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ORGANIZING EFFICIENT FINANCING OF HOUSING ON THE BASIS OF MURABAHAH

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ABSTRACT

This article provides information about the theoretical basis of murabahah, which is one of the instruments of Islamic finance, the organizational and management systems, and the principles of practical application. Important aspects of murabahah, working mechanisms in practice, and directions for use in housing financing are also presented.

Key words. Murabahah, simple murabahah, AAOIFI, cost plus, Shariah, housing finance, Islamic financing mechanism.

1. INTRODUCTION

Islamic finance is currently one of the industries that is growing the fastest, and Muslims and nations where Muslims make up a minority use Islamic finance products. Specifically, a large number of Islamic financial transactions take place in North America, Europe, and other nations with a tiny Muslim population. Specifically, the UK has emerged as a hub for Islamic financial operations, becoming the first sovereign nation to issue sukuk outside of the Islamic world in 2014.

Although this is a very small fraction, the projected value of the worldwide Islamic finance market is close to $4 trillion. Furthermore, just 3% of the global financial industry is made up of Islamic finance, a modest amount given that Muslims make up more than 20% of the world's population.

Islamic finance, based on the principles of Sharia, provides an alternative framework that connects financial activities with ethical values, social justice, equality, risk sharing among partners, and stability. Islam supports trade, business and investment based on ethical and fair relations, encouraging risk and profit sharing to prevent unjustified gains. Great attention is paid to documenting commercial agreements. These principles of Islamic finance proved that during the recent financial crisis, Islamic financial institutions are more resilient and able to withstand the financial crisis than conventional financial institutions.

The main principles of Sharia related to Islamic finance are as follows: giving and receiving interest (riba), uncertainty in trade (gharar), and speculation (maysir) are prohibited. Also, the underlying asset or investment must be acceptable from a Shariah point of view. For example, Sharia prohibits activities such as alcohol, pork, alcoholic beverages, and gambling.

Islamic financial institutions, especially Islamic banks, offer a wide range of products and services for both savings and financing to meet the needs of customers. In today's research work, we are studying one of the Islamic financial instruments, Murabahah.

2. LITERATURE REVIEW

The author of this study attempted to highlight the benefits and potential uses of Murabahah, which is regarded as one of the Islamic financial instruments. Numerous studies have been done on Islamic finance even though it is still a relatively new area in the world of science. Scientists and researchers from abroad, especially those from the CIS and Uzbekistan, are working in this topic and publishing their findings.

Sheikh Muhammad Taqi Usmani, in particular, wrote the book "Introduction to Islamic Finance," which describes the laws, tenets, and practices of Islamic finance as well as providing information on the different financing strategies employed by Islamic banks and non-bank financial institutions. Specifically, the fundamentals of Islamic finance contracts—such as Murabahah, musharakah, mudarabah, ijara, istista, and salam—as well as the practical application of these contracts and all associated concerns are thoroughly discussed. This book has been circulated and is currently being used extensively as a guide by experts, researchers in this subject, and researchers working on projects worldwide.

In addition, Tolga ERGÜN, in his research work entitled "The relationship between murabahah and macroeconomic dynamics," tried to reveal the relationship between murabahah and macroeconomic variables based on the experience of Turkey. Murabahah is used as a dependent variable in the research model, while the gross domestic product (GDP), employment rate, and inflation rate are tested as independent variables within the macroeconomic indicator. According to Ahroum R.'s research entitled "Murabahah and Musharakah moutanaquissah pricing: An Interest-Free Approach," Islamic financing tools shed light on the theoretical foundations of murabahah and diminishing musharakah, organizational-management structure, as well as the similarities and differences of these tools.

It is gratifying to note that the number of researchers conducting research in this field is increasing every year in Uzbekistan. Researchers publishing the results of their research is an opportunity for new students interested in the field to gain an understanding of Islamic finance and Islamic financing products among the public as well as business representatives, helping to increase the level of awareness. In particular, in the study "Comparative analysis of ijarah (Islamic leasing) and traditional leasing" by R. Zayniddinov, the importance of Islamic financing in the development of countries and its advantages, as well as the differences between Islamic and traditional leasing, are comparatively analyzed.

3. METHODS

In the scientific analysis of the article, the qualitative approach and logical and structural analysis, economic-statistical, systematic and comparative analysis methods were effectively used.

4. RESULTS AND DISCUSSION

Murabahah is derived from the word "ribh" and is one of the means of Islamic financing. According to the international standards of AAOIFI, the murabahah contract includes the purchase by the bank or other financial intermediary of the asset needed by the client from the seller and its sale to the client by extending the payment period. If this transaction reflects the sale by placing a certain agreed markup on the price of the purchased goods, according to M. Usmani. Murabahah in its original Islamic meaning is a simple sale. Its only difference from other forms of sales is that the seller clearly shows the buyer how much he spent and how much profit he will receive due to added value. This is a special form of sale, in which the seller clearly indicates the value of the goods for sale and sells it to another person, adding some profit or markup to it. Murabahah is not a form of financing, but a simple sale on a "cost plus" basis. But when the concept of extending the payment period is added, it appears as a method of financing.

Therefore, Murabahah is a simple type of trade, but now Islamic banks add some additions to this type of trade and use it as a financial tool. It should be noted that the legality of financial transactions carried out on the basis of Murabahah depends on the fulfillment of certain conditions. These conditions include:

1. Availability of commercial goods at the place of sale, i.e. trading with non-existent goods, is not permissible in Sharia;

2. During the sale, the goods in sale must be in the seller's possession. It is not permissible for the seller to trade with goods that are not in his possession, but the seller can promise to sell even before the goods are in the possession of the merchant;

3. Trade between the parties must be carried out immediately and unconditionally. Trading based on future time or event is not correct;

4. It is necessary to trade with products that are permissible in Sharia. For example, it is not possible to sell pork, drugs, alcohol and other products;

5. The buyer must know exactly what goods he is buying at the point of sale. In this case, the buyer must hold the goods with his hands or show them, so that there are no signs of anger between the parties;

6. It is allowed that the price of the trade goods must be clearly agreed upon between the parties in the course of trade;

7. In order for the agreement to be valid, the price of the goods must be clear, because the goods whose price is not clear cannot be bought on the basis of agreement;

8. Costs related to the delivery of goods by the seller, including transportation, customs and other costs, are added to the cost of the product and constitute the total cost. Other than these costs, i.e. fixed expenses of the seller are not added to the product cost (for example, salaries of the company's employees, rent payments, etc.). The seller's profit is applied to the total cost of the goods. This transaction is one of the contracts based on trust, because the seller clearly informs the buyer of the cost of the goods and the expected profit.

Murabahah contracts are widely used in Islamic finance as an alternative to traditional interest-based lending and allow financing purchases without violating Sharia principles. Furthermore, Murabahah transactions avoid charging or charging interest (riba), which is prohibited in Islamic finance, ensuring certainty and fairness for both parties.

Moreover, the murabahah contract is more attractive than other contracts in the following aspects:

- it is relatively short-term, i.e. that the return of capital is usually not so large in terms of time;
- reduction of risks at the expense of ensuring the guarantee of capital return;
- the costs are at a low percentage for the bank;
- a wide basket of material assets that can be the subject of the contract, which allows the expansion of the customer base;
- murabahah method of Islamic financing is relatively similar to consumer loans in traditional commercial financing.

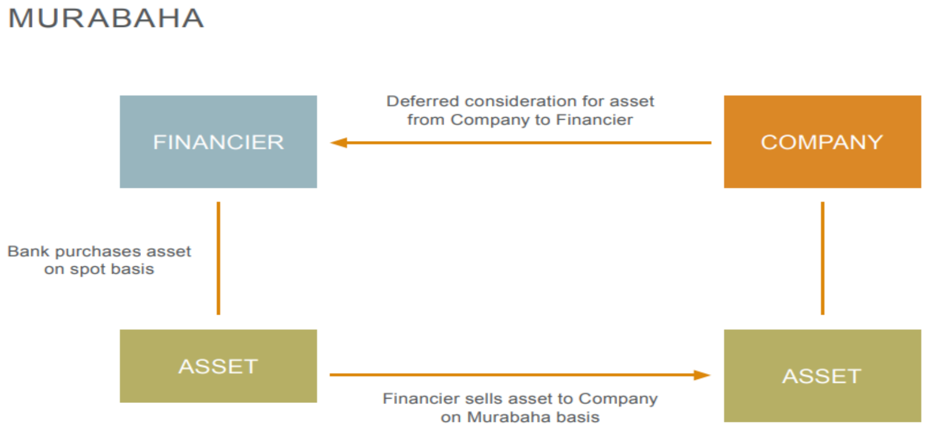

Figure 1. The working mechanism of the Murabahah transaction

Murabahah as a means of financing requires the following procedures (Figure 1):

1. The client, i.e. the buyer, applies to the bank to purchase the asset he needs through the Murabahah tool. The bank checks the customer's solvency on the principle of "cost + profit", and after that, the bank promises to sell the asset plus the profit, and the customer promises to buy.
2. An Islamic bank purchases and owns (constructively or physically) the product from the supplier on a payment basis.
3. After adding its markup for the product, the Islamic bank usually sells products to the customer on a deferred payment basis for an agreed period.
4. The client makes a delayed payment to the Islamic bank within the agreed period.

For instance, a person needs a house, and first of all, the client applies to the bank with the goal of acquiring a house, financed through the murabahah tool. At the next stage, according to the client's application, the bank checks the client's creditworthiness, and then approves the request. The bank concludes a sales contract with the property owner for the purchase of the house indicated by the client and buys the house requested by the client at the market value. The bank first turns the house into its ownership, that is, its property. As soon as the ownership of the house is transferred to the bank, the risk in it is also transferred to the bank. It is worth noting that the bank assumes the responsibility of the owner of the property and, accordingly, assumes the risk of ownership after buying the house from the owner of the property. It doesn't just play the role of financier. If the house is damaged or destroyed between the time it is purchased by the bank and sold to the customer, the bank must compensate for the damage. After that, the bank, after taking ownership of the purchased house, after adding its profit to the cost, sells it to the customer under a Murabahah sales contract. The sale price of the house and the payment period are clearly indicated in the negotiated sales contract and are agreed upon between the parties. Then the Islamic bank transfers the house to the customer and the customer starts paying the price of the house to the bank according to the agreed terms.

Table 1. Murabahah contract in housing financing

HOME FINANCE BASED ON MURABAHAH			
Basic Assumptions		Alphabetical Equations & Formulas	
Particulars	Units	Value	
Cost of the House	USD	1,000,000	C
Down Payment from customer	USD	0	D
Amount Financed (100%)	USD	1,000,000	F=C-D
Profit Margin (Fixed Rate) % p.a	%	5%	R
Term of Financing	Months	60	T
Total Profit Amount	USD	250,000	P=F*R* (T/12)
Total Murabahah Sale Price	USD	1,250,000	SP=F+P
Monthly Installment	USD	20,833	I=SP/T
Cost portion of Installment	USD	16,667	IC=F/T
Profit portion of Installment	USD	4,167	IP=P/T

In the table above, the direction of using the Murabahah agreement in housing financing is given as an example. The table shows that the total cost of the house is 1 million US dollars. Islamic Bank has agreed to finance the house in full 100%. The bank buys the house and sells it to the customer on the basis of Murabahah (deferred payment over 5 years, i.e. 60 months). The total sale price of the house based on Murabahah is 1.25 million USD. It consists of bank financing, US$1 million is the price of the house, and the bank profit is US$0.25 million.

The bank's estimated profit of USD 0.25 million is calculated as follows:

The bank's profit in housing is found as follows:

Profit= [Funded Amount (F) * Profit Rate (R) *Funding Term];

Profit= [1,000,000*5%*60/12] = 250,000.

The monthly payment is calculated as follows:

Monthly payment = [(Financing amount (F) + Profit amount (P))] / Financing period (in months);

The monthly payment is (1,000,000 + 250,000)/60 = 20,833, so the monthly payment was US$ 20,833.

Murabahah can be used in a variety of industries, including commerce, manufacturing, real estate, healthcare, education, and more. This versatility makes it a widely used financing tool in Islamic finance. This transaction is widely used in the following areas:

- financing the purchase of inventory or raw materials by enterprises engaged in the purchase and sale of goods;
- purchase of machines, equipment or raw materials necessary for production by companies producing products;
- can be used for asset financing, in which the Islamic bank or financial institution buys the property and sells it to the buyer at a profit on deferred payment terms;
- financing the purchase of vehicles for personal or commercial purposes, in particular;
- financing the purchase of agricultural products, farmers and agro-firms, equipment, seeds or livestock;
- financing of technology equipment, software licenses or IT infrastructure;
- financing of hospitals and healthcare facilities, medical equipment and supplies;
- educational institutions can use the Murabahah agreement to finance the purchase of equipment, books or infrastructure.

Using this instrument has a lot of benefits. One such benefit is that financing via Murabahah encourages economic growth by giving businesses the capital they need to expand, invest in profitable assets, and hire more staff. Additionally, it can help with international commercial transactions by allowing buyers and sellers to adhere to Islamic finance principles by selecting financing options that agree with Shariah.

5. CONCLUSION

Murabahah is considered one of the instruments of Islamic financing and provides opportunities for ethical and cooperative investment between the parties. Murabahah conforms to Islamic principles by promoting shared risk, profit, asset ownership and avoidance of interest-based transactions. Murabahah financing has many advantages and opportunities, and Islamic financial institutions are increasingly using this instrument.

Murabahah financing offers a number of options for individuals and businesses looking for Shariah-compliant financial solutions:

Follows Sharia principles in financing through murabahah. Murabahah allows Muslims and businesses to finance themselves without incurring interest (riba), which is forbidden in Islam.

1. Murabahah facilitates the purchase of assets such as real estate, vehicles, machinery and equipment through deferred payment terms. It helps businesses and individuals effectively manage cash flow by spreading expenses over time;

2. Negotiable financing terms can be tailored to suit the needs of the buyer and seller, including the payment schedule and cost-benefit ratio. This flexibility allows it to adapt to different financial situations;

3. Murabahah transactions require price transparency, as the cost price and profit amount are disclosed to the buyer in advance. This transparency builds trust between the parties involved in the activity;

4. Unlike traditional loans, where only the creditor bears the risk, murabahah involves sharing the risk between the buyer and the seller. This is in line with the principles of Islamic finance, as risks and rewards are shared between the parties.

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