor if the interest revenue was used for social purposes; also, meeting the waqf expenses from the interest revenue was necessary. Meeting these necessities using the stairs method was difficult. To overcome these difficulties sometimes concession were made about the principles of the stairs method and sometimes details were given up. However, in sustaining the waqf system for centuries, the huge contribution of accounting applications made controlling all this possible.

At the end of the 18th century, to which the examples in this paper belong, about 500 cash waqfs were being allowed to operate in the Ottoman economy. However, the end of the 18th century and the beginning of the 19th century was the start of the period when the stairs method began to have difficulty meeting developing requirements. The search for a new accounting method to take the place of the stairs method became important when the modernisation process commenced with the announcement of the administrative reforms in 1839. As a result, the double-entry accounting method was implemented in 1879.

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Annex I/A

Original Copy of Foundation Document (Vakfiye) for Seyyid Mustafa Pasa Cash Waqf (25th of September, 1806)



Annex I/B

Translation of Foundation Document (Vakfiye) for Seyyid Mustafa Pasa Cash Waqf into English

This is the waqf foundation document (Vakfiye) which is prepared for the cash endowed by Seyyid Mustafa Pasha, who is living in Rami Mehmed Pasha Farm at Eyüp (a district in Istanbul). This cash is endowed for the repair and maintenance of fountains that he built in the Sineson village and Davutlu district of Arapson (Gulsehri) town in Ankara, Anatolia. On the application of the mentioned waqf and mutawalli (waqf manager), the registration has been made in Small Waqf Accounting. 25th of September, 1806.

Rumeli Qadi-askeri

Mehmed Arif bin Ataullah

Waqf Document (Vakfiye)

Boundless praises to God, who created all the universe and provided food for human beings, knowing all the apparent and hidden states of them and enlightening the hearts of the faithful. Moreover, countless prays and salutes to Hz. Muhammed who is the delegate of God, the most virtuous person and who will be the intercedor of human beings on the Day of Judgement.

The reason for the preparation of this legal document is as follows: Seyyid Mustafa Pasha, one of the viziers (top level director in the state) living in Rami Mehmed Pasha Farm around Eyüp, applied for the appointment of a judge from the court to register the waqf he would found. On this application, Judge Haci İbrahim Efendi, who was appointed by Rumeli Qadi-askerligi Court, executed a legal court in a chalet outside the farm, in the presence of witnesses mentioned at the attachment of this document. In this court, Seyyid Mustafa Pasha delivered 5,000 kuruş, allocated from his most clean and helal assets, to mutawalli (waqf manager) Emin Efendi on the conditions mentioned below and ranked his requests as follows:

1. This 5,000 kuruş will be granted to people living in Sineson Village of Arapson (Gulsehri) town in Ankara in Anatolia, upon their request, against adequate guarantor and asset, at a rate between 10%-11.5%.

2. The revenue (interest) earned will be used to bring water from the Gorgori Mountain around the mentioned village by laying pipes and a water tank will be built next to Small Bridge which is 15 minutes away from the village.

3. Then 10 fountains will be built (one in the mosque of the village, one in Davutlu district, one in Mehmet Yazici district, one in front of the Han, one in Beyli Halil Aga district, one around the little mosque in Haci Ahmet district, one in Yazicioglu district, one in Marasioglu district, two between Gulsehri and Cat Village) by again laying pipes from this water tank, and the water pipes of fountains, that my late mother Safiye Hatun had built in İgdeli next to Gulsehri, will be repaired when necessary.

4. 50 kuruş salary will be paid to mutawalli (waqf manager) annually.

5. The person who will control mutawalli is İbrahim Aga (former Colonel) from the mentioned village, and 50 kuruş will be paid to him.

6. The accountant of the waqf is Hacı Ahmet Efendi, and 30 kuruş will be paid to him.

7. If any cash remains after expenses are paid from annual revenue, it will be added to the capital.

8. If the revenues decrease in the future and it becomes difficult to meet the conditions mentioned above, then the revenue of the waqf (as a new expenditure area because of the inadequacy of cash to build fountains) will absolutely be distributed to poor Muslim people.

9. As long as I am alive, I will be the mutawalli (the one who will say the final word), and after I die the best of and the most honest of my sons or daughters will be the mutawalli.

10. If nobody remains from my family, one of the trustworthy and religious old persons from Sineson village will be the one who will control my waqf by the acceptance of Rumeli Qadi-askerligi.

11. All the people living in the village will observe and supervise the appropriate usage of cash endowed to repair the water pipes of the fountains and to make the fountains work day and night. If they see any problem, they will declare it to nazir of the waqf which controls the activities of the waqf.

12. Replacement of the people working in my waqf, increasing or decreasing their salaries can be done only by my decision, and after my death, nazir of the waqf (mutawalli-the one who will say the final word) will undertake this duty.

Seyyid Mustafa Pasha delivered 5,000 kuruş to Mutawalli Emin Efendi after he concluded his word depending on the conditions mentioned above. This document has become valid and impossible to change after Hacı İbrahim Efendi, who registered it as a valid legal document on behalf of Qadi (judge), came and explained the situation to the court (9th of September, 1806).

Witnesses.....

Annex II/B

Translation of Accounting Records of Mehmed Efendi Cash Waqf

Accounting of
The collections and expenses of Mehmet Efendi's waqf, who has passed away, during the period of Ihsak Efendi, who was appointed as waqf mutawalli, by Rukiye Hanim, who invested cash to be granted as credit for interest, between 31st of August 1791 and 18th of August 1792.

Whole year's cash

<i>Akçe</i>	
346,850	
<i>Interest</i>	<i>Balance</i>
<i>Akçe</i>	<i>Akçe</i>
33,530	313,320

<i>Capital</i>	<i>Portion of Capital</i>
<i>Guruş</i>	<i>earned by interest</i>
2,611	<i>Akçe</i>
<i>Akçe</i>	33,530
313,320	

The one subtracted from it *Akçe*
 33,530

The amount paid to school employees beginning from 1791

Daily 83 Monthly 2,490 Annual 29,880

<i>Top manager employees of the school reading daily 2</i>	<i>Employee in charge of students of the school daily 20</i>	<i>Employees in Classroom daily 30</i>	<i>Employees in charge of food employees daily 10</i>	<i>Other employees charge of daily 4</i>
<i>Other Employees daily 4</i>	<i>Deputy manager of the school daily 1</i>	<i>Mutawalli of the waqf daily 6</i>	<i>Accountant daily 2</i>	<i>Interest collector daily 2</i>

Purchases and Other Expenses

Akçe
 3,650

	<i>Cost of books</i>	<i>Repairs</i>	<i>Cost of materials</i>	<i>Cleaning</i>	<i>School</i>
<i>Manager</i>	<i>Akçe</i>	<i>Akçe</i>	<i>Akçe</i>	<i>Akçe</i>	<i>Akçe</i>
	300	300	180	200	720
<i>Water</i>		<i>Rent of the building</i>	<i>Accounting</i>	<i>Supplies</i>	
<i>Akçe</i>		<i>Akçe</i>	<i>Akçe</i>		
180		1,440	330		

Balance.....

Cash at the end of the period and on interest

Guruş

2,611

Akçe

313,320

Cash in hand
(at safe box of waqf)

Guruş

1,900

Akçe

228,000

Cash lent for interest,
amount on borrowers

Guruş

711

Akçe

85,320