

## **Book Review**

**Nasim Shah Shirazi, Muhammad Zulkhibri and Salman Syed Ali:**  
***“Challenges of Affordable Housing Finance in IDB Member Countries Using Islamic Modes”***

**Islamic Research and Training Institute, IRTI Occasional Paper No. 13; 1433H (2012). ISBN: 978-9960-32-203-2. Pages: xxvii + 256. Price: Not given**

**Reviewed by: Khurram Khan<sup>1</sup>**

The Occasional Paper under review (OP) is a valuable addition to literature on application of Islamic finance with reference to a crucial area of habitat financing for increasing population in IDB member countries. It estimates the housing gap and the financial needs in each IDB member country and evaluates the current Islamic finance models and practices in member countries and elsewhere in the world. It primarily focuses on financial products and providing infrastructure facilities for housing finance and identifies niche area where intervention by the IDB Group can promote development of housing sector to meet the housing needs in respective member countries. As it discusses almost all lending and non-lending housing finance models, it not only makes comparative analysis of the housing finance techniques in conventional and Islamic finance, but also discusses the housing finance link with primary and secondary capital markets, *ṣukūk* and securitization, and socio-economic development with efforts of the States, cooperatives and the banking and non-banking financial institutions. For the State financing through subsidies, for example, the study identifies certain tests including transparency, access, fairness and adjustments needed in the course of application. It also takes into account the ‘Basel’ guidelines and the recommendations by the IMF for a full recourse loan system by matching covered bonds and less securitization.

The study has been conducted by a team comprising M/s. Salman Syed Ali (Team Leader), Sami Al-Suwaïem, Nasim Shah Sherazi and Muhamed Zulkhibri, in collaboration with SHAPE Financial Corp (Consultant). While the survey was conducted of 108 institutions, secondary data have

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been collected from 96 banks / financial institutions (finally usable sample) providing Islamic housing finance in 27 IDB Member countries. From each country five institutions have been included in the survey except some MENA countries where the number of institutions providing housing finance is more than the sample size.

The contents of OP are arranged under three parts namely, *Affordable Housing Needs and Challenges* (Part I), *Financing Products and Models* (Part II) and *The Way Forward* (Part III). A list of Abbreviations, as used throughout the text, with full description of all terms has been provided in the early pages. The List of Glossary (Spelled as Glossory?) of Arabic words/phrases along with the meanings/definitions (except a few like *Musataha* , *'Inah*, etc- explanation not given) would be of special interest to the readers who may not be familiar with Arabic language. However, a separate note on transliteration and pronunciation of Arabic words/phrases has not been provided, which would have been helpful particularly for the readers not conversant with Arabic. The Executive Summary, aptly summarizing the importance and basic theme of the topic, creates enough interest in the mind of a reader to read on.

Part I consists of two chapters dealing with 'Housing Demand and Supply in IDB Member Countries' as well as the 'Challenges and Issues of Housing Sector'. This section attempts to provide estimates of the housing demand in IDB member countries and indicates the financing needs for the provision of low cost housing. The main areas discussed here include importance of habitat, estimates for housing demand and financial requirements and the challenges and issues constraining the housing supply. The authors have discussed the financing and non-finance challenges / issues, including, *inter alia*, "non transparent ownership, vague property rights, weak legal and regulatory framework, ineffective foreclosure laws, ineffective land registration system, and high transaction costs", which act as major impediments in the efforts to the provision of affordable housing. The IDB member countries have been advised to tackle these issues on priority if they desire to see their efforts, towards providing adequate housing facilities, bear fruit. This section also includes important statistics presented in the form of Tables and Bar Charts, which provide, at a glance, the comparative state of affairs of the housing sectors in the IDB member countries. This set of information would be of particular interest to the financial institutions, policy makers and researchers when dealing with housing sector related issues.

Part II, spreading over two chapters (4 & 5), focuses on housing finance products and models and looks at existing practices of Islamic

housing finance in IDB member countries and elsewhere in the world. All the important and widely accepted modes of Islamic finance (e.g. *Murabaha*, *Ijarah*, *Musharakah Mutanaqishah*, *Wakalah* and *Istisna'a*) and their application to housing finance have been discussed in Chapter 4, though briefly. However, the brevity has been well compensated by graphic presentation of the process flows, which adds considerable value to the description by aiding the reader to grasp the whole process at a glance (A picture is worth thousand words). The viability of these basic modes has been established beyond doubt and contemporary Muslim scholars and academics have done a commendable job of presenting these concepts in the present day academic language and jargon. Chapter 5 evaluates and compares the Models from *Shari'ah* perspective as also with respect to efficiency, financial and operational risks, liquidity, return, legal and other issues. It is good to note that for *Shari'ah* compliance aspect, reliance has been made to the *Shari'ah* standards issued by AAOIFI. However, the aspect of *Shari'ah* compliance has not been analyzed properly in respect of some structured housing finance products like *Ba'i al 'Inah*, Sell and Purchase (SAP) and the *Tawarruq* structure which are not accepted in the mainstream approach on Islamic finance. Such explanation could be much helpful in application of the products in various areas in the world. Further, explanation is needed with regard to financial risks to the bank and the client in *Murabaha* when compared with that of *Ijarah* or *Musharaka*: “*Murabaha* has limited financial for the investor compared to *Ijarah* or *Musharakah*, but *Murabaha* conveys the main financial risks to the customer” (P. 95). It is because impact of *Murabaha* could be different in different inflation rate scenarios.

Part III (Chapters 6 & 7), provides the way forward by suggesting models and indicating infrastructure requirements. Chapter 6 suggests the most suitable housing models (Cooperative Model, Compulsory Saving for Housing model, Real Estate Investment Trusts model, and the Public Private Partnership), and infrastructure requirement for effective application. Chapter 7 provides summary of the findings and suggestions. The authors suggest diminishing balance partnership (DBP) as an optimal structure, cooperative societies, Communalized Real Estate operating Company (REOC), and develop a case for their use in order to provide the low cost/affordable housing units to the people of IDB member countries. Here also, the suggested processes have been amply explained in graphic forms.

A SWOT analysis has been made for the purpose of comparing various conventional and Islamic finance models at scale ranging from ‘0’

to '10' (10 being the most favourable) (Pp. 77-102). According to the findings of the study, although the conventional financial institutions have an historical advantage over all other forms of housing finance, yet the Islamic finance model emphasizing equity sharing and the co-ownership provides a better link between the parties and would lead to more stable financial sector. Possible equity based and non-lending methods of funding the housing finance models have been proposed that can be used through Co-ops, REOC, REITS or DBP. "*Lessons could be learned from the best practices of the traditional mortgages for the development of Islamic home mortgage products*", the study proposes. Deep secondary market development has been suggested in order to resolve the issue of mismatch between the long term housing finance maturity and the short term deposits of the banking system. Keeping in view the global financial crisis of 2007-2009, emphasis has been laid down on 'local risk absorption' rather than on risk transfer (as in the case of conventional finance). It is to provide a natural link between parties to the contracts. While the *Global Financial Stability Report* of IMF has advocated financial products with recourse, the present study indicates that "the real problem is not of recourse or non-recourse instruments, but of information certainty, clarity of rights, ownership and obligations". In Islamic financial system, uncertainty and non-negotiability cannot arise as loans and debts cannot be sold other than at their par value.

The infrastructure, which is essentially required for the successful implementation of these models, has also been adequately explained. Apparently, every government expresses its desire to ensure shelter for its people – especially the poorer sections- but the success rate remains dismal. Since the infrastructure inadequacies are the major bottlenecks encountered in developing and underdeveloped countries, the governments of these countries have been well advised to seriously invest, both time and money, to overcome the infrastructure problems and create conducive environments to benefit from the suggested models. The authors conclude the Paper with the suggestions, which are particularly relevant for the IDB member countries. Brief write up on specific issues and products given in the boxes throughout the book and five Appendices, containing important information and statistics are the other highlights of the book. However, more detailed explanation was needed with regard to *Sharī'ah* aspects of some structured products of finance and that of their procedures. Similarly, the typo-mistakes (Pp: xvii, 4, 59, 63, 128) do not give a good taste particularly when a very highly qualified team of the IRTI scholars is involved in the project.

To conclude, the Occasional Paper under review is an elaborate and scientific study on housing finance in Islamic framework specifically relating to IDB member countries. It may enable the respective authorities and the financial institutions to enhance the supply of habitat much needed for the growing population in almost all Islamic countries. It may also become a basis for further empirical and analytical research on the practices of institutions involved in housing finance under Islamic modes. Concerted efforts are required to translate the Islamic financing models and modes into practice in letter and spirit around the globe, in general, and IDB member countries, in particular. The authors and the publishers (IRTI- IDB Group and others) have rendered valuable service for development of housing industry in Islamic countries that could also develop their populace and economies by dint of sectoral linkages. They have successfully achieved the declared objective of quantifying the demand for housing in IDB member countries, estimating the financial requirements and identifying niche areas where intervention by IDB Group can promote the development of housing sectors to meet the housing needs of its member countries.