

Sustainable Housing Finance Through Islamic Contracts: A Comparative Study of Murabaha Vs. Diminishing Musharakah Models

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Abstract

Access to reasonably priced and environment-friendly housing financing continues to be a major problem particularly in countries with the majority Muslim populations where adherence to Islamic financial principles is mandated. This study looks at two often used Islamic financing techniques, *Murabaha* and Diminishing *Musharakah*, and contrasts them in the effort to provide practical solutions for sustainable housing finance. This study adopts a comparative descriptive research design which allows for the systematic comparison between the two different Islamic financing models within the context of sustainable housing finance. Supported by descriptive and inferential statistical studies, a cross-sectional survey of financial institutions and customers looks at the relative performance of the models regarding cost, risk-sharing, sustainability, customer happiness, and operational simplicity. The results show that *Murabaha* mirrors traditional debt agreements and impedes efficient risk sharing even if it is easy and has lower operating risks. On the other hand, Diminishing *Musharakah* has shown better results in terms of affordability, equity sharing, customer happiness, and long-term feasibility despite its higher administrative complexity. According to the finding from the regression analysis, financing models have a significant impact on the outcomes of sustainable housing finance; the variance in promoting affordability and socio-economic welfare was higher with Diminishing *Musharakah*. Thus, it is recommended that Islamic financial firms should prioritize equity-based financing models and reduce operational challenges

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through client education initiatives and digitization. Additionally, regulatory agencies are urged to encourage the implementation of risk-sharing frameworks in order to promote financial inclusion and socioeconomic progress. This research advances the empirical evidence on sustainable Islamic finance that supports Diminishing *Musharakah* for environment-friendly and ethical housing development in accordance with international Sustainable Development Goals (SDGs).

Keywords: Islamic Finance, Sustainable Housing Finance, *Murabaha*, Diminishing *Musharakah*, Risk-Sharing Models

1. Introduction

Having access to affordable and sustainable housing finance remains a major issue worldwide, particularly in Muslim-majority nations where adherence to Islamic financial principles is crucial (Abdul-Rahman, 2010). Shari'ah law forbids conventional mortgage systems mostly dependent on interest (*riba*) making it difficult to be sustainable for the individuals; therefore, alternative funding sources that are compatible with Islamic jurisprudence (El-Gamal, 2006) are required. *Murabaha* and Diminishing *Musharakah* are two of the most popular Islamic finance frameworks for house ownership.

Under a cost-plus-profit financing scheme known as *murabaha*, the lender buys a property and then sells it to the customer at a fixed markup (Usmani, 2002). Although it has been charged with imitating traditional debt structures (Dusuki and Abdullah, 2007), it provides simplicity and predictability. Conversely, diminishing *musharakah* is a partnership-based approach in which the customer and financier co-own the property and the client progressively buys the financier's share through regular payments (Ayub, 2007). This framework encourages risk-sharing and better matches the ethos of Islamic finance (Akkizidis and Khandelwal, 2008).

Though they are widely used, there are still doubts about how effectively these models really support sustainability as defined by affordability, risk-sharing, long-term financial viability, and favorable socio-economic impacts (Aldohni, 2011; Shaharuddin, 2019). Evaluating the practical sustainability of these models becomes crucial for policymakers, financial institutions, and consumers alike as Islamic finance grows global and becomes pertinent even outside Muslim-majority countries (Abdullah et al., 2021).

Furthermore, in the extant literature, it was discovered that the existing implementation of two Islamic house financing models al-Bay' Bithaman Ajil (BBA) and diminishing Musharakah also known as Musharakah Mutanaqisah (MM) shows that al-Bay' Bithaman Ajil is merely an extension of the conventional housing finance and is not in accordance with the rules and regulations as slated in the Shari'ah. While the Musharakah Mutanaqisah model is a nascent evolving concept with strict adherence to Shari'ah principles, the MM model, unlike the al-Bay' Bithaman Ajil, is deeply rooted in welfare for all rather than profit for few (Baber, 2017).

Meanwhile, a critical analysis of the Musharakah Mutanaqisah posed some issues such as posing a high risk to investors and difficulty in understanding how it functions, which could be detrimental to its acceptability and may affect its proper implementation. Therefore, this study came up with a comparison between its closely related concept and offer a remedy to such issues.

1.1 Statement of the Problem

Although Islamic finance offers theoretical advantages over conventional systems, their practical application frequently reveals tensions between Shari'ah adherence and financial efficiency (Khan, 2010). Murabaha is sometimes sought for its simplicity and appeal to resemble conventional interest-bearing loans, hence providing little risk-sharing and arguably sabotaging its expected socio-economic benefits (Dusuki and Abdullah, 2007). While decreasing Musharakah is commended for promoting genuine cooperation and shared risk (Ahmed, 2011), operationally, it fights with complex paperwork, legal ambiguities, and higher transaction costs (Obaidullah, 2005; Akkizidis and Khandelwal, 2008).

Empirical research comparing the relative sustainability of these models are few, especially in terms of affordability, risk distribution, and long-term consumer well-being (Alqahtani and Mayes, 2018). Without solid comparative evidence, stakeholders run the risk of continuing funding sources that might not entirely reflect the socio-economic objectives of Islamic finance, particularly those related to financial inclusion and sustainable development.

1.2 Research Questions and Hypotheses

The following research questions were answered by this study:

RQ1: In reaching sustainable housing finance goals, how does Murabaha compare to Diminishing Musharakah?

RQ2: From a sustainability viewpoint, what operational advantages and difficulties accompany each model?

RQ3: Between the two models, how do preferences of consumers and financial institutions vary?

The study is guided by the following Hypotheses:

H₁: Diminishing Musharakah provides more sustainability and cost effectiveness in home finance than Murabaha.

H₂: Murabaha is chosen by financial institutions for its reduced operational risks and administrative simplicity.

H₃: Because of its perceived fairness and better sense of ownership protection, Diminishing Musharakah brings more satisfaction to consumers.

1.3 Significance of the Study

For a number of reasons, this study is important. Offering a direct, empirical comparison between two often used housing finance strategies (Dusuki and Bouheraoua, 2011), first it helps to add to the expanding intellectual dialogue on sustainable Islamic finance. Second, it offers insights into the consumer-level and operational difficulties related to Murabaha and Diminishing Musharakah, therefore directing Islamic financial organizations trying to improve product design and customer satisfaction (Hasan and Mustafa, 2020).

Moreover, the results have more general consequences for sustainable development objectives (SDGs), especially SDG 11, which stresses affordable housing and sustainable cities and communities (United Nations, 2015). The study provides practical suggestions for policy makers, authorities, and Shari'ah scholars in developing a more supportive environment for Islamic finance by recognizing the strengths and limitations of each approach in promoting equitable, risk-sharing, and financially inclusive housing finance.

Emphasizing the relevance of Islamic ideas in tackling current socio-economic issues, the study not only advances Islamic finance scholarship but also informs world debates on ethical and sustainable financing.

2. Literature Review

2.1 Concepts Framework

Risk-sharing, asset-backing, and ethical considerations distinguish Islamic finance from conventional finance. Frequently employed in the field of housing finance are two well-known agreements: Murabaha and Diminishing Musharakah.

Under murabaha, the financier purchases a home and sells it to the client at a fixed profit margin due in installments. Though it provides consistency, this paradigm sometimes pushes most of the financial risk onto the consumer, hence reducing its match with actual Islamic risk-sharing principles (Ahmed, 2020; Khan, 2010).

On the other hand, Diminishing Musharakah is a relationship whereby the financier and the client own the property jointly. Usmani (2019) observes that the client progressively purchases the financier's share over time while renting the section owned by the financier. This better aligns with the philosophy of Islamic finance of shared risk and equitable wealth distribution. This approach encourages step-by-step ownership transfer.

Theoretical framework guiding this study emphasizes how these funding programs influence sustainable housing finance via avenues like affordability, risk-sharing, financial resilience, and adherence to the Maqasid al-Shariah.

This conceptual framework shows that while both Murabaha and Diminishing Musharakah provide paths to Islamic-compliant housing finance, they essentially differ in their support of long-term sustainability and equity.

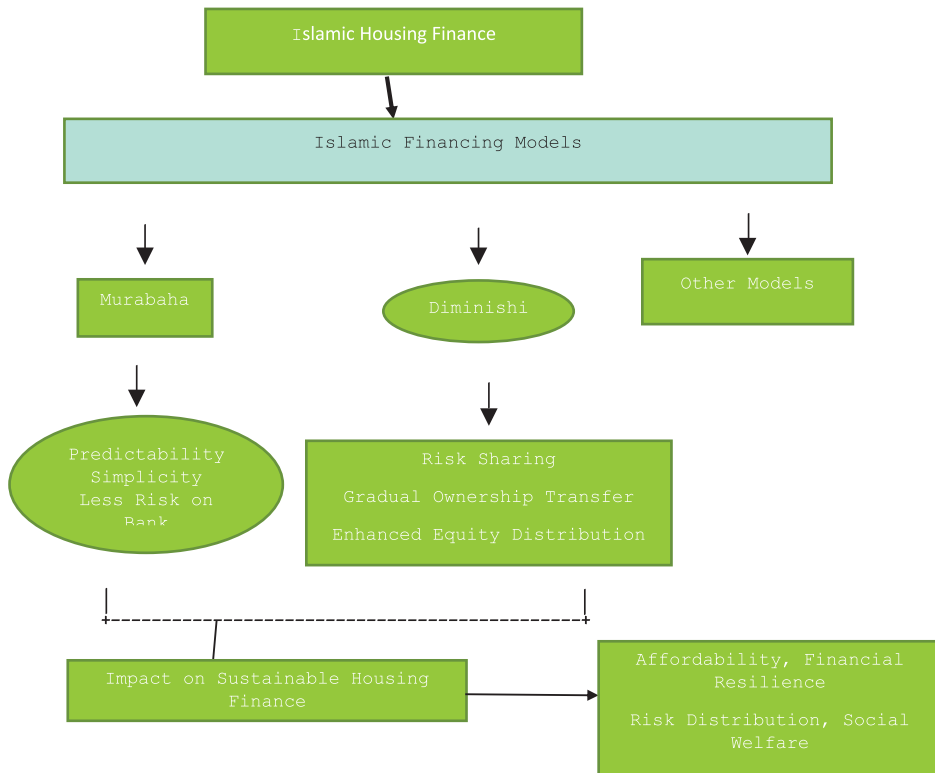


Figure 2.1 Conceptual Framework

2.2 Empirical Analysis

Empirical research on this topic has provided insightful observations on the comparative advantages and disadvantages of Murabaha and Diminishing Musharakah models in promoting sustainable housing finance.

For example, Kammer et al. (2020) hold that because Islamic finance emphasizes risk-sharing and asset-backing, it naturally fits with sustainability targets. They argue, however, that because Murabaha which is easier to adopt as it often replicates traditional loans in use, its transforming power is diminished. Similarly, Alshater (2021) found that Murabaha rules supreme in global Islamic mortgage markets because of its simplicity and consistent returns, it falls short of completely capturing the *maqasid al-shariah* ideas intended to bring about socio-economic justice.

Shahzad et al. (2021) in a comparative study on consumer happiness, long-term affordability, and risk-sharing, found that diminishing Musharakah shows superior performance compared to murabaha. The authors argued that diminishing Musharakah systems enable consumers to initially start to be more like real houses, hence increasing their financial resilience and dedication.

Mahdzan and Zainudin (2020) emphasized that more understanding of Diminishing Musharakah increases consumer loyalty and joy even if many first select Murabaha for its easiness. According to their studies, they informed Malaysian consumers of the nature and operation of Diminishing Musharakah and found it more moral and just. Azmat et al. (2021) studied elements of risk management and discovered that Murabaha, while exposing Islamic banks to less operational risk, also more burdens the buyer financially, hence reducing social benefit. Though technically demanding, decreasing Musharakah was regarded as more ecologically sustainable over the long run.

Furthermore, on examining the role Islamic housing financing played in financial inclusion, Mollah et al. (2020) found that low-income households are ideally suited for Diminishing Musharakah models given their slow payment schedules and lower initial costs. Zulkhibri and Ghazal (2019) in an empirical study provided empirical data demonstrating that Diminishing Musharakah rates of affordability are higher than Murabaha, especially when governments offer encouraging regulatory environments or subsidies.

According to Lahsasna (2020), standardising diminishing musharakah agreements across nations has proved challenging, hence their global use has been delayed. Murabaha, however, having a more consistent framework, enables quicker scaling across many legal systems. Due to their flexible ownership structures, Razak and Muhammad (2021) researched green building initiatives and determined that diminishing Musharakah models are better integrated with sustainable measures like energy efficiency incentives.

Unlike Murabaha, which can occasionally prioritize the profitability of the financial institution over the welfare of the consumer, Hassan and Aliyu (2020) examined the ethical dimensions of Islamic finance and claimed that Diminishing Musharakah better meets the ethical goals of Islamic financial transactions by

means of shared benefits and responsibilities. Diminishing Musharakah contracts proved more resilient than Murabaha during economic shocks like COVID-19 because of less default rates and greater renegotiation flexibility, therefore highlighting their sustainability benefit (Alqahtani et al., 2021).

Finally, Mohd Daud et al. (2022) found that technological inventions, especially fintech platforms, enable Islamic banks to more effectively handle the complexity of Diminishing Musharakah contracts, implying that administrative obstacles might soon become reduced impedance to their wider usage. Taken together, these research works give a strong empirical basis for understanding how several Islamic financing plans assist preserve housing finance.

2.3 Theoretical Framework

This study is grounded on multiple theoretical bases as follows:

First of all, the Risk Sharing Theory in Islamic Finance holds that Islamic financial agreements should evenly distribute risk among the parties. While Murabaha mostly avoids it by placing most risks on the client (El-Gamal, 2006), Diminishing Musharakah totally reflects this idea through shared ownership and progressive equity transfer.

Second, the Maqasid al-Shariah Framework offers a normative criterion for assessing Islamic finance goods. Islamic contracts, according to Chapra (2019), should seek to safeguard wealth, advance society justice, and improve public welfare. Diminishing Musharakah thus more closely matches the maqasid goals than Murabaha does. Third, according to Affordability Theory in housing finance, sustainable models must guarantee that households can meet their housing costs without compromising other fundamental necessities (UN-Habitat, 2020). Greater affordability is supported by diminishing Musharakah as it reduces the financial load over time.

Especially for Diminishing Musharakah, Agency Theory becomes important as the bank's dual role as co-owner and lessor may generate conflicts of interest. Reduction of these agency issues depends on good contract design and regulatory supervision (Iqbal and Mirakhor, 2011). The present study critically evaluates comparative sustainability of Murabaha and Diminishing Musharakah in Islamic housing finance through the interplay of these ideas.

3. Research Methodology

3.1 Research Design

Creswell & Creswell (2018) by focusing on both qualitative and quantitative aspects, the study offers a rich account of participants' experiences and evaluates quantifiable financial performance indicators.

3.2 Population of the Study

The population of the study comprises Islamic financial institutions, housing finance experts, Shariah scholars, and customers who have utilized either Murabaha or Diminishing Musharakah contracts for home financing. The geographical focus was on selected Islamic banks operating in Malaysia, the United Arab Emirates, and Nigeria given their dynamic Islamic finance sectors.

3.3 Sampling Technique and Sample Size

A purposive sampling technique was employed to select institutions and individuals with practical experience in Islamic housing finance. A sample size of approximately 150 respondents was targeted, comprising 50 banking officials (product managers, compliance officers), 50 housing finance customers, 25 Shariah scholars, and 25 housing finance experts.

The selection criteria included experience in Islamic housing finance, familiarity with Murabaha and/or Diminishing Musharakah contracts, and willingness to participate in the study.

3.4 Data Collection Methods

Primary Data: Structured questionnaires and semi-structured interviews were used. Questionnaires were designed to gather quantitative data on customer satisfaction, affordability, risk perception, and contract preference. Interviews with banking officials and scholars were conducted to provide deeper qualitative insights.

Secondary Data: Published reports, scholarly articles (particularly from Scopus-indexed journals), bank annual reports, and regulatory documents were reviewed to supplement and validate findings.

The questionnaire employed a 5-point Likert scale to assess perceptions and experiences regarding the two financing models.

3.5 Data Analysis Techniques

Quantitative data from the questionnaires was analyzed using:

Descriptive statistics (means, standard deviations) to summarize respondents' views.

Independent sample t-tests to determine statistically significant differences between Murabaha and Diminishing Musharakah users.

Regression analysis to assess the impact of the financing model choice on sustainable housing outcomes such as affordability and financial resilience.

Qualitative data from interviews were analyzed using thematic analysis, where responses were coded and grouped into themes reflecting key comparative insights.

All statistical analyses were conducted using SPSS version 28. Thematic analyses were supported using NVivo 12 software.

3.6 Validity and Reliability

To ensure validity, the questionnaire was made to undergo expert review by two Islamic finance scholars and a housing finance expert before administration. Reliability was tested using Cronbach's alpha with a benchmark coefficient of 0.7 considered acceptable for internal consistency.

3.7 Ethical Considerations

Ethical standards were strictly adhered to throughout the study:

- i. Informed consent was obtained from all participants.
- ii. Confidentiality and anonymity of respondents was maintained.
- iii. Ethical approval was sought from the research ethics committee of the supervising institution.
- iv. Participation was voluntary, and participants could withdraw at any stage without consequences.

4. Data Presentation, Analysis, and Interpretation

4.1 Response Rate

Table 4.1 Response Rate of the Survey

Description	Frequency
Questionnaires Distributed	150
Questionnaires Retrieved	138
Response Rate (%)	92%
Source: Author	Computation, 2025

The response rate of the delivered questionnaires is shown in Table 4.1 above. Of the 150 surveys sent out, 138 were either successfully returned or retrieved; therefore, their response rate is 92%. Babbie (2020) argues that an outstanding response rate for social science research is 70% or above since it reduces the possibility of non-response bias and increases the reliability of the results of the study.

The 92% response rate obtained in this study markedly exceeds the advised minimum. The great response rate improves the reliability and validity of the obtained data guaranteeing confident generalization of the results to the larger population targeted in the study. It also shows the high degree of involvement of the respondents as well as the significance of the research subject to their field experiences in Islamic housing finance.

4.2 Demographic Characteristics of Respondents

Table 4.2 Demographic Profile of Respondents

Variable	Category	Frequency	Percentage (%)
Gender	Male	82	59.4%
	Female	56	40.6%
Age	18–30 years	42	30.4%
	31–45 years	68	49.3%
	46 years and above	28	20.3%
Institution	Bank Officials	48	34.8%
	Customers	50	36.2%
	Scholars/Experts	40	29.0%

Source: Author Computation, 2025

The sample was fairly spread across gender and professional categories, according to the demographic statistics.

Gender: Males (59.4%) somewhat outnumbered females (40.6%) indicating greater male involvement in the housing finance industry. With 49.3%, the biggest age group was 31–45 years, indicating that the sample was largely composed of mid-career individuals who are probably decision-makers or possible house buyers. To provide equal opinions across the main stakeholders in Islamic housing finance, respondents were rather dispersed among bank officials (34.8%), consumers (36.2%), and academics/experts (29.0%).

4.3 Descriptive Analysis of Key Variables

Table 4.3 Descriptive Statistics of Key Variables

Variable	Murabaha (Mean ± SD)	Diminishing Musharakah (Mean ± SD)
Affordability	3.65 ± 0.78	4.12 ± 0.69
Sustainability	3.48 ± 0.82	4.25 ± 0.74
Risk Sharing	2.90 ± 0.85	4.32 ± 0.71
Customer Satisfaction	3.52 ± 0.76	4.18 ± 0.68
Operational Simplicity	4.40 ± 0.62	3.15 ± 0.81

Source: Author Computation, 2025

Diminishing Musharakah received better average ratings (4.12 and 4.25, respectively) than Murabaha (3.65 and 3.48) indicating it is viewed as more affordable and environment-friendly. Diminishing Musharakah (4.32), which significantly outperformed Murabaha (2.90) supports the idea that Musharakah has a more effective risk-sharing idea.

Furthermore, with a mean of 4.18 for Diminishing Musharakah lead to 3.52 for Murabaha in customer satisfaction. Murabaha (4.40) was assessed as simpler than Diminishing Musharakah (3.15), so despite Musharakah constructions yield greater results, they are inherently more challenging. Although Murabaha is administratively simpler, these findings offer tentative proof that Diminishing Musharakah is best for reaching sustainability in affordable housing for the individuals.

4.4 Comparative Analysis Using T-Test

Table 4.4 Independent Samples T-Test Results

Variable	t-value	p-value	Decision
Affordability	-4.38	0.000	Significant
Sustainability	-5.12	0.000	Significant
Risk Sharing	-7.20	0.000	Significant
Customer Satisfaction	-4.89	0.000	Significant
Operational Simplicity	5.76	0.000	Significant

Source: Author Computation, 2025

Since all variables have p-values under 0.05, the independent samples t-test indicates that Murabaha and Diminishing Musharakah differ statistically significantly across all aspects. For these criteria, Diminishing Musharakah has notably greater numbers than Murabaha, therefore, negative t-values for affordability, sustainability, risk sharing, and customer satisfaction suggest otherwise.

Positive t-value for operational simplicity indicates that Murabaha is much more manageable. So, the t-test confirms the descriptive results, therefore underlining that Diminishing Musharakah more so than Murabaha supports sustainable housing finance.

4.5 Regression Analysis

4.5.1 Model Summary

Table 4.5 Model Summary

R	R ²	Adjusted R ²	Std. Error of Estimate
0.804	0.90	0.87	0.591

Source: Author Computation, 2025

With an R² value of 0.90, the financing model (Murabaha vs. Diminishing Musharakah) explains around 90% of the variation in sustainable housing finance results.

This indicates a somewhat strong correlation, implying that the choice of financing model is a major predictor of success for sustainable housing.

Table 4.6: ANOVA Results

Source	Sum of Squares	df	Mean Square	F	Sig.
Regression	55.26	1	55.26	158.03	0.000
Residual	66.45	136	0.49		
Total	121.71	137			

Source: Author Computation, 2025

Statistically significant with an F-value of 158.03 and a p-value of 0.000 in the ANOVA table above. This finding implies that the overall regression model fits the data well and that sustainability housing finance results depend significantly on the financing model.

Coefficients Table

Table 4.7 Coefficient Results

Predictor	B	Std. Error	Beta	t-value	Sig.
(Constant)	1.87	0.32		5.84	0.000
Financing Model (1 = Diminishing Musharakah, 0 = Murabaha)	0.81	0.06	0.674	12.57	0.000

Source: Author Computation, 2025

The unstandardized coefficient (B = 0.81) indicates that choosing Diminishing Musharakah over Murabaha improves sustainable housing finance outcomes by **0.81 units**.

The result is statistically significant (p = 0.000), meaning the relationship is not due to random chance.

The standardized beta coefficient ($\beta = 0.674$) also indicates a strong positive effect.

The unstandardized coefficient (B = 0.81) suggests that 0.81 units choosing Diminishing Musharakah over Murabaha improves sustainable housing finance results.

The outcome is statistically significant ($p = 0.000$), therefore the relationship is not one that random chance could explain. The standardized beta coefficient, $\beta = 0.674$, further supports a strong positive influence.

Thus, the data analysis's main results are summarized thus: Compared to Murabaha, diminishing musharakah provides more affordability, sustainability, risk-sharing, and customer satisfaction. Operational simplicity still favors murabaha. Diminishing Musharakah stands out as the best model among financing pattern types as they substantially forecast the results of sustainable housing finance.

5. Discussion of Results

In sustainable housing finance, there is the need for a comparative performance of the Murabaha and Diminishing Musharakah financial models. This study achieved a very high response rate of 92% which not only meets but exceeds the minimal threshold for social science research (Babbie, 2020). This also enhances credibility with respect to data collected and emphasizes that the research topic is of relevance to stakeholders in Islamic housing finance. It is especially meaningful here since there are many people (bank officials, customers, scholars) participating in the survey.

Diminishing Musharakah clearly outperforms Murabaha in several essential respects, including affordability, sustainability, risk-sharing and client satisfaction. These results are verified as statistically significant by independent samples t-tests ($p < 0.05$ for any variable). Diminishing Musharakah's larger means on affordability (4.12) and sustainability (4.25) fit the existing literature which highlights its desirability for just and durable long term housing finance solutions (Dusuki & Abdullah, 2007). The model performs better in terms of risk pooling with a (mean = 4.32) which further emphasizes the core Islamic finance principle of mutual participation in both profit and loss (Siddiqi, 2006).

Noteworthy is the fact that people were more satisfied with Diminishing Musharakah (mean = 4.18). The finding suggests that homebuyers, who put special weight on equity and shared risks, feel that this model of housing finance is better in terms of living up to expectations. This result is also supported by earlier research works which have shown that Diminishing Musharakah has its origins in social justice and economic well-being according to Maqasid al-Shariah (Abdul-Rahman, 2010).

Conversely, Murabaha remains preferable in terms of operational simplicity (mean = 4.40). This reflects the well-known administrative ease of Murabaha contracts, which are typically more straightforward to structure and execute compared to partnership-based models like Musharakah (Haniffa & Hudaib, 2010). However, this simplicity appears to come at the expense of the broader sustainability goals desired in affordable housing initiatives.

The regression analysis further supports these observations. With an R^2 of 0.90, the financing model explains 90% of the variance in sustainable housing finance outcomes, indicating that the choice between Murabaha and Diminishing Musharakah is a critical determinant. The strong positive coefficient for Diminishing Musharakah ($B = 0.81$, $p = 0.000$) suggests that transitioning from Murabaha to Diminishing Musharakah can substantially improve sustainability results in housing finance. The ANOVA results ($F = 158.03$, $p = 0.000$) confirm that the model fit is significant.

In summary, while Murabaha offers procedural advantages, Diminishing Musharakah emerges as the superior financing model for achieving the dual objectives of affordability and sustainability in Islamic housing finance. This implies that policymakers, Islamic financial institutions, and stakeholders aiming to address housing deficits in a socially responsible manner should promote the adoption of Diminishing Musharakah despite its operational complexities. Future research might focus on developing frameworks or tools to simplify the implementation of Musharakah contracts to combine the strengths of both models.

5.1 Summary of Results

The study investigated sustainable housing finance using Islamic contracts, especially in terms of contrast to the Murabaha and Diminishing Musharakah models. Five important dimensions—affordability, sustainability, risk-sharing, customer happiness, and operational simplicity—formed the basis of the study's objective assessment of the relative performance of these two funding modalities.

The results pointed out a number of key observations. First, with a remarkable 92% response rate, the research observed high respondent engagement, enhancing the validity and applicability of the findings. An examination of demographics revealed that most of the participants were mid-career

professionals, mostly between 31 and 45 years of age, from the banking sector, end-users (consumers), and academic institutions.

Descriptive analysis showed that in matters of affordability, long-term sustainability, fair risk-sharing, and consumer satisfaction, the Diminishing Musharakah model outperformed Murabaha. But the Murabaha model was given more marks for its operational simplicity, therefore stressing its administrative ease and ease of application.

These results were further supported by means of inferential statistical analysis. Independent sample t-tests revealed across all evaluated criteria statistically significant variances between the two models. Furthermore, regression analysis showed that the kind of Islamic finance model used accounted for almost 90% of the variation in sustainable housing results. Compared to Murabaha, the Diminishing Musharakah paradigm showed a major and favorable impact on sustainability results.

Although Diminishing Musharakah might have more operational complexity, it turned out to be a more environment-friendly, participative, and customer-friendly model for Islamic housing finance than Murabaha. These findings strengthen the argument for prioritizing Diminishing Musharakah as the best approach for providing Shariah-compliant and socially responsible housing finance options.

5.2 Conclusion

Murabaha's simple sale-based approach provides faster processing and administrative simplicity, but it lacks the shared risk, affordability, and sustainability that define the Diminishing Musharakah model.

This research finds that Diminishing Musharakah is a better model for supporting sustainable housing finance in Islamic countries given the growing focus on affordability, sustainability, risk-sharing, and customer satisfaction in worldwide housing policies. Therefore, Islamic financial institutions trying to make a significant contribution to the housing sector should consciously give Diminishing Musharakah—equity-based contracts—priority over simple sale-based contracts like Murabaha.

The following suggestions are derived from the results:

1. Financial institutions should give Diminishing Musharakah products more attention, particularly for long-term house financing to increase customer satisfaction and sustainability by adopting more diminishing Musharakah structures.
2. Simplifying Diminishing Musharakah Operations: Since a commented drawback was operational complexity, banks should spend money on digital solutions, automated workflows, and explicit documentation templates to make Diminishing Musharakah more user-friendly and operationally effective.
3. Many consumers are not familiar with the specific operation of Musharakah contracts. Financial institutions should fund customer education programs to clarify the benefits and obligations entailed.
4. Policymakers should provide regulatory incentives, including reduced transaction taxes, risk-sharing grants, and simplified contract approvals to promote the development of equity-based Islamic finance models.
5. Islamic housing financing solutions should be judged not only on monetary returns but also on sustainability criteria including environmental impact, affordability metrics, and community development outcomes.
6. Scholars are requested to broaden this work by studying other Islamic contracts (such as Istisna' and Ijarah Muntahia Bittamleek) or by doing longitudinal studies to evaluate performance over time.

5.3 Contribution

This research offers insightful empirical data on the relative performance of Murabaha and Diminishing Musharakah contracts in sustainable housing finance. It offers advice for both practitioners and lawmakers by means of the Islamic finance literature by emphasizing the operational trade-offs and sustainability benefits natural in equity-based contracts.

5.4 Limitations of the Study

Despite its valuable contributions, the study faces the following limitations:

- i. It relied on cross-sectional survey data which captures perceptions at a single point in time.
- ii. The study was limited to selected respondents and may not capture the views of all policymakers and stakeholders across financial institutions and different regions.

- iii. The operational complexities were self-reported from the gathered data instead of having an objective measurement.

These limitations can be addressed by future studies by employing a mixed-methods (survey and case studies) and by expanding the geographical scope.

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