

[HOME](#) / [ARCHIVES](#) / [VOL 1 NO 2 \(2018\): JOURNAL OF ISLAMIC MANAGEMENT STUDIES](#) / [Articles](#)

# Islamic Home Financing Practices In Selected Oic Countries: An Assessment In The Light Of Maqasid Al-Shariah

**Dzuljastri Abdul Razak**

Faculty of Economics and Management Science IIUM, Gombak 53100, Selangor

**Fahim Tazwar**

Faculty of Economics and Management Science IIUM, Gombak 53100, Selangor

## **ABSTRACT**

Home is one of the basic needs and an inborn dream for everyone. Home financing practiced by banks is a critical issue in meeting the objectives Maqasid Al-Shariah. The purpose of this study is to compare Islamic home financing practices adopted by banks in selected OIC countries namely Malaysia, Indonesia, Bangladesh and Syria and investigate the extent to which it has fulfilled these objectives and whether they are affordable. The methodology is by means of content analysis based on the literature review and library research. Although both conventional and Islamic housing schemes can provide assistance to people in acquiring their dream home, they are also subjected to high financing rates beyond the means of individuals. These practices bind the customers financially for long duration posing a burden that extends to the next generation. The result would assist Islamic banks towards improving the product features in terms of justice and fairness. It will also assist the governments and regulators to address the issue of affordability and high prices of houses especially in fulfilling the needs of the low-income household.

---

**ISLAMIC HOME FINANCING PRACTICES IN SELECTED OIC COUNTRIES: AN ASSESSMENT IN THE LIGHT OF MAQASID AL-SHARIAH****Dzuljastri Abdul Razak, Fahim Tazwar**Faculty of Economics and Management Science  
IIUM, Gombak 53100, Selangor  
E-mail: [dzuljastri@iium.edu.my](mailto:dzuljastri@iium.edu.my)**ABSTRACT**

Home is one of the basic needs and an inborn dream for everyone. Home financing practiced by banks is a critical issue in meeting the objectives *Maqasid Al-Shariah*. The purpose of this study is to compare Islamic home financing practices adopted by banks in selected OIC countries namely Malaysia, Indonesia, Bangladesh and Syria and investigate the extent to which it has fulfilled these objectives and whether they are affordable. The methodology is by means of content analysis based on the literature review and library research. Although both conventional and Islamic housing schemes can provide assistance to people in acquiring their dream home, they are also subjected to high financing rates beyond the means of individuals. These practices bind the customers financially for long duration posing a burden that extends to the next generation. The result would assist Islamic banks towards improving the product features in terms of justice and fairness. It will also assist the governments and regulators to address the issue of affordability and high prices of houses especially in fulfilling the needs of the low-income household.

**Keywords:** affordable house, pricing, Islamic banks, selected OIC countries, Maqasid Al-Shariah



PDF

PUBLISHED

2018-08-03

HOW TO CITE

ABDUL RAZAK, Dzuljastri; TAZWAR, Fahim. Islamic Home Financing Practices In Selected Oic Countries: An Assessment In The Light Of Maqasid Al-Shariah. **Journal of Islamic Management Studies**, [S.l.], v. 1, n. 2, p. 1-11, aug. 2018. **ISSN 2600-7126**. Available at: <http://publications.waim.my/index.php/jims/article/view/81>. Date accessed: 15 aug. 2018.

**ISLAMIC HOME FINANCING PRACTICES IN SELECTED OIC COUNTRIES: AN ASSESSMENT IN THE LIGHT OF MAQASID AL-SHARIAH**

**Dzuljastri Abdul Razak, Fahim Tazwar**

Faculty of Economics and Management Science  
IIUM, Gombak 53100, Selangor  
E-mail: [dzuljastri@iium.edu.my](mailto:dzuljastri@iium.edu.my)

**ABSTRACT**

Home is one of the basic needs and an inborn dream for everyone. Home financing practiced by banks is a critical issue in meeting the objectives *Maqasid Al-Shariah*. The purpose of this study is to compare Islamic home financing practices adopted by banks in selected OIC countries namely Malaysia, Indonesia, Bangladesh and Syria and investigate the extent to which it has fulfilled these objectives and whether they are affordable. The methodology is by means of content analysis based on the literature review and library research. Although both conventional and Islamic housing schemes can provide assistance to people in acquiring their dream home, they are also subjected to high financing rates beyond the means of individuals. These practices bind the customers financially for long duration posing a burden that extends to the next generation. The result would assist Islamic banks towards improving the product features in terms of justice and fairness. It will also assist the governments and regulators to address the issue of affordability and high prices of houses especially in fulfilling the needs of the low-income household.

Keywords: affordable house, pricing, Islamic banks, selected OIC countries, Maqasid Al-Shariah

## INTRODUCTION

Home is shelter which is one of the basic needs for a human being. Homeownership is an inborn dream for every individual it is needed for the family (Abdul Razak, 2011). It is considered as a social status that determines the quality of life, the standard of people and decency of places. However, due to the ever-increasing demand-supply gap in affordable housing, acquiring a house has now become a problematic proposition especially for the low and middle-income households in Malaysia, Indonesia, Bangladesh, and Syria. Moreover, the growing disparity between the affordability and high prices of properties is another cause for concern. According to the World Bank Affordability Index (2012), the Malaysian households in all States (except Terengganu and Kelantan) are not able to own an adequate house as prices have exceeded three times to the annual household's income (EPU, 2015).

In public housing schemes, the low and middle-income households' applicants can occupy their subsidized houses only after they have secured home financing up to 100 percent from banks with a predetermined payback period. This has led to several issues for these income groups who cannot afford to pay the monthly installment sum due to increase in the price of properties. This has also created accessibility issues as banks may not approve their home financing application due to insufficient income.

In March 2017, Bank Negara Malaysia (BNM) ([bnm.gov.my](http://bnm.gov.my)) reported that affordable housing will face shortage to exceed one million by 2020. Sabah and Sarawak accounting for 50% of the total shortage. It is stated that by the end of 2016, about 56 percent of loan outstanding were houses priced below RM 250,000 while 25 percent loans for property between RM 250,000 to RM 500,000. However, according to BNM, it is not about the general perception of lack of access to financing but more due to the demand and supply issue.

This paper is organized in the following way. The following section will state the problem statement followed by the literature review in the third section. The fourth section is on the discussion, ending with a conclusion.

### ***Problem Statement***

This purpose of this paper is to examine the issues faced by Malaysia, Indonesia, Bangladesh and Syria in meeting the need for financing of affordable housing using various Islamic financing concepts to avoid *riba* currently being practiced under conventional financing. Banks provide financing to customers based on fixed profit rate which is pegged on the interest rate. The customers will pay fixed monthly installment sum until the amount is fully settled at the end of the duration. This form of debt financing will aggravate the low and middle-income households' groups who cannot afford to pay their monthly installment sum due to an increase in the price of properties. Hence there is need to investigate the theory of Islamic home financing with the current practices in the selected countries to find which one is more able to fulfill the objectives of *Maqasid Al-Shariah*.

## LITERATURE REVIEW

### ***Background of Islamic Finance***

Islamic finance has its strength largely from the underlying principles and values, which emphasize on justice, fairness and transparency. In so doing it prohibits *riba*, *gharar* and *maysir*, and abhors excessive speculation and profiteering (Shahwan, 2013). It enhances economic functions through a set of disciplines and objectives. According to Haron and Nursufiza (2008), the Islamic financial services industry has witnessed unprecedented expansion over the last decade. From a humble beginning in the 1970s, the industry has grown in both size and significance in more than 75 countries.

Today, the industry has gained considerable recognition as a viable and efficient alternative model of financial intermediation due the growing awareness and demand for investment and financing in accordance with Shariah principles. Mohamad and Trakic (2012) had reported that the birth of Islamic finance in its modern form is associated with the need of pious Muslims who want to avoid committing sins in their financial transactions. He also stated that over the last few decades, the industry has grown tremendously. The industry has over 600 financial institutions in 75 countries worth approximately USD1 trillion worldwide with annual growth rate of between 15-20 percent (Abdul Razak, 2011)

The Muslim community has gradually been pulled towards the presumed glow of Islamic banking and finance. The thought of having a Shariah-compliant banking product at hand is a big attraction for Muslims around the world. Today, the support has been extended to the non-Muslim community as more have realized the many benefits of Islamic banking products when compared to conventional financing products experienced from the financial crisis in 2017. Realizing this demand, many countries throughout the world have moved to address these needs by providing Islamic banking products either by the establishment of Islamic banking windows such as Pakistan and Indonesia; Islamic banking subsidiaries such as in Malaysia or full fledged Islamic banking system such as in Iran and Sudan.

### ***Definition of Maqasid Al Shariah***

*Maqasid* is an Arabic term (singular form is *maqsad*) means the goals or objectives and when it refers to *Shariah (Maqasid Al-Shariah)*, it particularly means the goals and purposes of *Shariah* (El-Minsawi, 2006). There are some other Arabic terms that are found in the related literature of *Usul Al-Fiqh* that express comparable meaning as *maqasid*. These terms are *hikmah* (wisdom), *'illah* (effective cause) and *maslahah* (interest or benefits).

Some Muslim scholars described life as the preface of religion (Islam), so health is necessary for religion's practices in this world because the hereafter life depends upon this life. According to Abduh (1375), Islam gives much importance to functional pre-requisites because there is no concept of life without these basic needs. Allah Almighty provides every need to humanity. As we read in the Holy Quran (Ali, A. Y. 1993) Praise is to Allah, the Cherisher and Sustainer of the worlds. Islamic *Shariah* gives much significance to the practical prerequisites because this is one of the main objectives of the Islamic Shariah.

### ***Objective of Maqasid Al Shariah***

*Maqasid Al Shariah* is essential subject incomprehension of the entire picture of Islamic law. Without it, individuals would not have the capacity to see the excellence of Islam as it has been depicted in the Quran. *Maqasid Al-Shariah* demonstrates that each and every law as regulations in Islam is applied to the advantage of the entire universe. *Shariah* stresses on the importance of justice and fairness and welfare of the general population today and hereafter. Hence, for this reason, it has embraced various means and measures that give advantage or prosperity and well-being of humankind.

The earlier scholars of *Usul Al-Fiqh*, they did not give much attention to this important branch of knowledge (*Maqasid Al Shariah*). They did not even give a special chapter of *Maqasid* in their writings until the great imam Al-Shatibi [1388] emphasized on *Maqasid* it as specific chapters in his writings. Imam Al-Tirmidhi Al-Hakim was the first scholar who utilized the *Maqasid Al-Shariah* in his Fiqh writings, the same work is also reflected in the effort of the great Imam Al-Juwayni. This imam also is known as the first jurist who makes the well-accepted classification of objectives of Shariah which is (*daruriyat, hajiyat and tahsiniyat*). Imam Al-Ghazali who was the student of Al-Juwayni in his book of *Shifa Al-Ghaliladd* adds on the knowledge of the newly born writings of *Maqasid* as an important concept of public interest (*maslahah*) and *ta'lim*.

The great imam Al-Ghazali (1937) introduced the preservation of the five elements in his book that “The objective of *Shariah* is to promote the well-being of all mankind, which lays in the preservation and protection of their religion (*deen*) and has preference over the preservation and protection of the human life (*nafs*). The human life has higher priority than lineage (*nafs*), lineage is prior to intellect (*aql*), and intellect is preferred over-progeny (*nasl*) and lastly, progeny over-property (*mal*). Therefore, whatever ensures the safeguard of these five serves the public interest and is desirable, and whatever hurts them is against public interest and its removal is desirable. (Faizan Kabani, 2015).

## METHODOLOGY

The research methodology used for this paper is done by means of content analysis based on literature review and library research

### *Issues on Islamic Home Financing*

The practices of Bai Bithaman Ajil (BBA) home financing for the past 35 years have been criticized as similar to conventional financing as it based on fixed profit rate and pricing is benchmark to interest rate. In so doing it causes hardship and injustice to customers (Meera & Abdul Razak, 2005). The cost of settlement to the bank can be higher than conventional financing as seen during the 1997 Asian financial crisis (ibid). One of the major differences between BBA and Musharakah Mutanaqisah (MM) home financing is the capitalization of bank’s profit upfront in the selling price to the customer. In the case of MM, profit is shared between the bank and customer based on their share of ownership (Usmani, 2007). There are also issues on BBA pertaining to *Shariah* compliance as the bank does not take ownership of the house before selling it to the customer. This violates the legal maxim which requires an equivalent counter value (*iwad*) for a legitimate sale (Rosly, 2005; Sanusi, 2006). According to Mohammed (2005) and Dusuki (2008), the current practice is similar to *Bai Inah* (sale and buyback) which is a contentious sale as the banks do not take risk and liability in owning the property. Hence this practice is also not acceptable by international scholars (Meera and Abdul Razak, 2005). In addressing this issue, Islamic banks have gradually shifted to using the concept of *Tawarruq*.

*Tawarruq* is technically the purchasing of a commodity on credit by the *mutawarrig* (seeker of cash) and selling it to a person other than the initial seller (3rd party) for a lower price on cash (Dusuki, 2008). Actually, *tawarruq* is a sale contract, whereby a buyer buys an asset from a seller on deferred payment and subsequently sells the assets to the third party for cash, with a price lesser than the deferred price. This transaction is called *tawarruq*, mainly because when the buyer purchases the asset on deferred terms, it is not the buyer’s intention to utilize the benefit from the purchased asset, rather to facilitate him to attain liquidity (*waraqhmaliah*). *Tawarruq* is the most popular product in Islamic banking and finance sector especially in GCC countries which is disputed among the Muslims’ scholars. The idea of *tawarruq* came from the classical view of jurists that want to assist the development of Islamic economics, banking and finance and replacing the old concept which is clearly prohibited in Islam.

The MM concept was introduced to overcome the criticism on BBA. The model is based on the highly successful Islamic Cooperative Housing Corporation (IHC) in Toronto, Canada established in 1981 out of necessity to avoid the Muslim community from engaging in *riba* (usury) and *gharar* (uncertainty). This mode of home financing has been practiced by international Islamic financial institutions and cooperatives in United States, United Kingdom, Canada, Middle East, Australia, and Pakistan.

*Musharakah* is a partnership that exists between a person (customer) and another (capital provider). The basis of *Musharakah* in Quran and *Sunnah* are clearly mentioned. For

example, the term partnership appears in Quran in relations to the share of inheritance "But if more than two they share in a third; after payment of legacies and debts; so that no loss is caused to anyone" (Quran, *An Nisaa'* 4:12). The word partnership is also mentioned in (Quran, *Al Sad* 38:24) whereby Allah mentions 'truly many are partners in business who wrong each other: not so do those who believe and work deeds of righteousness and how few are they?'

Scholars agreed that the *Musharakah Mutanaqisah* concept is best implemented for the purchase of houses or machinery financing whereby both assets can be leased out according to an agreed rental amount (Bendjilali & Khan, 1995). Joint ownership of a house or machinery is accepted by all schools of Islamic jurisprudence since the financier sells its shares to the customer. Nonetheless, the concept is not confined to home ownership only. It can also be applied to other forms of acquiring assets such as buying a car or a taxi for earning income by using it as a hired vehicle (ibid).

The application of MM is also *Shariah* compliant and accepted by international jurist from all the four *mazahabs*<sup>1</sup> unlike the BBA whereby there are criticisms from international scholars due to the practice of *Bai Inah* (sale and buyback) where the bank does not take risk and liability of owning the property. According to Usmani, 2007, there are four stages of the contract in MM. First, the customer enters into a partnership (*musharakah*) under the concept of '*Shirkat-al-Milik*' (joint ownership) agreement with the bank. Customer pays, for example, 10% as the initial share to co-own the house whilst the bank provides for the balance of 90%. Secondly, the customer promises to purchase the entire bank share under the concept of *Waad*. Thirdly, the bank leases the remaining (90%) of its share of ownership of the house to the customer under the concept of *ijarah*, i.e. by charging rent; and the customer agrees to pay the rental amount to the bank for using its share of the property. The periodic rental amounts will be jointly shared between the customer and the bank according to the percentage shareholding at the particular time. Finally, the customer gradually redeems the bank's share until the house is fully owned by the customer.

The MM concept is *Shariah* compliant as bank and customers are joint owners of the property and in doing so, take risk and responsibility of the property fulfilling the legal maxim of equivalent counter value (*iwad*) in the transaction. Profit is also equally distributed between the customer and bank. Hence by doing so, this concept also caters to societal well-being and equal distribution of income (NikYusoff, 2002, p.27). It is unanimously agreed that the goals of socio-economic justice and equal distribution of income are the integral parts of the moral philosophy of Islam and commitment to brotherhood Chapra (1985). Moreover, the overall concept of MM does not cause hardship and burden to customers in line with the purpose of the *Shariah* (*Maqasid Al Shariah*) (Al Ghazali, 1937).

---

<sup>1</sup>. The four school of thoughts i.e. *Hanafi, Maliki, Shafie and Hambali*.

Based on the above illustration, the conceptual framework of the *Musharakah Mutanaqisah* home financing can be illustrated by Figure 1 below:

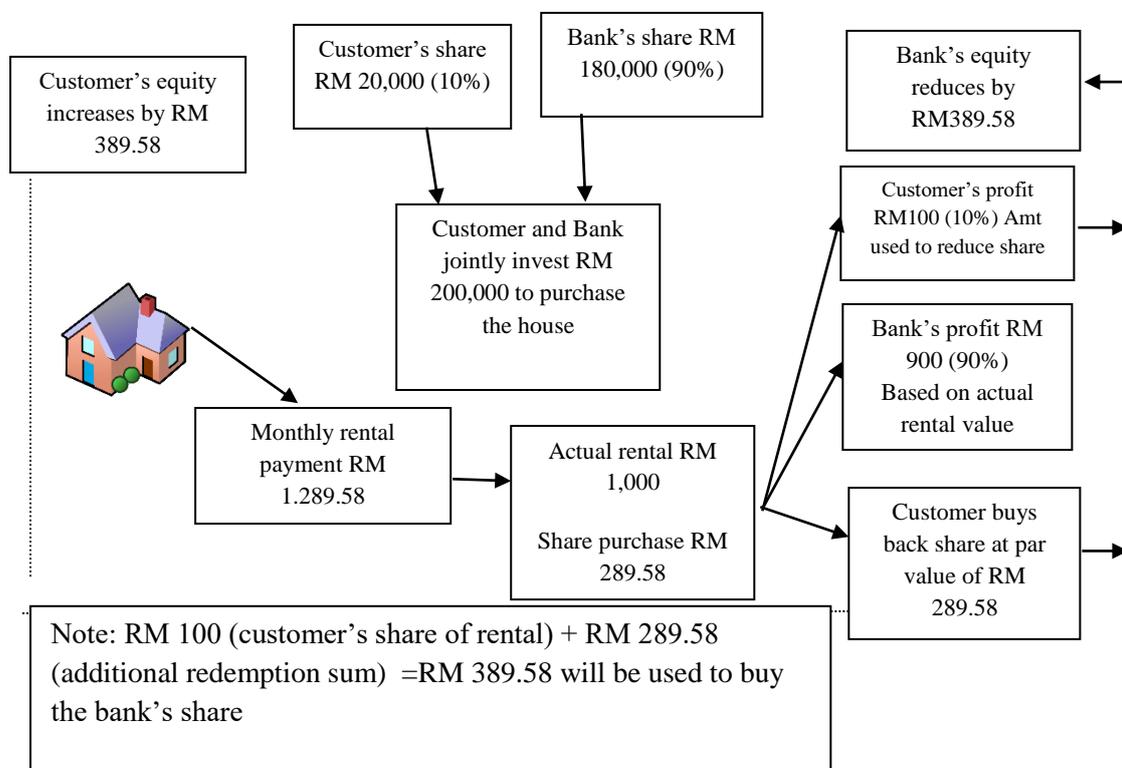


Figure 1: Conceptual framework of the *Musharakah Mutanaqisah* home financing  
Source: Meera& Abdul Razak (2015)

### Practices of Home Financing in selected OIC countries

The four selected OIC countries are Malaysia, Indonesia, Bangladesh, and Syria. They were chosen based on their location, population sizes and potentials for future growth in Islamic Finance.

#### *Islamic Home financing in Malaysia*

Islamic Banking in Malaysia has developed rapidly since the establishment of Bank Islam Malaysia in 1983 (Shahwan, 2013). In Malaysia, the initial concept use is known as *Bai Bithaman Ajil* (BBA) whereby the customer sell the house to the bank and the bank resells at higher amount inclusive of its profit. The pricing is benchmarked using market interest rate similar to the conventional loan. The rate of return is fixed based on the period of the contract and determined by the bank. This concept has received criticism because of the issue of *Bai Inah* whereby the bank does not take ownership risk of the property before selling it to the customer which is required by the Shariah (Abdul Razak, 2011). As a result, BBA and *Bai Inah* have gradually been replaced by other concepts such as *Tawarruq* and *Musharakah Mutanaqisah* (MM).

*Tawarruq* is one of the recent home financing products offered by the Islamic banks. It is provided as an alternative to BBA or *Bai Inah*. Under this financing arrangement, there is a buying of a commodity (e, g palm oil) by the bank from a commodity broker A. The bank then sells the commodity to the customer on deferred payment basis inclusive of its profit.

The bank as an agent of the customer then sells the commodity to commodity broker B. Although the *Tawarruq* concept may have addressed the issue of ownership, it is still based on debt financing and the benchmark used for pricing is still pegged to market interest rate similar to conventional financing.

Another concept that is used for home financing in Malaysia is known as *Musharakah Mutanaqisah* or Diminishing Partnership. Under this concept, the bank and customer jointly own to purchase the house. The bank rents its portion of share to the customer under the concept of leasing (*Ijarah*) based on the rental price. The customers gradually pays rental for the house together with additional share from the bank until it is fully settled.

Noreeta (2008) compared the operational structures of BBA and *Musharakah Mutanaqisah* contracts, their recognition in the Shariah and issues faced in its operations; such as, risks involved in the contracts and flexibility to use the contract. She concluded that *Musharakah Mutanaqisah* is a better alternative than BBA as its operations are more just and fair to the customers. Meera and Abdul Razak (2005) also agreed that *Musharakah Mutanaqisah* is a better alternative than BBA as it adopts a profit-sharing concept whereby the bank and customers jointly own the property and share its risk. This is also in line meeting the objectives of Maqasid Al Shariah (Meera and Abdul Razak, 2005)

However, Lung (2013) stated that Islamic banks in Malaysia provide financing through *Musharakah Mutanaqisah* using base financing rate which is the same as base lending rate from conventional financing system instead of rental rate. This is allowed by the *Shariah* scholars at this moment until an alternative is found. Hence, there is a need to further research on the use of actual rental benchmark to replace interest rate in future.

The latest data collected as in January 2017 from Bank Negara Malaysia (BNM) for financing by concept used by Islamic banking system indicated that *Tawarruq* recorded the most i.e. 58% of total financing. This is followed by the BBA concept 24% and *Musharakah* with only 15%.

### ***Islamic Home financing in Indonesia***

According to Ramadhiani A. (2017), the low-income earners in Indonesia find it difficult to purchase houses. The total numbers of units were 11.4 million houses of which 1.3 million units were in Jakarta. The government has worked hard to provide appropriate housing for low-income residents and many efforts were made but without any significant results. In terms of per-unit costs, Indonesia is still classified under the cheap category compared to other countries. In Indonesia, the cheapest price for a house is approximately US \$ 8,370. It is still much cheaper than the cheapest house prices in the Philippines. In the Philippines, the price of a cheap house is approximately US \$24,794; whereas, in countries that are experiencing economic crisis, the price of a unit of house is much higher; for instance, in Pakistan the lower end house price is approximately US \$3,335 whereas in Jordan it is US \$111,386. According to a survey by global property website, Indonesia is one of the developing countries that had the lowest home prices in Asia

Based on the information mentioned above, the issue is now why many Indonesians are still not able to buy a house as the price of a housing unit is much cheaper than any other countries. Besides the complexity of the issue, licenses to build or buy a house is one of the toughest challenges faced by the low-income community in Indonesia. Heykal, M (2014), reported that in recent years, there is a program from banks known as KPR (home ownership credit) that helps the low-income households to buy a house. This house is taken by the bank as collateral. There are two types of KPR already used among citizen. The first one is offered by conventional banks and the other by Islamic banks. The latter follow Shariah principles and covenants agreed between the banks and customers to provide financing. Below are some examples of the types of contract used in Islamic banks:

(i) KPR Purchase Contract (*Murabahah*). This is the most commonly used by Islamic banks because it is easily understood by customers. It is a form of debt financing that uses concept of sale and purchase similar to BBA whereby bank makes profit based on the mark up of the purchase price. The markup amount depends on the duration of installment payment agreed between the customer and bank until it is fully settled. Because the markup amount has been established at the beginning, the number of installments paid is the same from the start until the financing is fully settled.

(ii) KPR Leasing Contract (*Ijarah Muntahiah Bittamlik/IMBT*). KPR IMBT uses the concept of renting that eventually has the option to own the property. These types of KPR are less common in Islamic banks. The principle is to lease-purchase, whereby the bank rent the house to the customer until it is fully paid. After the lease period expires there is an option for the customer to buy the house from the bank.

(iii) KPR Ownership Phased Contract (*Musharakah Mutanaqisah*). The concept is based on gradual home ownership Banks and customer jointly buy a house at the beginning. The customer will purchase the bank's share gradually until the whole amount is fully settled. The ownership is then transferred to the customers.

Based on the data collected from financial statements of Bank Muamalat Indonesia for the year ended 2016, there are three concepts of Islamic home financing being used namely, *Murabahah*, *Musharakah Mutanaqishah* and *Ijarah*. The highest margin of financing was *Murabahah* similar to debt financing i.e. 67% of total financing. This is followed by *Musharakah* which was 26.3% and the least was *Ijarah* at only 6.7% of the total financing.

### ***Islamic Home financing in Bangladesh***

Bangladesh faces a major housing problem with Gross National Income (GNI) per capita (\$3,790). The country has a very high population of 162 million; the standard of shelter is correspondingly low. Approximately, 77% of urban dwelling and over 98% of rural dwelling face difficulties in home ownership. This is mainly due to overcrowding and minimal or no infrastructural support services.

Over the last few decades, the housing finance facilities have not increased in Bangladesh compared to the increasing number of the population together with the necessary number of houses. The overall performance of housing finance institutions is good, but the policy of financing is quite critical. For the development of housing sector, there is no active care of proper service from the financial institutions. Customers are not aware of the housing finance facilities and the process of taking a loan from the institutions.

In order to address the above housing issues, financing sector plays a critical role by supporting strong housing markets, while strengthening the financial sector and contributing to overall economic growth. A strong housing finance system have impacts on the overall economic activity and social benefits, such as greater consumer savings, more social and labor mobility, and increased investment. It plays an important role in the saving-investment process to achieve higher economic growth of a country. Financial markets in Bangladesh consists of banks, non-bank financial institutions and the stock market, which include four State-Owned Commercial Banks (SCBs), four State-Owned Specialized Banks (SBs), 39 Private Commercial Banks (PCBs), 9 Foreign Banks (FCBs), 31 Non-Banking Financial Institutions (NBFIs) (Bangladesh Bank, 2014).

The state-owned Bangladesh House Building Finance Corporation (BHBFC) is the leading housing finance institution. Delta-BRAC Housing entered the market as private-NGO collaboration, but its financial performance is impressive. Financing by other organizations like, National Housing Finance and Investment Ltd and Microcredit lenders are minor. From the Fiscal Year 2004-05 to 2013-14 Specialized Housing Finance providers provides 437,400

million Taka. The State Commercial Banks (SCBs), Private Commercial Banks (PCBs) and Foreign Commercial Banks (FCBs) provide 486,900, 1,108,300 and 215,600 million Taka respectively. The total outstanding housing loans of Micro Credit providers were about 105,430 million Taka.

In terms of Islamic home financing, an analysis of the Bangladesh *Islami* Bank financial statements (2016) revealed that out of all the contracts granted by the bank, 58.5 percent were using *Murabaha* contracts, 6.8% BBA contracts, 23% Hire Purchase and the remaining 11.7% *Bai As Salam* and other contracts.

### ***Islamic Home financing in Syria***

Despite the spread of Islamic banks in Syria many years ago, it has not been able to attract the funds for Islamic home financing projects due to several reasons. The first reason is the ignorance of the public jurisprudence of Islamic financial transactions carried out by Islamic banks. The second reason is the lack of human capital that is eligible to work in Islamic banking, in addition, there are banking legislation that caters for conventional banking only and does not take into account the Islamic banking requirements. Based on the financial statements of Islamic banks in Syria, the most widely used concept is *Murabahah* because is similar to debt financing practice in conventional financing. Other contracts such as *Musharakah Mutanaqisah* contract requires greater understanding such as valuation of the rental value of the property which is relatively new. Based on the analysis, it was learned that 85.7 percent of contracts granted by the Islamic Banks in Syria are *Murabahah* contracts, whereas 10.21% under *Musharakah Mutanaqisah*, 0.07% *Ijarah* and 4.02% for other types of contracts (Osama Alchaar, 2015). The data obtained may not truly reflect the current banking position due to the ongoing war in the country.

## **DISCUSSIONS**

Based on this study we have examined the issues faced by Malaysia, Indonesia, Bangladesh and Syria for the financing of affordable housing using various concepts such as *Murabahah*, *Bai Bithaman Ajil (BBA)*, *Tawarruq*, *Ijarah* and *Musharakah Mutanaqisah*. In evaluating the issues, we have found out that there many factors affecting financing of affordable house such the political stability, economy, education, access to financing and the extent to which they fulfill the objectives of *Maqasid Al-Shariah*.

From this study, it can be seen that Malaysia and Indonesia have a more established Islamic home financing with the use of debt concepts such as BBA, *Tawarruq*, *Murabahah*, *Ijarah Muntahiah Bittamlik*. On the equity side, the use of *Musharakah Mutanaqisah* is being practiced by both countries. As for Bangladesh and Syria, there are other issues such as political stability economics, education and infrastructure problems that have affected the growth of their housing and banking sector. This has also affected the development of Islamic Finance in the country. However, these countries also have products based on *Murabahah* and *Musharakah Mutanaqisah*.

In Bangladesh, the home financing facilities are not competitive in term of products and services despite the government's initiative to help its citizens in purchasing affordable houses. The lack of education and awareness of customers have caused Bangladesh a major housing problem. Nonetheless, one of the Islamic financial banks known as Bangladesh Islami Bank provide various products of Islamic home financing such as *Murabahah* and BBA

In Syria, there is a need to upgrade public knowledge on the jurisprudence of Islamic financial transactions that are affecting the growth of Islamic finance in the country. This is also related to the second issue of increasing its human capital so that Islamic banking can grow with the expertise needed to manage its operations.

## CONCLUSIONS

This study indicated there are basically two types of Islamic home financing that are being practiced in Malaysia, Indonesia, Bangladesh and Syria which is based on debt or equity. The used of debt financing has been more than equity even for developing country like Malaysia and Indonesia. This would not provide much solution in addressing the issue of affordability as the customers will be subjected to the same condition imposed under conventional financing such as collateral, high interest rate and fixed repayment over long-term duration.

The equity concept of *Musharakah Mutanaqisah* offer a better alternative to the debt financing as it based on joint ownership of purchasing the house between the bank and customer. The bench mark is based on rental rate which reflect the actual value and location of the property. The customer pays monthly rent to purchase the banks share until the entire amount is fully settled. Furthermore, the customer can own the house earlier by purchasing more of the bank's share. In this regard, it can assist customers to own the house in a more affordable way and at same time meets the objectives of *Maqasid Al Shariah*.

## REFERENCES

- Al Quran Tafsir by Sayyid Abul Ala Maudud
- Abduh, Syaikh Muhammad, *Al-Islam Wal-Nasraniah: Ma-Al-Ilm Wal-Mudan*, Al-Moutmar Al-Islami, Egypt: 1375, P 12
- Abdul Razak, Dzuljastri (2011), *Diminishing Partnership As An Alternative Islamic Home Financing In Malaysia : Issues and Perceptions* . Unpublished PhD dissertation, Universiti Sains Malaysia.
- Al - Ghazali. (1937). *Al-Mustasfa*. Egypt: Dar Al-Nashr.
- Ali, A. Y. (1993). *Holy Quran translation*. Islamabad: Dawa Academy, International Islamic University.
- Bangladesh Bank, 2014. Retrieved from- <https://www.bb.org.bd/>
- Bank Negara Malaysia Monthly Statistical Bulletin. (2015). Retrieved from <http://www.bnm.gov.my>
- Bank Muamalat Indonesia Annual Report 2016. Retrieved from- <http://www.bankmuamalat.co.id>
- Bendjilali, B. and Khan, T. (1995). *Economics of diminishing musharakah* Jeddah: Islamic Research and training Institute (IRTI). Research Paper No. 31.
- Chapra, M. U. (1985) *Towards a Just Monetary System*, The Islamic Foundation, 1985
- Dusuki, A.W. (2008), *The Ideal of Islamic Banking: Survey of Stakeholders' Perceptions*, *ISRA*, 2008 pp 101-121
- El-Minsawi, e.t. (2006). *Treatise on Maqasid Al-Shariah*. London-Washington: International Institute of Islamic Thoughts.
- EPU, (2015), *Eleventh Malaysia Plan 2016- 2020 Anchoring Growth on People*, Putrajaya
- Faizan Kabani (2015). *Mastering Islamic Finance: A practical guide to Sharia-compliant Banking*.
- Ghazali R. (2017). *Affordable Housing Shortage to Exceed 1mil by 2020*.
- Haron, S. & Nursufiza, W. (2008). *Creating a Dynamic Islamic Capital Market: The Essential Role of Innovation*", in *Islamic Capital Markets: Products, Regulation & Development*. Jeddah: IRTI.
- Heykal, Mohamad. (2014). *Analisis Tingkat Pemahaman KPR Syariah Pada Bank Syariah Di Indonesia: Studi Pendahuluan*. *Binus Business Review* Vol. 5 No. 2: 519-526.
- Islamic Banks Websites. (2016). Retrieved from <http://www.chambank.com>
- Islami Bank Bangladesh Limited Half Yearly Financial Statements. (2016). Retrieved from

- Lung, L. C. (2013). Musharakah Mutanaqisah Partnership in Malaysia's Islamic Bank: A Comparison Between Theory and Practice. *American Journal of Economics and Business Administration*, 95-106.
- Meera, A., & Abdul Razak, D. (2005). Islamic Home Financing through Musharakah Mutanaqisah and al-Bay' Bithaman Ajil Contracts: A Comparative Analysis.
- Mohamad, A. H., & Trakic, A. (2012). Enforceability of Islamic Financial Contracts in Secular Jurisdictions: Malaysian Law as the Law of Reference and Malaysian Courts as the Forum for Settlement of Disputes. ISRA.
- Mohammed, M.O. (2005). "Islamic Financial Contracts (Module 2)". *Fiqh Muamalat Course Material, International Islamic University Malaysia*.
- NikYusoff, N. M. A. (2002). Islam and business. Malaysia: Pelanduk Publications (M) Sdn. Bhd.
- NoreetaMohd Nor. (2008). Musharakah Mutanaqisah as an Islamic Financing Alternative to BBA. *Malaysian Islamic Finance Monthly* (Official publication of the Association of Islamic Banking Institutions Malaysia). p. 22.
- M.OsamaAlchaar. (2015). Financing Economic Development in Syria and Activating the Role of Islamic Financial Institutions: The Global University for Islamic Finance. University of Damascus. Central Bank of Syria, August 23, 2015. Retrieved from [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2925220](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2925220)
- Ramadhiani A. (2017). Dilema Rakyat Miskin, RumahMurah Makin Jauh dari Pusat Kota. Retrieved from <http://properti.kompas.com>
- Rosly, S.A. (2005), *Critical Issues on Islamic Banking and Financial Markets*, Dinamas Publishing, Kuala Lumpur.
- Sanusi, M. (2006), "Al- Qawad'id al-Fiqhiyyah: Its relevance to Malaysian Islamic Financial products," *Shariah Law Reports*, July-Sept 2006, *MLJ*, pp 1-16
- Shahwan, S., Mohammad, M. O. & Rahman, Z. A. (2013). Home Financing Pricing Issues in the Bay' Bithaman Ajil (BBA) and Musharakah Mutanaqisah (MMP). *Global Journal Al-Thaqafah*. Vol.3 Issue 2, pp. 23-36
- Shah, N. (2013, May 2). Towards viable Islamic Finance. *New Straits Times*.
- Usmani, M.T (2007). *Islamic Finance*. Karachi: MaktabaMa'ariful Qur'an. 2002
- World Bank Affordability Index (2012). Retrieved from: <http://www.worldbank.org/en/country/malaysia>