

Esham, the Origin of Sukuk for Facing the Crisis: Historical Experience

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Abstract: Pandemic brings a crisis. This makes world leaders have to work hard and smartly in managing state budgets. During the heyday of Islam, Muslims also faced crises. Given that time the power of Islam mastered many areas of the world, it can be assumed that the crisis that occurred in the past was a global crisis as it is happening today. The difference is the crisis that occurred at the time because of losing the war. This paper tries to describe the historical experience of the esham, one of the fiscal instruments in the Islamic world that helped the Ottoman Empire overcome the crisis. Esham has mobilized low-cost funds from the public in a relatively concise time. Esham served as a better choice than looking for foreign debt. As the origin of sukuk, esham has simpler structure so that can be used as an alternative to sukuk with a lower cost. To deal with a crisis, esham may intervene in the economy. Esham funds to the real sector in turn will help the government drive the economy as well as control prices in the market for goods and services. Therefore, esham has the potential in facing the crisis.

Keywords: *esham, sukuk, waqf, crisis, fiscal, Islamic finance.*

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Abstrak: Pandemi membawa krisis. Hal ini membuat para pemimpin dunia harus bekerja keras dan cerdas dalam mengelola anggaran negara. Pada masa kejayaan Islam, umat Islam juga menghadapi krisis. Mengingat saat itu kekuatan Islam menguasai banyak wilayah di dunia, maka dapat diasumsikan bahwa krisis yang terjadi di masa lalu merupakan krisis global seperti yang terjadi saat ini. Perbedaannya adalah krisis yang terjadi saat itu karena kalah perang. Tulisan ini mencoba memaparkan pengalaman sejarah esham, salah satu instrumen fiskal di dunia Islam yang membantu Kesultanan Utsmaniyah mengatasi krisis. Esham memobilisasi dana murah dari masyarakat dalam waktu yang relatif singkat. Esham menjadi pilihan yang lebih baik daripada mencari utang luar negeri. Sebagai asal mula sukuk, esham memiliki struktur yang lebih sederhana sehingga dapat digunakan sebagai alternatif sukuk dengan biaya yang lebih rendah. Untuk menghadapi krisis, esham dapat mengintervensi perekonomian. Dana esham untuk sektor riil pada gilirannya akan membantu pemerintah menggerakkan perekonomian sekaligus mengendalikan harga di pasar barang dan jasa. Oleh karena itu, esham memiliki potensi untuk mengatasi krisis.

Kata kunci: *esham, sukuk, wakaf, krisis, fiskal, keuangan Islam*

INTRODUCTION

The severe and damaging impact of COVID-19 cannot be neglected. The pandemic has induced colossal loss of work in consequence of sudden mess in trade and economic activities. Economic growth has fallen due to underproduction capacity. If the demand shaking only has a minor effect on the output distortion from production capacity, it might be adapted by the market mechanism in the short term. If the shaking is major, it will conduct adaptation of the income level equilibrium. If the process is chronic and happens around the world, it could bring out a great recession. When the market mechanism abortive to work properly, the appropriate fiscal policies have to decide to avoid the drop of national income levels.¹

One of the instruments of fiscal policy that provides the best response to pandemic shocks is the sukuk. Fitch Ratings explains that sovereigns are expected to stay the primary contributors to overall sukuk volumes when states confront widening fiscal deficits and high borrowing needs, caused by COVID-19-related economic disruptions and lower oil prices.²

However, sukuk market has proved resilient to the impact of COVID-19. In the first nine months of the 2020, issuance reached a total of US\$130.5 billion, compared with US\$127.3 billion for the same period in 2019.³ In June 2020, the Government of Indonesia has raised US\$2.5 billion from a three-tranche global sukuk offering to help the government fund the fight against the COVID-19 pandemic.⁴

Regarding the existence of sukuk, no many literatures mention about *esham* as the origin of sukuk. Today, owing to financial engineering, most people know sukuk as a greatly fruitful instance of historical instruments. But, not many knows that sukuk actually reflects the modernity of two historical instruments, namely *esham* and cash *waqf*.

Therefore, it is important to introduce *esham* because financial engineering is currently starting to integrate sukuk with cash *waqf*. The combination of *waqf* and sukuk into a single contexture is currently being famous. There are currently two types of *waqf* and sukuk combination in the development, namely the cash *waqf* linked sukuk (CWLS) and the sukuk linked *waqf* (SLW).⁵ Both of

¹Fauziah Zen and Fukunari Kimura, "Maintaining Fiscal Sustainability During the Pandemic Crisis", *Economic Research Institute for ASEAN and East Asia (ERIA) Policy Brief*, No. 2020-04 (June, 2020), 1.

²Fitch Ratings, "Sukuk Volumes Resilient to Coronavirus Stress", *Fitch Ratings, Islamic Finance* (October 21, 2020).

³Mustafa Adil, "2020: A Strong Year for Sukuk", *Refinitiv, Investment Insight*, (October 19, 2020).

⁴Adrian Wail Akhlas. "Govt Raises \$2.5b through Global Sukuk Offering to Address Pandemic Deficit", *The Jakarta Post* (June 18, 2020).

⁵Khairunnisa Musari, "The Evolution of Waqf and Sukuk toward Sukuk-Waqf in

them become the new blended finance for modern *waqf* instrument today. In Indonesia, CWLS is a new blended finance of fiscal instrument.⁶

Through historical research and library science, this conceptual paper attempts to introduce the historical experience of *esham*, a fiscal instrument in the Islamic world that helps the Ottoman Empire overcome the crisis. As the origin of sukuk, *esham* becomes a simpler instrument than sukuk so as is more appropriate for government borrowing. This paper believes that *esham* has potency as an alternative of Islamic finance to sukuk to cope with the crisis.

As a historical research, the majority of all academic writings on *esham* in this paper referring to the manuscript of Murat Çizakça⁷ and

taken from personal communication with him. Murat Çizakça is a Professor of Comparative Economic History and Islamic Finance at the Presidential Finance Office/Institute of Islamic Economics Marmara University, Istanbul and KTO Karatay University. He is also a Member of Academia Europaea and European Science Foundation.

ESHAM IN HISTORY

After the Ottoman Empire's tragic defeat by Russia in Crimea (1768-1774), as well as its ill-fated military clashes with France (1789) and Russia again (1792, 1812, and 1829), its institutions of public finance were no longer capable of supporting the basic functions of the state. During the fifty years that followed the disaster of 1774, the Ottomans launched radical experiments in public finance that were designed to centralize the government's fiscal operations and increase revenue for the treasury. In 1774, the government introduced the *esham*.⁸

Esham is the plural form of *sehm*.⁹ In general, *esham* can be

Modern Islamic Economy", in *International Journal of 'Umranic Studies*, Vol. 2, Issue 1 (2019a, January), 47.

⁶Khairunnisa Musari, *Cash Waqf Linked Sukuk, A New Blended Finance of Fiscal Instrument for Sustainable Socio-Economic Development: Lesson Learned from Indonesia*, a paper was presented at 12th International Conference on Islamic Economics and Finance (ICIEF) "Sustainable Development for Real Economy" with hosted by Istanbul Sabahattin Zaim University (IZU) and jointly organized by Islamic Research and Training Institute (IRTI) - Islamic Development Bank (IDB) and International Association of Islamic Economics (IAIE) with the collaboration of Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC) and Hamad Bin Khalifa University, Istanbul, (June 14-20, 2020), 1.

⁷Khairunnisa Musari, *Esham for Fiscal Sustainability, An Alternative to Sukuk in Islamic Finance Perspective: Historical Experience*, a paper was presented at

Researcher Day "The 2019 International Conference on Fiscal Policy and Input-Output Modeling" at Auditorium of Fiscal Policy Agency Building, Ministry of Finance, Jakarta (August 28-29, 2019b), 2.

⁸Nadir Özbek, "Tax Farming in the Nineteenth-Century Ottoman Empire: Institutional Backwardness or the Emergence of Modern Public Finance?", in *The Journal of Interdisciplinary History*, Vol. 49, No. 2, 224.

⁹Murat Çizakça, "Merging Waqf and Sukuk", in *Journal of Islamic Economics*,

mentioned as a new system of domestic borrowing by the Ottoman government¹⁰ or shares¹¹. There is also who defines *esham* as a long-term domestic vehicle for borrowing, like a bond, that resembled the life-term annuities popular in many European countries at the time.¹² But, there is also another explanation that *esham* was utilized by the Ottoman Empire to meet their short-term financial needs until the 20th century¹³ or shares as public annuities which could be purchased by individuals of far lower incomes than the life-term tax farmers under new fiscal system¹⁴.

As a part of the fiscal policy by the Ottoman Empire, *esham* had been mobilized low-cost funds from the public in a concise time. This instrument proved effective to raise a rapidly massive amount of money from the public,¹⁵ particularly by incorporating small and medium size lenders.¹⁶ *Esham* controlled

public finance and enacted a pivotal role in the viability of the Ottoman Empire.¹⁷

Esham originally had employed by the Ottoman Empire (1299–1923) as financial certificates to pay the public debt in 1775. The financial certificates served as the underlying for the government to gather taxes.¹⁸ The Ottoman Empire released these certificates to mobilize public funds to fulfill the requirement of the Treaty of Küçük Kaynarca after being defeated by Russia of 1768–1774. At that time, the Ottoman Treasury expropriated the amount of major tax farms, had them run by state agents and published shares for the forthcoming revenues.¹⁹

After the restoration of the public finance system had accomplished through the forming of the *malikane* structure, 80 years later, the condition in 1774 required a pressing reform again in public finance.²⁰ By introducing the *esham* system in 1775, the Ottoman

Banking and Finance, Vol. 12, No. 3 (July-September, 2016a), 103.

¹⁰Murat Birdal, *The Political Economy of Ottoman Public Debt*, (London: Tauris Academic Studies, 2010), 23.

¹¹Çizakça, "Merging Waqf...", p. 103.

¹²Özbek, *Tax Farming*, p. 224.

¹³Murat Çizakça, "Risk Sharing and Risk Shifting: An Historical Perspective", in *Borsa Istanbul Review*, Vol. 14, No. 4 (2014b), 193.

¹⁴Eliana Balla and Noel D. Johnson, "Fiscal Crisis and Institutional Change in the Ottoman Empire and France", in *The Journal of Economic History*, Vol. 69, No. 3 (September, 2009), 839.

¹⁵Musari, *Esham for*, p. 2.

¹⁶Sebnem Kalemli-Ozcan. 2007. *Financial Development, Institutions, and Growth: Historical Evidence from the Ottoman*

Empire. University of Houston and National Bureau of Economic Research (NBER), December, 7.

¹⁷Çizakça, "Risk Sharing...", p. 193.

¹⁸COMCEC, *The Role of Sukuk in Islamic Capital Markets* (Ankara: The Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation (COMCEC) Coordination Office, 2018), 9.

¹⁹Balla and Johnson, "Fiscal Crisis...", p. 839.

²⁰Murat Çizakça, "Domestic Borrowing Without the Rate of Interest: Gharar and The Origins of Sukuk", *Munich Personal RePEc Archive (MPRA) Paper*, No. 23205 (2010), 12.

government was able to reduce its cost of borrowing from roughly 75% to the range of 10–20%. But the real motive for introducing this system was to finance a war indemnity of 7,500,000 *gruş* to Russia within a year.²¹

A comparative study indicates the fiscal policy of French rulers preferred to dedicate the restraint that prevented them from converting institutions than Ottoman sultans were by their relational liberty.²² French kings were more sturdily bonded to the existent set of fiscal instruments throughout the 18th century than their Ottoman counterparts.²³ During the 16th century, both countries made extensive use of tax farming to collect revenue, however, uncertain property rights caused by fiscal pressure led to different paths of institutional change in each state. In France, tax collectors successfully overcame the collective action costs of imposing constraint on the King. In the Ottoman Empire, tax collectors faced prohibitive transaction costs to organizing in a similar manner.²⁴

Nevertheless, the uncertainty of property rights due to the fiscal tension induced the institutional change in diverse ways of each state. In 1783, the French Government was

caught in a combustible spin of loan to overcome the existent debt.²⁵ But the Ottoman Empire was able to reform the fiscal policies so as the short-term financial needs can be resolved. The reforms kept on into the 19th century through a new fiscal system which is known as *esham*.²⁶

Hereinafter, the Ottoman Empire eventually was not able to boost sufficient revenue to meet its expenditure and it was obliged to pull out an enormous debt.²⁷ In the absence of intermediary protecting lenders from the sultan's desire, the *esham* system was not able to produce the prominent fund to satisfy the necessity of the government until urge the government to take loans from abroad. In the early 1870s, the Ottoman Empire used around 60% of tax revenues to shell out the foreign debt.²⁸

However, *esham* previously did well in gathering one-third of the war indemnity obligations in less than a year. During 10 years since its initiation in 1785, *esham* accumulated revenue until 11,500,000 *gruş*. The amount was more than fifty percent of the whole revenue of the state. If *esham* might generate the amount in

²¹Murat Çizakça, *Islamic Capitalism and Finance: Origins, Evolution, and the Future*. (Cheltenham: Edward Elgar Publishing, 2011), 71.

²²Balla and Johnson, "Fiscal Crisis...", p. 840.

²³*Ibid.*, p. 826.

²⁴*Ibid.*, p. 809.

²⁵*Ibid.*, p. 838.

²⁶*Ibid.*, p. 839.

²⁷Murat Çizakça, *A Comparative Evolution of Business Partnerships: The Islamic World and Europe, with Specific Reference to the Ottoman Archives* (Leiden, New York, Koln: Brill, 1996), 192.

²⁸Andrew Wheatcroft, *The Ottomans: Dissolving Images* (London: Penguin, 1996), 188-193.

10 years, so *malikane* needs 90 years to reach the same amount.²⁹

In comparison to *malikane*, whereby the entire stream of revenue of a tax farm was auctioned off to the highest bidder for his lifetime, in *esham*, the tax farm was kept and managed by the state and the annual profit was divided into shares and each share was sold off. Once bought, the purchaser of a *sehm*, continuing to receive the same annual profit share for his lifetime. Therefore, it was probably the first ever securitization by an Islamic state of the actual annual profit of a tax source from customs revenue.³⁰

Understanding the common mechanism of *malikane* system is beneficial to understand the reasons behind the emersion of *esham* system which capable to accomplish the failures of *malikane* system as fiscal and internal debt policies. Like *iltizam*, *malikane*, was contracted out by an auction mostly held in Istanbul. However, unlike *iltizam*, the contract in *malikane* system was for life-term and bids were made for a total down payment, called *muaccele*.³¹ Thus, the *malikane* was mixture of two previous taxation methods, *timar*, and *iltizam*. Its life-time duration led to that contractors should have taken into consideration the future productivity of the tax

sources, like a *timar* holder and its method of payment, namely *muaccele*, a large lump sum payment, and *mal*, an annual rent, was similar to *iltizam*³². The system was introduced during a period of extreme financial hardship and severe budget deficits caused by the long and costly war with the Habsburgs and played a crucial role in restoring the State budget.³³

Furthermore, *iltizam* in fact were the wide utilize of tax farming to gather revenue from the private enterprise in the Ottoman version. Then entrepreneurs were envoyed the right to take taxes.³⁴ With a lot of uncertainty and there was risk transfer, *iltizam* carried a *gharar* component. Thus, the end result, the State did not get much revenue.³⁵

Malikane can be considered as a system of risk sharing. The entrepreneur took a great risk and made a very large lump-sum payment up front. Now the risks were shared fairly if: (1) The entrepreneur lived a long life, he would make substantial profits, and the state would lose; (2) He lived a short life, the state could take back the tax-farm at his death and re-sell it again at a new auction making substantial profits. With such risk sharing, the *gharar* was eliminated as well. As a result of all this, the

²⁹Çizakça, "Risk Sharing...", p. 193.

³⁰Çizakça, *Islamic Capitalism*, p. 71.

³¹Kadir Sarp Sök, *An Analysis Study On The Implementations of Gedik, Esham And Muzara'a*, A Master's Thesis Department of History İhsan Doğramacı Bilkent University, Ankara (2019), 31.

³²*Ibid.*, p. 32.

³³Murat Çizakça, "Ottoman Cash Awqaf Revisited: The Case of the Bursa 1555–1823", *Foundation for Science Technology and Civilization*, Publication ID: 4062 (June, 2004), 8.

³⁴Çizakça, "Risk Sharing...", p. 192.

³⁵*Ibid.*, p. 193.

government was able to increase its revenues by 1,400%.³⁶

MODUS OPERANDI OF *ESHAM*

Hereinafter, *esham* organizes the incredible settlement for generating a fixed earning as well as the opportunity to liquidity in the investment sans friction with the interest forbidding.³⁷ *Esham* should be respected as equity, not as debt. This is a very beneficial situation in regard to the gearing ratios of Basel III. Put differently, the issuer of *esham* would be capable to sustain the capital base without worsen the debt/equity ratio.³⁸

Hence, it can be resumed that *esham* were based on the assets put aside by the issuer that are still owned and managed by the issuer. The issuer allocates just a some fraction of the yearly earning for *esham*.³⁹ The simpleness of *esham* in contrast to traditional sukuk structures that will reduce the cost to a municipal issuer who would otherwise find a sukuk offering not cost competitive due to small issuance sizes across which the added structuring costs can spread. In *esham*, the lack of ownership transfer (beneficial or full legal

ownership) of an asset contributes to reducing the amount of additional documentation than sukuk.⁴⁰

Certainly, sukuk is a greatly fruitful model of financial engineering using historical instruments. Sukuk portrays the modernity of two historical instruments, namely cash waqf and *esham*.⁴¹ Therefore, there is a slice between sukuk and *esham* because *esham* is one of the ingredients of sukuk.⁴² The sale-lease back-repurchase technique which frequently utilized in most sukuk *al-ijara* from the beginning was employed in the Ottoman cash *waqf*. The special purpose vehicle (SPV), the pivotal side of each sukuk, in fact merely a simple cash *waqf*. Regarding securitization, that is the concept of separating a revenue flow into the same parts to be offered for sale to the public, actually *esham*.⁴³ Thus, *esham* actually the origin of sukuk⁴⁴ and constituted the very first Islamic securitization.⁴⁵

How to ensure that *esham* complies with sharia principles? **First**, the conditions of financial transaction might be considered as

³⁶*Ibid.*, p. 193.

³⁷Musari, *Esham for*, p. 4.

³⁸Murat Çizakça. *Can There be Innovation in Islamic Finance? Case Study: Esham*, a paper was presented at the 11th IFSB Summit, Knowledge Sharing Partner Session: "New Markets and Frontiers for Islamic Finance: Innovation and the Regulatory Perimeter" in Mauritius (May 20, 2014a), 5.

³⁹Musari, *Esham for*, p. 5.

⁴⁰Daniel Hummel and Blake Goud, "An Esham-Ijara Structure in the United States?", in *Journal of Islamic Accounting and Business Research*, Vol. 8, No. 4 (2017), 460.

⁴¹Murat Çizakça, *Finance and Development in Islam: A Historical Perspective and a Brief Look Forward*, in Zamir Iqbal and Abbas Mirakhor (Eds.), *Economic Development and Islamic Finance* (Washington: World Bank, 2011), 145.

⁴²Musari, *Esham for*, p. 4.

⁴³Çizakça, *Finance*, p. 145.

⁴⁴Çizakça, *Domestic*, p. 14.

⁴⁵*Ibid.*, p. 15.

riba, if take place: (1) Excess or surplus over and above the loan capital to be returned to the lender; (2) Determination of this surplus in relation to time with a definite date of redemption; (3) Stipulation of this surplus in the loan agreement. With regard to the life time *esham*, the uncertainty of the lifespan of the investor eliminates the certainty of the surplus and violates, at once, all three conditions. With regard to the perpetual *esham*, the lack of a definitive date of redemption and the fact that redemption is at the discretion of the borrower, not the lender, violates the first and the second conditions. Thus, it is concluded that *esham* is not usurious.⁴⁶ **Second**, while *esham* shares are sold by an investor in secondary markets, the price will be determined by supply and demand as well as the past payment performance of the annuities. This will render *esham* a true profit or loss sharing instrument. Moreover, with the redemption being at the discretion of the borrower/issuer, risks are not shifted by the lender upon the borrower. Instead, a compromise is reached by which while the issuer/borrower redeems his debt at his discretion, the investor obtains the right to a fixed and regular income for as long as the issuer/borrower does not redeem. Meanwhile, the investor can sell *esham* at the stock exchange at market prices. Thus we conclude, *esham* is not a risk shifting

instrument. Thus, *esham* is not a risk shifting instrument.⁴⁷ **Third**, *esham* influences one of the components of *maqasid al shari'a* positively without influencing any of the others negatively so that *esham* bring one step nearer to the Al-Ghazali/Al-Shatibi Optimum.⁴⁸

Regarding the integration of cash *waqf* and *sukuk*, which has recently become an innovation in Islamic financial engineering, it turns out that there are things which contradictory when viewed from a historical point of view,

".....cash *waqf* and *sukuk* combination is not something I agree upon. This is for two reasons: (1) Every *sukuk* must have a redemption date which means that funds collected by *sukuk* to establish a cash *waqf* must be relinquished and paid back to investors at a particular predetermined date, which makes *waqf* a temporary one; (2) Consider temporary *waqf* an aberration, even a corruption of this glorious institution."⁴⁹

In short, a *waqf* should not be established with borrowed money. If it is desired to establish this *waqf* with global funds, in itself an excellent idea, the need arises to do this with an instrument that does not have to be paid back. As it is well known, such an instrument exists and it is called *esham*.⁵⁰ Any attempt to combine *waqf*, a genuine Islamic institution that has superbly served Islamic World for centuries, with

⁴⁶Çizakça. *Can There*, p. 5-6.

⁴⁷*Ibid.*, p. 6.

⁴⁸*Ibid.*, p. 7.

⁴⁹Personal explanation by Murat Çizakça, September 10, 2020.

⁵⁰Çizakça, *Merging*, p. 103.

sukuk, is tantamount to corrupting it. Such a combination should not be permitted. If the ultimate aim is to mobilize global funds to finance *waqf*, in itself an excellent idea, then the correct instrument of choice should be *esham*.⁵¹

For this reason, the scheme which combining *waqf* and sukuk instruments needs to be corrected,

*".....people are always in a hurry and prefer the easiest route for them. Consequently, they also make huge mistakes. Combining waqf and sukuk is an excellent example for such a mistake. If they go ahead with this project, they will kill the waqf with their own hands! So, it is incumbent upon us to warn them to the best of our abilities and then leave the rest to Allah, who knows best."*⁵²

Lastly, regarding the modus operandi of *esham* in the Ottoman Empire generally can be explained as follows,

"In this system, the state set aside an asset, which yielded a regular annual revenue. It then allocated a certain fraction of this revenue for esham. This revenue fraction was then securitized into equal shares and offered for sale to the public. Each share authorized its purchaser, the investor, to receive his share of the allocated annual revenue pro rata. This was a fixed amount. The investor received his annuity for as long as he lived. Each share was sold at a certain multiple of the annuity it was to yield to the investor. Usually, the price of a share was determined as 5 to 12

*times the annuity it yielded. Once bought, each sehm was negotiable and could be sold in secondary markets."*⁵³

Regarding the modus operandi of *esham* for today, an interdisciplinary team which involves two economic/financial historians, several scholars of *fiqh mu'amalah*, and a professor of finance at INCEIF University have modernized it based on the historical precedence.⁵⁴

ESHAM IN FACING THE CRISIS

In the financial crisis, *esham* might intensify the fiscal capacity. If the conventional instrument keeps the budget deficit by bearing money creation which enlarges the base money in the economy, *esham* performs by managing funds unaccompanied by the money creation. This is exactly the heart of the Islamic economics role that sustains the stability of the economy by avoiding money creation but heading money velocity. The money creation will bring the matter of escalating the price of goods/services and by turns will impose the state budget.⁵⁵

By using the Concept of Investment-Saving (IS) and Liquidity-Money (LM), *esham* may influence the sustainable economic development. *Esham* can work hand in hand for monetary-fiscal activities. In the long term, because *esham* funds are channeled to activities in the real sector to finance productive or social projects, they will

⁵¹*Ibid.*, p. 110.

⁵²Personal explanation by Murat Çizakça, Januari 28, 2021.

⁵³Çizakça, "Risk Sharing...", p. 193.

⁵⁴Çizakça, *Can There*, p. 2.

⁵⁵Musari, *Esham for*, p. 7.

contribute to decrease the inflation and prevent the crisis of economy⁵⁶ as shown Figure 1.

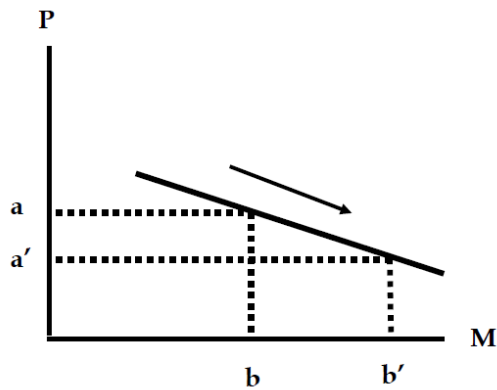


Figure 1. Implication of *Esham* in Preventing the Crisis

Similarly, *esham* also serve a good device to call up a public fund because incorporate the risk-sharing, investment cooperation, and engagement of assets or project as the underlying of issuance. This is a better choice than looking for a foreign debt.⁵⁷

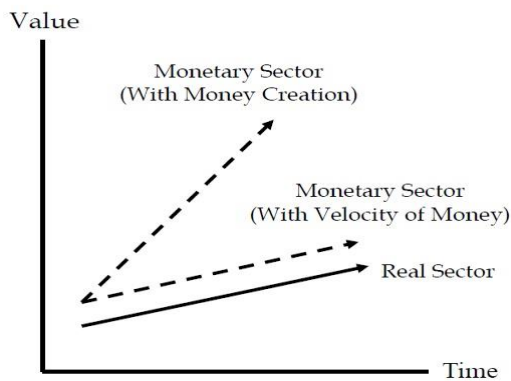


Figure 2. Implication of *Esham* in Real Sector and Monetary Sector

In order to comply with the Islamic economics principle, as a part of Islamic financial instruments,

⁵⁶ *Ibid.*, p. 7.

⁵⁷ *Ibid.*, p. 6.

esham have a character as the instrument of wealth distribution and equalization by managing the excess and lack of liquidity⁵⁸ so as the monetary sector will be in line with the real sector by putting forward the velocity of money and leave the money creation as shown in Figure 2.

Lastly, how can *esham* affect the economy during a crisis? When a crisis occurs, the presence of *esham* becomes the fiscal policy in which the funds are used by the government to intervene in the economy.

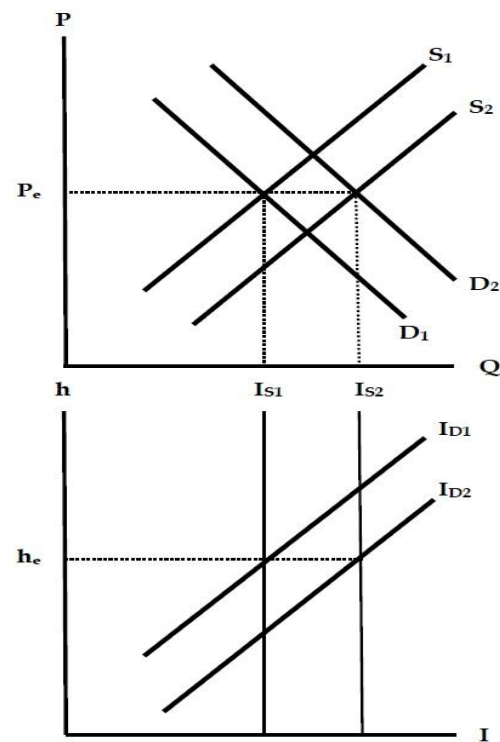


Figure 3. Mechanism *Esham* Affect the Market

Theoretically, the allocation of *esham* funds to the real sector will

⁵⁸ *Ibid.*, p. 6.

help the government drive the economy as well as control prices in the market for goods and services. When the demand for goods and services increases ($D_1 \rightarrow D_2$), the price will increase in the short run. In turn, this will drive the business sectors ($I_{S1} \rightarrow I_{S2}$). When the business sectors experience recovery as reflected by an increase in total revenue, this will encourage an increase in the supply of goods and services ($S_1 \rightarrow S_2$). Also, it will boost the profit expectations (h) of investors for investing in *esham* ($I_{D1} \rightarrow I_{D2}$). Overall, the mechanisms of *esham* affect the economy during the crisis shown by Figure 3.

Further, the *esham* scheme for fiscal sustainability may adopt the modernized *esham* model by interdisciplinary team of scholars at INCEIF University.⁵⁹ If the issuer is a government, certain taxes can be allocated by law to the payment of annuities, or one branch of a government may provide guarantee for the other. The former, of course, would be a far more persuasive alternative. If it is a private corporation, a reliable and trustworthy third party may need to be found. Third party guarantee pertains to the fixed annuities only.⁶⁰

Therefore, to deal with a crisis triggered by a pandemic, *esham* as a financial instrument in overcoming the crisis caused by the defeat of war and debt in the history of Islamic

civilization have the potential to be developed. As the origin of sukuk in the past, *esham* can be an alternative of sukuk for today. *Esham* have simpler structures than sukuk which can be used at a lower cost.

CONCLUDING REMARKS

Esham actually is not a new instrument in Islamic finance. In the past, *esham* had been used by the Ottoman Empire to mobilize a massive amount of money from the public rapidly in a relatively short time. *Esham* proved effective for the government to raise the low-cost fund. Besides a simpler instrument than sukuk, the modernized *esham* may generate a fixed income for the investor and can be liquidity for the government with complying the sharia. *Esham* has a distinctive redemption structure and ideal for raising capital without deteriorating the gearing ratios because *esham* would be considered not as debt but as equity. *Esham* has no obligation to return the principal fund. At this level, *esham* has the opportunity to prevent crisis and managing the excess and lack of liquidity by putting forward the velocity of money so as the monetary sector will be in line with the real sector. During crisis, the government may intervene in the economy through *esham*. *Esham* funds to the real sector in turn will help the government drive the economy as well as control prices in the market for goods and services. *Wallahua'lam bish showab*.

⁵⁹Murat Çizakça. "Proposal for Innovation in the Capital Markets: *Esham*", in *Global Islamic Finance Report* (2013b), 91.

⁶⁰*Ibid.*, p. 92.

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