

## **HOUSE FINANCING BY ISLAMIC BANKS: INCIDENCE IN THE PROVINCE OF SINDH-PAKISTAN**

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### **ABSTRACT**

*The Islamic banking system is based on the Law of Shariah, which emphasizes social justice and the equitable distribution of wealth. This system addresses the financial inclusion which aims to control poverty and build a healthy economy. Islamic banks, motivate individuals and businessmen to mobilize their savings. The purpose of this study is to analyze the availability of house finance, provided by Islamic banks, in the province of Sindh; to fulfil the basic need of shelter. Everyone aspires to own a house, but due to limited resources, people face massive impediments; moreover, it becomes difficult for the government to provide adequate housing facilities to the entire population. To address this issue, Islamic banks introduce different Islamic housing instruments, which wholly comply with the Islamic law of Shariah. Sindh is the second largest province of Pakistan and it faces enormous complexities regarding housing problems. Without much ado, the government initially introduced some housing schemes, however, due to the extensive population; they were unable to satisfy the need for shelter for all the citizens. The Government ought to introduce new housing schemes, besides the existing ones. The Private sector should also assist the government in this matter, by constructing colonies for their respective employees and deducting a certain nominal amount from their salaries; to ensure that by the time of their retirement, they become the owners of their own houses. Descriptive statistics technique is used to analyze the housing schemes, comparing population. The State bank of Pakistan should instruct Islamic banks to introduce new house finance schemes, which not only*

*fulfil the need for shelter; but also adhere to the Islamic principles.*

**Keywords:** Law of Shariah; Equitable Distribution; shelter; housing schemes

## INTRODUCTION

Islam aims to provide justice in the society, to eradicate exploitation, where everyone behaves with a strong sense of responsibility and honesty and is accountable for their actions not only in this world; but in the life hereafter as well. Islamic economics not only considers the satisfaction of the needs of those having purchasing power but is also concerned about the fulfilment of the basic needs of all human beings regardless.

Money, which is only earned through moral and legal means; is accepted in Islam. Earning through corruption and unethical practices such as smuggling, hoardings, money laundering, gambling, are considered Haram (Quran 53:2-4). The Holy Quran says,

*“And there are those who buy gold and silver and spend it not in the way of Allah, announce into them, a most grievous penalty.”(Quran 9.30).*

The individuals, the corporate sector and the Government are the agents and Trustee of Allah. As trustees, it is their responsibility to contribute towards an equitable distribution of wealth, according to the directions given in the Holy Quran;

*“And spend what He has given you as Trustee, and those of you who believe and spend in charity will have a great reward.”( Quran 57.7)*

Islamic banking is interest-free and conducts its az based on the law of Shariah; as laid down by the Holy Quran and Sunnah. Islamic banks introduce systems, procedures and products for the welfare of the society as prescribed by Islam. Quaid-e-Azam, at the time of independence, stated that: **“We should have a State in which we could live and breathe as free men and where we could develop according to our lights and culture and where principles of Islamic social justice could find free play.”** Pakistan is the seventh most populated country in the world and fifth in Asia. In 1947, when Pakistan was established, housing was a major problem for millions of people. The State was unable to provide proper shelter to them. Cooperative societies helped the government in providing

shelter to them. The basic need for shelter was explained by Maslow (1943). According to him, there are three basic needs, i.e. food, clothing and shelter after fulfilling these needs, a person moves upwards for achieving his desired target. Universal Declaration of Human Rights-Article 25(1) states that “Everyone has the right to a standard of living, adequate for the health and wellbeing of himself and his family, including—housing”.

Developing countries, like Pakistan, due to limited resources; lower-income groups become accustomed to living in slums/quarters; where the conditions of living are unhygienic, with poor educational and health facilities. Proper housing is the basic right of an individual, despite this fact; more than 20% of the world’s population live in inadequate housing conditions; where incredibly unhygienic status of living. In Sindh, due to rapid urbanization, and unavailability of low-cost housing enforces a majority of lower-income groups to live in slums/squatters. The capital of Sindh, Karachi, is a metropolitan city and a majority of the population resides in urban settlements. The Government introduced different housing schemes, for lower-income groups, not only in Karachi; but in other cities as well. The main schemes are Khuda ki Basti and Benazir Housing Scheme.

The Banking sector and financial institutions play a very vital role, in assisting the government, for solving the problem of shelter; by providing house finances to the masses. Conventional banks offer house finance on construction and the purchase of houses, on different terms and conditions. They provide finance on interest basis, which is inappropriate to the majority; because our country is an Islamic country and Interest is haram (forbidden) in our religion. In 2003, the State Bank of Pakistan introduced the first Full-Fledged Islamic Bank in Pakistan. Islamic banks are working according to the law of Shariah, i.e. providing an equitable distribution of wealth. People favour borrowing for houses, from Islamic banks, relatively more as compared to conventional banks; because Islamic banking is free of interest. Due to the increased financing %age of Islamic banks, the state bank instructed all conventional banks to open a window for Islamic Banking. This action, of the state bank of Pakistan, positively affected the attitude of the borrowers.

## **LITERATURE REVIEW**

Housing is one of the basic issues in Pakistan, since its establishment.

A majority of immigrants, after independence; moved towards Karachi, Lahore and Rawalpindi. The Government introduced different housing schemes, but due to limited resources could not provide proper shelter to the entire massive population; causing illegal quarter settlements to be founded. The demand for house finance increased due to the increased migration of the population; from rural to urban areas.

Inadequate provision of shelter creates problems, for the urban areas of Pakistan. There is no social housing program except Katchi Abadi. The Federal Government should encourage the local governments in providing affordable land to lower-income groups. Proper steps should be taken to create social housing schemes and also to encourage the private sector; to build affordable houses, for lower-income groups; by giving them some incentives (Tasneem, 2013). Karachi is a very densely populated city of Sindh. There is a complex process for the availability of land, which is the reason why lower-income groups face difficulties in acquiring shelter. Political complications and the immigration of people from other parts of the country, as well as from rural areas; is causing an immense shortage of residential settlements (Hasan 2015).

Microfinance plays a very important role in controlling the problem of poverty in Pakistan. Islamic banking operates different Islamic institutions that advance loans to the lower-income groups on easy terms and conditions that help them to fulfil their needs; as well as improve their standards of living. Conventional microfinance products are largely used in Muslim countries, but they don't fulfil the requirements of those Muslim clients who are not in favour of interest; which is prohibited in Islam (Akhter,2009).

In the conventional banking system, due to religious issues, People are not in favour of availing banking facilities; but with the evolution of Islamic banking system in OIC countries, people started depositing money in Islamic banks. The World Bank proved that Islamic banks contributed a major role in financial inclusion in OIC countries (Naceur, 2015).

Islamic banking and finance industry shows an increasing trend but not up to the required rate because of different obstructions. Shaikh, (2016), with the help of mathematical expressions; explained the two basic models of Islamic microfinance in Pakistan. He suggested different business models and microfinance products that can be offered to control poverty

and help the country in its development

Kunt et.al, (2014), in their studies, took data from Global financial inclusion and used multivariate regression technique; to explain the use of financial services availed by the Muslim and Non-Muslim population in Algeria, Egypt and Morocco. According to them, not only Muslims but Non-Muslims as well as used financial services based on Shari'ah; because it helps to limit poverty and is related to the equitable distribution of wealth. Where the affluent provide more money, in the form of taxes or charity, whereas the indigent are given exemptions regarding payments to the national treasury. Moreover, the finance obtained from the rich is distributed amongst the impoverished; considering their current conditions. Where the most poverty struck citizens get more of the share, as compared to those who are relatively better.

In Pakistan, due to religious obligations, people are in favour of using an Islamic bank's services related to house finance (Javed et al., 2015). Urbanization is a new trend, in the globalized world; especially in developing countries, like Pakistan. People leave their homes for better-quality standards of living. Building affordable houses is the solution to satisfying the basic need of lower-income groups (Malik and Wahid 2014).

Islamic banks provide a wide variety of products, which are based on the Law of shariah i.e. equitable distribution of wealth. (Ali et al., 2015).

In 1986, Khuda-Ki-Basti in Pakistan; was first introduced in Hyderabad. It was a very successful housing scheme, for lower-income groups and was then replicated seven times; within Pakistan. This scheme provides better facilities for the resident (Siddique and Zaidi, 2009).

The demand for housing is greater, as compared to the income of people; in Sindh. Due to limited resources, people cannot spend on the purchase of houses. On the urban side, due to the financial constraints; citizens are unable to spend more on housing (Ahmad 2002).

Islamic Banking is growing very rapidly, because it is based on the law of Shariah. An increasing trend indicates, that not only Muslims but Non-Muslims as well want to avail Islamic financing facilities. Islamic finance growth helps the country in its development. Different Financing products offered by Islamic banks include Ijarah (Lease purchase), Istisna (Deferred payment), Modaraba (Trustee finance),

Muraabahah (Mark –up financing), Musharakh (Equity participation) (Kammer.et.al 2015).

Islamic financial instruments are based on Law of Shariah. IFI uses Murabaha, Ijara and Diminishing Musharaka. The major problem in the IFI is the dominant attitude of Conventional banks. New Financial instruments are being used by Islamic banks to promote Islamic banking i.e. based on Law of Shariah (Dinc (2017).

### **RESEARCH OBJECTIVES**

- To assess the different housing schemes offered by the Govt of Sindh, for lower-income groups.
- To Compare the Percentage of housing schemes with the growth of the population.
- To evaluate the performance of conventional banks and Islamic banks in providing house finance facilities.

### **PROBLEM STATEMENT**

Every person has a dream of becoming the owner of his house, but due to limited resources; it becomes difficult. The purpose of this study is not only to examine the different housing schemes offered by the government of Sindh, to full fill the demand of housing; but also, to evaluate the performance of the banking sector; in offering house finance facility to them.

### **RESEARCH ASSUMPTIONS**

- The Government of Sindh offered a large number of housing schemes for lower-income groups.
- The Banking sector plays a Vitol role to fulfil the need for shelter.

### **RESEARCH QUESTIONS**

- Are the housing schemes, offered by Government of Sindh; large in number?
- How do the housing schemes grow faster as compared to the growth rate of the population?
- Is the banking sector assisting the people, in satisfying their need for shelter?

## **RESEARCH METHODOLOGY**

The Study is based on secondary data. Data has been collected from annual reports, research papers, Websites and leading English newspaper. Mixed method technique is used. The population of the study includes all financial institutions, conventional banks and Islamic banks working in Pakistan. The Sample size is the largest financial institution i.e. House building Finance Corporation, Habib bank Ltd and Mezan Islamic bank. Data is analyzed through descriptive statistics, to find out the performance of the banking sector; to satisfy the need for shelter and help the country in its development.

## **RESULT ANALYSIS**

Sindh is the second largest province, by population, and the third-largest province by area; of Pakistan. It has Pakistan's second-largest economy. Its urban population is 52% and the rural population is 47.98%. According to the 2017 census, the most widely spoken language in the province is Sindhi, the first language of 62% of the population. It is followed by Urdu (18%), Pashto (5.5%), Punjabi (5.3%), Saraiki (2.2%) and Balochi (2%).

The province's important cities are Karachi, Hyderabad, Larkana, Baden, Nawabsha etc. In 1947, Karachi becomes the capital of Pakistan. In 1950, Karachi improvement trust was established; to tackle the problems of the city and 1957, KIT upgraded and became Karachi Development Authority (KDA). The Government constructed housing units for the refugees employed in government jobs. That was on a small scale and could not solve the problems of housing in Karachi. The Government established a new township in Korangi and new Karachi, along with the largest industrial area; which was also planned. The plan was not successfully implemented, due to the financial crisis and political pressure. After the failure of Karachi resettlement plan, the government developed three plot townships in west Karachi .i.e. Baldia, Orangi and Qasba. The Government also introduced the concept of rehabilitating squatters in medium-rise flats. This was implemented only in the colonies of Lyari and lines Area. A small percentage of flats was constructed because the cost of flats was high, for the residents of that colony. From 1974-1985, United nation along with the government of Pakistan; prepared the Karachi master plan. The purpose of this plan was to provide housing facilities to lower-income groups. The Establishment of metro Ville programme is the object of KMP. The purpose was not only to provide

housing facilities but also to provide a proper sewerage system, medical and educational facilities to the residents at a reasonable rate. The first metroville was orange Metroville. This programme was not successfully implemented because of the unavailability of basic facilities. KDA also introduced scheme 33, but unfortunately, it did not fulfil the demand for shelter for lower-income groups. Katchi Abadi (squatter settlement) Improvement and regulation Programme was established.

Table 1. Comparison of housing schemes with a population of Sindh province:

Total population-Pakistan	Sindh-population	%age-Total population	Housing scheme	%age housing scheme with population
200.742million	47.886million	23.8%	10	20%

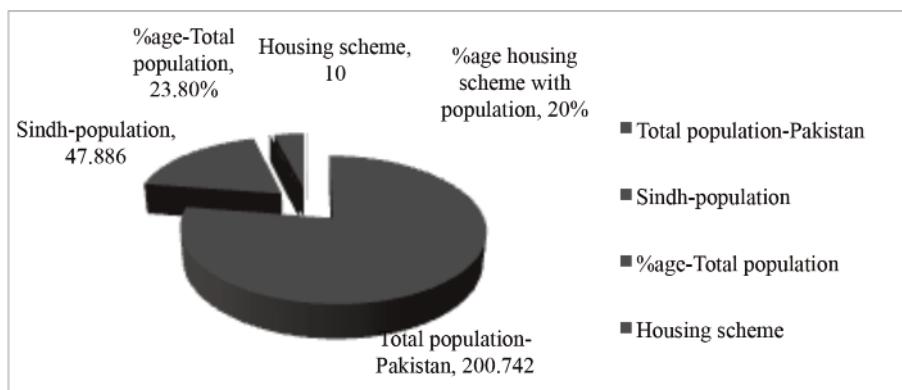


Fig-1-Comparison of Housing schemes with a population of Sindh province

### Important Organizations providing Housing Facilities to Their Employees:

- KDA-Karachi Development Authority
- KESC-Karachi Electric and Supply Corporation.
- KU-Karachi University
- NED-Nadirshaw Eduljee Dinshaw
- D.H.A-Defence Housing Authority

### Role of the banking sector in the provision of house finance

House finance is a very important tool, to raise the standard of living; of the urban and rural population. The Total house finance, granted by the



banking sector, is Rs 92.4 billion; as on Dec 2018 and reported by the State Bank of Pakistan. The State bank also provided incentives to conventional and Islamic banks respectively, to increase in-house finance facilities for lower-income groups.

Debt financing is the main object of conventional banks i.e. lending based on interest. When banks grant finance, in case of purchase and construction of property; the title is transferred to the name of the client but the bank keeps the document till the last payment of the loan. In case if the client defaults in payment and after so many reminders are still unable to repay the loan; the bank has a right of an auction of the property. According to the data for the period ended dec2015 and 2016 “gross outstanding loans for private banks was Rs.22.31 billion”. Over the year, the total disbursements amounted to Rs. 21.6 billion. The Private Bank with Rs. 3.60 billion, amongst commercial banks, several new borrowers totaled 1079. Private Banks serving 459 and Public sector banks serving 77 new customers. Private Banks provided finance for the purchase of houses with a share of 36.55. Private Banks reported an average financing size of Rs. 8.5 million. The average maturity period of outstanding loans during Jul-Dec was 14.2 years. The Public sector banks’ was 12.5 years. Commercial banks and private banks extended housing finance loans for an average tenure of 14 years.” (House Finance Review reported by SBP).

Islamic banks house finance is on an equity basis, it means it is free of interest and different financing products like Murabaha, Ijara, Musharaka, Mudaraba, Istisna are offered by Islamic banks. Islamic banks provide finance in the purchase, construction and renovation of the property.

“Banking sector-wise gross outstanding loans, for the periods ending December 2015 and December 2016 Islamic banks reported Rs. 26.62 billion the gross outstanding housing finance of the Islamic banking industry (Islamic banks & Islamic banking divisions of conventional banks) stood at Rs. 31.25 billion as on December 31, 2016. Over the year, total disbursements amounted to Rs. 21.6 billion. Islamic banks extended new loan disbursements of Rs. 4.20 billion. The Number of new borrowers totalled 1079, with Islamic banks serving 543. The average maturity period of outstanding loans of Islamic banks is 11.3 years.” (House Finance Review reported by SBP). Other than conventional and Islamic banks, the government of Pakistan also established House building finance corporation; with the object of providing house finance facilities to lower-

income groups. HBFCL remained the largest shareholder, in terms of gross loan amount outstanding, with a share of 22 per cent.

### **CONCLUSION**

Sindh is the second largest province of Pakistan and the purpose of this study is to provide information related to different housing schemes offered by the government of Sindh to provide shelter facility to lower-income groups, with limited resources. In Sindh, there is an increase in urbanization, which causes a huge problem of housing. A Majority of people are living in squatters/slums in very unhygienic conditions; considering the water and sewage systems and other various impediments; increasing the difficulties for the government further in somehow developing such areas; since the issues prove to be more prodigious than the funds available with the government; for augmentation. The State bank of Pakistan, with the cooperation of the Government; facilitated the banking sector as well as the house building Finance Corporation; in granting house finance facilities to lower-income groups to fulfil their demand of shelter. Housing schemes in Sindh, are relatively more, as compared to other provinces; but still, there is a demand for more housing schemes and house finance facilities to be provided to lower-income groups.

### **RECOMMENDATIONS**

- Housing facility should be provided by the private and public sector to their employees.
- The banking sector should provide house finance facility to working women on easy terms and conditions.
- The Govt should take serious action for the improvement of existing housing schemes as well as the launch of new housing schemes by converting slums/squatters.
- Islamic banks should modify the Product of House finance.
- HBFC should make some amendments in their housing policy for lower-income groups. Special incentive plan should be prepared for house financing to women.
- The government should levy a tax on agricultural land, which can be easily utilized for housing purposes.

- Banking Sector should give priority to Educationists, such as professors and counselors; in house finance schemes.
- Private and public sectors should build Professional colonies
- Proper training programs, for banking staff, related to the information on housing finance facilities offered by the government; should be regularly held. These may include government representatives conducting seminars, with the banking staff, informing them thoroughly and giving presentations; to instill the notion about housing facilities provided by the government, within them.
- For controlling the problem of urbanization, the government of Sindh, should improve the Hygiene conditions of rural areas and also facilitate them by giving a special house finance facility in rural areas.

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