Received 29 July 2017
Revised 12 October 2017
7 March 2018
11 March 2018
Accepted 11 March 2018

Understanding the *mushārakah mutanāqiṣah* of Koperasi Pembiayaan Syariah Angkasa (KOPSYA)

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Abstract

Purpose – In Malaysia, both Islamic financial institutions (IFIs) and Islamic co-operatives (ICs) provide *mushārakah mutanāqiṣah* (diminishing partnership) (MM) financing. It was initially a preferred contract as it is deemed to be more Sharīʿah-compliant and free from the element of *ribā* (interest) in comparison to other Sharīʿah-compliant sale contracts. Nevertheless, MM is now considered less appealing to IFIs due to its existing challenges. This paper aims to emphasise on MM as practiced by ICs which will highlight approaches to default, pricing of rental rates, profit sharing method and early settlement which differ to the practice of MM by IFIs.

Design/methodology/approach – This study focuses on Koperasi Pembiayaan Syariah Angkasa (KOPSYA), an IC based in Malaysia, which the authors concurred as being an ideal organisation to study on the matter due to its strong stance in promoting Sharīʿah-compliant financing products.

Findings – The research highlights the flexibility of MM implementation in KOPSYA to provide some insights on the rationale behind MM operations in KOPSYA.

Originality/value – The authors are hopeful that this paper will aspire further interest by giving the readers better understanding on the implementation of MM in KOPSYA and how it will benefit the customers.

Keywords *Mushārakah mutanāqiṣah*, Sharīʿah compliance, Sharīʿah governance, Cooperative

Paper type Research paper

Introduction

Mushārakah mutanāqiṣah (MM) or diminishing *mushārakah* is a combination of the *mushārakah* (partnership) contract and *ijārah* (lease) contract. In this structure, the equity of the financier will be gradually reduced as a result of a series of repurchases of share

ISRA International Journal of Islamic Finance
Vol. 10 No. 1, 2018
pp. 62-77
Emerald Publishing Limited
0128-1976
DOI 10.1108/IJIF-07-2017-0016

ownership by the customer from the financier through the customer's monthly payments. MM is usually used to finance the purchase of housing, properties, machinery or any tangible assets that are economically feasible and have the ability to generate returns. Numerous research articles have noted that MM made its first foray into Malaysia's financial industry in 2005. Nonetheless, the idea of MM for mortgage financing was first mooted by the late Professor Baharum (1990) in his book published in 1990. His passion for finding a solution to housing financing woes in Malaysia led to another publication in 2012 that is currently being used as a reference by employees of Koperasi Pembiayaan Syariah Angkasa (KOPSYA), an Islamic co-operative (IC) based in Malaysia.

Baharum (2012) touched upon the need to have MM financing for the ever-increasing housing problem and the need to structure it in a way that does not cause a burden to customers. He emphasised that for any rental paid by the customer to the financier, the full amount (100 per cent) should not be enjoyed by the financier as profit. Instead, it should be shared between both parties in accordance to their capital contribution. The author echoed the MM structure that is currently being practised by the Islamic and Ansar Co-operative Housing Corporation in Canada. That structure was approved by the renowned scholar Shaykh Muhammad Taqi Usmani. It is important to note that the application of MM in Canada primarily serves to cater for the rising number of immigrant homeowners. This objective is no different from the objective and charter of co-operatives: meeting the economic and social needs of their members.

This research is motivated by the aspiration of late Professor Baharum as expressed in his two books. Its objective is to show a different MM treatment that might shed positive light on MM house financing through ICs. Accordingly, the paper focuses on MM and studies KOPSYA's practice of it in particular. The authors concurred that it represents an ideal organisation by which to study the matter due to its strong stance in promoting Sharīʿah-compliant financing products. The paper provides an understanding of the application of MM by KOPSYA and identifies the issues surrounding its application. It particularly seeks to highlight approaches to default, pricing of rental rates, profit-sharing method and early settlement, which differ from the practice of MM by Islamic financial institutions (IFIs).

The paper is organised as follows. The next section discusses patterns of use of various Sharīʿah-compliant contracts for Islamic financing in Malaysia, highlighting the uptake of commodity *murābaḥah* (CM) as compared to MM. Then, an overview of co-operatives, in particular KOPSYA and its financial products, is provided, and some literature on MM financing and challenges in its implementation is reviewed. Thereafter, the research methodology adopted in this paper is described. The next section discusses and analyses the implementation of MM by KOPSYA under four tables: a base-case scenario, a situation where the periodic rental is reinvested, a case where the profit rate is reviewed and a case where the customer makes an extra payment to reduce his principal. Then, some challenges faced by IFIs in MM implementation and the way these are addressed at the level of KOPSYA are examined. The last section concludes the paper and provides some recommendations.

Sharīʿah contracts for house financing

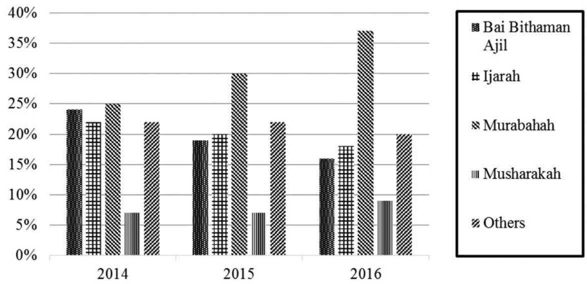
As is commonly known, the Sharīʿah contracts used for house financing are usually *bayʿ bi thaman ājil* (BBA) (deferred payment sale), MM and CM. MM as an Islamic mortgage contract was introduced into the Malaysian market in 2005 by Kuwait Finance House (Malaysia) Berhad. In 2007, Bank Negara Malaysia (BNM, 2010, 2016, 2017) issued a resolution that the financing structure based on MM is permissible, and this enabled other local and foreign IFIs to start adopting MM. It resulted in a shift from the previous BBA contract, which was deemed controversial but widely practiced in Malaysia. The reason for the preference was due to the consensus that MM is closer to the spirit and objectives of the Sharīʿah (Islamic law). It is also acknowledged that the MM models are favoured over BBA because of the latter's similarity to a conventional loan due to its *bayʿ al-īnah* (sale and buy back) features (Meera and Abdul Razak, 2009).

Figure 1 depicts the patterns of Sharīʿah contracts used for Islamic financing in Malaysia. According to the data, BBA is seeing declining usage as explained earlier. MM looks to be consistent, ranging between 5 and 10 per cent of total financing. Over the years, some IFIs, mainly local, have also started to adopt CM as an alternative to MM. The shift was mainly due to prevailing challenges and limitations related to taxation, legal ownership and purchase undertaking. Although BNM continues to work diligently with industry players and relevant authorities to find solutions to the challenges, the issues are still lingering. Therefore, there has been a sharp increase in the use of CM in Sharīʿah financing contracts over the past three years (BNM, 2016). Figure 1 shows that *murābaḥah* (cost plus mark-up sale), which includes CM, has increased exponentially over a three-year period from a modest 24 per cent of total financing in 2014 to an impressive 36 per cent in 2016. The escalation is also observed to be the highest when comparing the changes in the use of Sharīʿah contracts in Figure 2 whereby *murābaḥah* recorded an impressive 90 per cent growth as compared to *mushārakah* (partnership) which stood at 76 per cent. While the percentage of *mushārakah* may look remarkable, its share in total financing in 2016 stood at a mere 9 per cent (Figure 1).

Although the growth in CM is partly caused by the simplicity of its operations, it is also largely spurred by the existence of commodity trading operations on Bursa Suq Al Sila at Bursa Malaysia. The trading platform of Bursa Suq Al Sila has reduced costs and risks associated with *tawarruq*-based transactions, thus strengthening the capabilities of IFIs to manage credit and market risks effectively.

Islamic co-operatives and *mushārakah mutanāqiṣah* financing

Interest in co-operatives, credit unions and co-operative banks is argued to be still minimal in Malaysia. According to Othman *et al.* (2013), a considerable number of studies have been conducted on other types of enterprises instead, such as the banking industry in Malaysia. It is hoped that this paper will inculcate further interest from industry players that may



Note: *Others consist of *ujrah, istiṣnāʿ, muḍārabah*
Source: BNM (2017)

Figure 1. Composition of financing by Sharīʿah contracts

encourage more research on and understanding of ICs' operations in adopting Sharīʿah principles.

Co-operatives

The International Co-operative Alliance (2018) – the co-operative federation that represents co-operatives and the co-operative movement worldwide – defines a co-operative as an "autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise". Co-operatives in Malaysia have been around as early as 1922 with the main objective of eradicating poverty and improving the standard of living of the poor in society. They were also established to free the poor from borrowing from financiers who charged exorbitant interest on the money borrowed (Baharum, 2012). The number of co-operatives has been increasing at an average of 9.4 per cent annually within the past five years. At the end of 2015, Malaysia recorded a total of 12,769 co-operatives in nine major sectors (Suruhanjaya Koperasi Malaysia, 2015). The growth in the number of co-operatives is an indication of the increasing trust by the community on co-operatives' ability to improve the society's economic and social conditions (Itam *et al.*, 2016).

The first IC providing Sharīʿah-compliant financing, Koperasi Belia Islam, was established in 1977 in Malaysia, while the first Islamic bank was established in 1983. Given that Malaysia is a Muslim-majority country, it was imperative to establish an IC to provide Sharīʿah-compliant financing. ICs are no different from conventional co-operatives except that the operations of the former are in compliance with Sharīʿah principles. Both Islamic and conventional co-operatives are regulated by Suruhanjaya Koperasi Malaysia (SKM) and governed under Malaysia Co-operative Societies Commission Act 2007 and Co-operative Societies Act 1993 (Amendment) 2007, under the administration of the Ministry of Domestic Trade, Co-operatives and Consumerism (MDTCC).

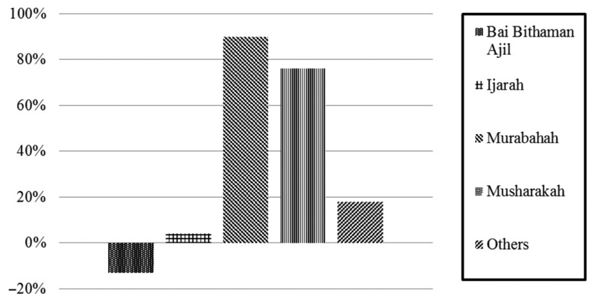
As ICs are involved in Sharīʿah-compliant financing, SKM has issued three significant Sharīʿah guidelines as listed below:

(1) Guidelines on Islamic Financing by Co-operatives – GP7;

(2) Activity Guidelines Pawn Islam (Ar-Rahnu) – GP25; and

(3) Shariah Governance Guidelines – GP28.

In 1971, the Malaysian National Co-operative Movement (ANGKASA) was established under the Co-operative Societies Ordinance 1948 (Nawai and Shafii, 2017). ANGKASA was



Source: BNM (2017)

Figure 2. Changes in the application of Sharīʿah contracts from 2014 to 2016

established for the purpose of unifying Malaysian co-operatives, to be the custodian of the co-operative ideology and to facilitate and assist in the development of Malaysian co-operatives. Under the National Co-operative Policy (NCP) 2011-2020, seven key economic sectors were identified in the Economic Transformation Programme (ETP) to achieve 10 per cent contribution to Malaysia's gross domestic product by 2020 (Yeong, 2015).

As part of ANGKASA's initiative to promoting Sharīʿah-compliant financing, KOPSYA was established in July 2011. One element of KOPSYA's vision is the objective of enhancing efficiency and access to financial markets, mirroring the vision of ANGKASA. The products offered by KOPSYA include working capital financing (Al-Tijari), pawn broking (Al-Rahn), home financing (MM), deposit taking (Al-Tawreed) and personal financing (Al-Tawarruq). Its sources of funds come from members' savings accounts, investment accounts, *mushārakah* programme with co-operatives, financial institutions, investment institutions, fees and other sources such as the government (Nawai and Shafii, 2017).

KOPSYA has been applying the MM structure for house financing. The first MM financing facility was made to Koperasi UNIKEB Bhd, which enabled it to purchase a building, now known as Wisma UNIKEB. It is interesting to note that the MM execution introduced by KOPSYA is slightly different from the MM financing by IFIs. This paper seeks to examine this issue further.

Mushārakah mutanāqiṣah financing

MM originates from the *mushārakah* contract. It is a partnership or co-ownership culminating in legal ownership of the underlying asset by one of the partners, which is commonly the customer (Haneef, 2011).

Home financing under MM is a hybrid product that involves multiple contracts, including *mushārakah* (partnership), *ijārah* (leasing) and *bay*ʿ (sale), supported by *wa*ʿ*d* (promise). As an overview, MM begins with two or three parties (depending on the subject of transaction) who purchase the identified asset as partners. After the purchase, one partner (the financier) will lease its ownership in the *mushārakah* to the customer. The latter makes a periodic payment (normally monthly) that consists of a rental fee and a redemption payment. The customer will commence using the asset to generate income. Any profits received will be shared between the partner (bank) and the customer according to the prevailing share of the said asset as agreed by each party. As MM is a diminishing partnership, the customer will gradually purchase the bank's ownership in the said asset. At every subsequent payment, the profits enjoyed by the financier will gradually decrease proportional to the financier's increased ownership. Once the final payment is made, the MM contract will end and the customer will have full ownership of the asset. The customer will surrender his share in the rental to the bank until the bank's share is completely liquidated (Hasan, 2011).

Subky *et al.* (2017) emphasised the challenges of MM implementation, particularly in relation to legal documentation, which may lead to issues that will ultimately have a direct effect on the elements of cost and risk. The authors opined that as Islamic banks are becoming reluctant to provide equity-type financing as a result of the inflexibility of its implementation under current bank regulations, KOPSYA may be a better player in accommodating MM financing.

Meera and Abdul Razak (2005) provided an interesting insight that will also be the basis of this research. The authors suggested that MM is more suitable for house financing under co-operatives since the funds provided by the members are for the benefits of the members only. Under the co-operative structure, MM provides returns to the investing members either in the form of rental or sale of properties. Another eye-opener is indeed their opinion on money creation. The authors opined that MM implementation by co-operatives avoids new money creation because as opposed to the fractional reserve system of banks, contributions by the members of co-operatives are for the members, hence minimising new money creation. Therefore, with profits and losses equally enjoyed and borne by both co-operatives and their members, equity-type transactions may bring a harmonious balance between the monetary sector and the real economy. That would ultimately support the *maqaṣīd al-Sharī'ah* (objectives of the Sharī'ah).

Meera and Abdul Razak (2009) followed up by identifying issues that need to be addressed in MM implementation that touch upon matters affected by changes in rental rates. Issues of rental review were highlighted, and the authors concluded that changes in rental rates may increase the value of the property. The latter could, in turn, be affected when the property is redeemed either at maturity or in the event of default. Further observation suggests that the rental rate, which should be based on actual value or the rental yield, is seen as lower than the average lending rates. Interestingly, the authors reiterate that while banks may use MM for their Islamic mortgage transactions, *mushārakah* with the diminishing feature would be more suitable for implementation through co-operatives in addressing the social well-being of their members.

Naim (2011) recommends that the undertaking to purchase should be at market price in the event of default instead of the normal practice of setting it at a pre-determined price or at par value. Nevertheless, in the event an undertaking is imposed in the contract, the *mushārakah* should not be of a diminishing nature. Instead, it should include the element of *ijārah muntahiyah bi al-tamlīk* (lease ending with transfer of ownership). Upon maturity, the transfer of assets would be made by way of *hibah* (gift) upon receipt of the final installment. The author is of the opinion that under the *mushārakah* structure, if the equity portion is not diminished, the financier can exercise its right over the rental and principal in the event of rental default. This non-diminishing *mushārakah* can also be used to deal with circumstances arising as a result of property price volatility. Purchase undertaking is one of the much-discussed challenges faced by IFIs. The authors shall later explain the approach undertaken by KOPSYA that may provide a glimpse of the solution to this issue.

Research methodology

To achieve the objective of this research, the qualitative approach was undertaken. One of the methods adopted was a review of available literature on MM in relation to Islamic home financing. In the process, it was found that research materials on Islamic finance issues in Malaysia were abundant with the establishment of several research institutions which have been publishing their research outputs. On the other hand, literature on ICs was quite scarce.

The second method adopted was an interview of a person of authority on Islamic finance in Malaysia to discuss the application of MM by ICs in Malaysia. In particular, the authors had the opportunity to interview the Chief Executive Officer (CEO) of KOPSYA, Dato' Syed Ghazali Wafa bin Syed Adwam Wafa, to explore the rationale behind the implementation of MM in KOPSYA, MM operations in the co-operative, and how MM benefits the customers. Excerpts from the interview play a pivotal part in achieving the objective of this research, and analyses arising from the said discussion are elaborated further in a later section of this paper.

Discussion and analysis of *mushārakah mutanāqiṣah* under KOPSYA

In relation to MM as practiced by KOPSYA, the contract has two sections. Once the customer has identified a property to purchase, he will inform KOPSYA. The two parties will then enter into a *mushārakah* agreement under the concept of *shirkat al-milk* (joint ownership) whereby both KOPSYA and the customer will contribute a percentage of the purchase price to acquire the property. Usually, the customer will contribute 20 per cent, whereas the balance of 80 per cent will be contributed by KOPSYA. The property identified usually takes the form of tangible assets that can generate returns such as houses, properties or land for development.

KOPSYA and the customer will then enter into an *ijārah* agreement whereby KOPSYA will lease its portion of the property to the customer and the rentals will be paid on a monthly basis. The rental is calculated as: the principal multiplied by the profit rate (in percentage). The rental will be shared based on the outstanding percentage of ownership of each partner. The percentage of ownership changes after receipt of each rental payment until the outstanding percentage is gradually redeemed. Once the equity portion of KOPSYA is fully redeemed, the full ownership of the property will be transferred to the customer, and by that the MM agreement is terminated.

KOPSYA's treatment of the rental is different from what is practiced by IFIs. Under IFIs, the principal payment will be used to redeem the ownership percentage, whereas the monthly or periodic rental received is normally captured by the IFI. The differential treatment is simply because IFI's equity comprises both public and corporate shareholders. On the other hand, the equity holders in KOPSYA are its members, who are also its customers. Therefore, the monthly rentals received are enjoyed by both KOPSYA and the customers.

To illustrate, the following base-case scenario depicts the sharing of profit by both parties (KOPSYA and the customer) and how the shareholding is gradually reduced throughout the financing tenure. The base case shows a typical MM treatment under KOPSYA. For straightforward financing of US$240,000 at the rate of 5 per cent, the customer can obtain a 30-year financing with monthly payment of US$1,667.

Three tables are further illustrated below to describe the effects that these changes may have on the financing tenure. These scenario changes are allowed under KOPSYA's flexible approach.

Reinvestment of periodic rental

Alternatively, as rental is shared between the customers and KOPSYA as the financier, the customer can opt to reinvest his periodic rental payment. Based on the example below, the customer's portion is reinvested and deducted from the monthly principal outstanding (Column I – Financier's Equity Outstanding). By comparing the amount under month 120, the figure in Column I in Table I (above) stood at US$160,000, but if the customer's portion is reinvested, the same column under Table II showed a significant reduction to US$112,384. Ultimately, by reinvesting, the customer can opt to accelerate its redemption; hence, shortening the financing tenure from 30 years (360 months) to 19 years (223 months).

Review of rental rate

The formula of rental under KOPSYA would depend on the cost of funds incurred by KOPSYA at the particular moment of the transaction. The cost of funds is usually the cost incurred by KOPSYA in sourcing its funds, which may involve getting financing from other financial institutions. Given that *ijārah* is a lease contract, this means that the rent can be reviewed periodically. The review period is usually set at a quarterly or semi-annual basis but can be as long as a few years or as short as a month. This makes *ijārah* more flexible than *murābaḥah* as it provides a variable rate of return. The periodical review is known to be practiced in the UK for Islamic mortgage products as approved by Sharīʿah scholars such as Shaykh Muhammad Taqi Usmani. It is also practiced by KOPSYA, where rental may be

Table I.
Base case

Asset price : US$300,000
Financier's contribution : 80%
Customer's contribution : 20%
Facility Amount : US$240,000
Years : 30
Months : 360
Profit rate : 5.00%

Month	Financier's equity (A)	Monthly rental (B)	Payment due (C)	Principal redemption (D)	Customer's portion (E)	Customer's % of equity (F)	Financier's portion (G)	Financier's % of equity (H)	Financier's equity outstanding (I)
						20.0		80.0	
1	240,000	1,000	1,667	667	200	20.2	800	79.8	239,333
120	160,667	1,000	1,667	667	464	46.7	536	53.3	160,000
180	120,667	1,000	1,667	667	598	60.0	402	40.0	120,000
240	80,667	1,000	1,667	667	731	73.3	269	26.7	80,000
300	40,667	1,000	1,667	667	864	86.7	136	13.3	40,000
348	8,667	1,000	1,667	667	971	97.3	29	2.7	8,000
359	1,333	1,000	1,667	667	996	99.8	4	0.2	667
360	*667*	*1,000*	*1,667*	*667*	*998*	*100.0*	*2*	*0.0*	*0*

Note: The italic data reflect the changes made in each scenario and how the changes affect the repayment years
Source: Authors' own

Table II.
Reinvestment of periodic rental

Month	Financier's equity (A)	Monthly rental (B)	Payment due (C)	Principal redemption (D)	Customer's portion (E)	Customer's % of equity (F)	Financier's portion (G)	Financier's % of equity (H)	Financier's equity outstanding (I)
1	240,000	1,000	1,667	667	200	20.3	800	79.7	239,133
2	239,133	1,000	1,667	667	203	20.6	797	79.4	238,264
3	238,264	1,000	1,667	667	206	20.9	794	79.1	237,391
4	237,391	1,000	1,667	667	209	21.2	791	78.8	236,516
5	236,516	1,000	1,667	667	212	21.5	788	78.5	235,638
6	235,638	1,000	1,667	667	215	21.7	785	78.3	234,756
7	234,756	1,000	1,667	667	217	22.0	783	78.0	233,872
8	233,872	1,000	1,667	667	220	22.3	780	77.7	232,985
120	113,671	1,000	1,667	667	621	62.5	379	37.5	112,384
219	3,194	1,000	1,667	667	989	99.2	11	0.8	2,528
220	2,528	1,000	1,667	667	992	99.4	8	0.6	1,861
221	1,861	1,000	1,667	667	994	99.6	6	0.4	1,194
222	1,194	1,000	1,667	667	996	99.8	4	0.2	528
223	*528*	*0*	*528*	*528*	*0*	*100.0*	*0*	*0.0*	*0*

Note: The italic data reflect the changes made in each scenario and how the changes affect the repayment years
Source: Authors' own

reviewed periodically based on negotiations with the customers. In fact, if the house price is periodically reviewed, then any capital gains can be shared accordingly.

Table III illustrates the change in profit rate from 5 (under Scenario 1) to 6 per cent. The change of rate to 6 per cent is effective from month 73. Based on the illustration, by comparing month 72 and month 73, theoretically, monthly rental will increase in line with the surge in rate, yet the monthly rental reduces from US$1,000 to US$960. The unconventional result is taking into factor the number of years remaining instead of fixing the initial 30 years as its basis. Furthermore, the review of rental price only affects the profit received, while the principal remains the same. Therefore, if the customer's profit is not reinvested, the financing tenure will remain 30 years (360 months). On the other hand, in the event that the customer's profit is reinvested, it may shorten the financing tenure.

Partial payment

Dato' Syed Ghazali Wafa mentioned that MM financing under KOPSYA usually will not exceed 15 years, with the average lingering around 10 years as compared to a typical house financing which is between 20 and 30 years. This is a commercial decision made by KOPSYA, as it does not wish to be exposed to market risk for too long. Although raising social living standards of the society is laudable, KOPSYA will not risk the dividend of other members. Nevertheless, the flexible terms on additional payments being offset against the principal may ease the payment obligations of the customers. The CEO recalled a co-operative representative feeling blissful when he was told that his additional payment will be used to offset the principal amount hence reducing the payment period by a year. This very same treatment cannot be applied under some IFIs, as additional payments are deemed as advanced rental.

As an illustration, Table IV shows that by making an additional payment of US$50,000 at month 48 (excluding reinvestment basis) can significantly reduce the financing period by 75 months. Therefore, when compared to Table I, the financing tenure is shortened from 360 to 285 months under Table IV.

Challenges and issues in *mushārakah mutanāqiṣah* implementation

As previously highlighted in the earlier part of the paper, there are several challenges faced by IFIs for MM implementation. These challenges faced by IFIs are tactically handled by KOPSYA in the following manner.

Purchase undertaking

As iterated by Naim (2011), given industry players' concerns in ensuring financing repayment, the financiers include an undertaking covenant to protect from ownership risk when facing default and disposal of assets. Naim (2011) suggests that the purchase undertaking should be at market value either in a commercial partnership or in individual home financing, and the price should not be pre-determined, which would involve the element of guaranteeing the *mushārakah* investment.

However, due to the flexibility to negotiate, there is no purchase undertaking clause imposed in the MM facility agreement of KOPSYA. KOPSYA is taking this stance as the customer should not be obliged to purchase its remaining shareholding portion and KOPSYA's portion in the event of default. If an event of default is triggered by the customer's inability to pay, any obligation imposed on him will result in him being more handicapped. Thus, it is not in line with the *maqaṣīd al-Sharīʿah*. Furthermore, although a purchase undertaking is a *waʿd* (promise), the promise is still legally binding. The undertaking arrangement is made as a means to facilitate the financier's recovery of the full

Table III.
Review of profit rate

Profit rate		Before 5.00%		From month 73 onwards 6.00%					
Month	Financier's equity (A)	Monthly rental (B)	Payment due (C)	Principal redemption (D)	Customer's portion (E)	Customer's % of equity (F)	Financier's portion (G)	Financier's % of equity (H)	Financier's equity outstanding (I)
1	240,000	1,000	1,667	667	200	20.2	800	79.8	239,333
72	192,667	1,000	1,667	667	358	36.0	642	64.0	192,000
73	*192,000*	*960*	*1,627*	*667*	*346*	*36.2*	*614*	*63.8*	*191,333*
120	160,667	960	1,627	667	446	46.7	514	53.3	160,000
180	120,667	960	1,627	667	574	60.0	386	40.0	120,000
240	80,667	960	1,627	667	702	73.3	258	26.7	80,000
300	40,667	960	1,627	667	830	86.7	130	13.3	40,000
356	3,333	960	1,627	667	949	99.1	11	0.9	2,667
357	2,667	960	1,627	667	951	99.3	9	0.7	2,000
358	2,000	960	1,627	667	954	99.6	6	0.4	1,333
359	1,333	960	1,627	667	956	99.8	4	0.2	667
360	*667*	*960*	*1,627*	*667*	*958*	*100.0*	*2*	*0.0*	*0*

Note: The italic data reflect the changes made in each scenario and how the changes affect the repayment years
Source: Authors' own

Table IV.
Partial payment

Month	Financier's equity (A)	Monthly rental (B)	Payment due (C)	Principal redemption (D)	Customer's portion (E)	Customer's % of equity (F)	Financier's portion (G)	Financier's % of equity (H)	Financier's equity outstanding (I)
1	240,000	1,000	1,667	667	200	20.2	800	79.8	239,333
48	*208,667*	*1,000*	*1,667*	*667*	*304*	*47.3*	*696*	*52.7*	*158,000*
120	110,667	1,000	1,667	667	631	63.3	369	36.7	110,000
276	6,667	1,000	1,667	667	978	98.0	22	2.0	6,000
277	6,000	1,000	1,667	667	980	98.2	20	1.8	5,333
278	5,333	1,000	1,667	667	982	98.4	18	1.6	4,667
279	4,667	1,000	1,667	667	984	98.7	16	1.3	4,000
280	4,000	1,000	1,667	667	987	98.9	13	1.1	3,333
281	3,333	1,000	1,667	667	989	99.1	11	0.9	2,667
282	2,667	1,000	1,667	667	991	99.3	9	0.7	2,000
283	2,000	1,000	1,667	667	993	99.6	7	0.4	1,333
284	1,333	1,000	1,667	667	996	99.8	4	0.2	667
285	*667*	*1,000*	*1,667*	*667*	*998*	*100.0*	*2*	*0.0*	*0*

Note: The italic data reflect the changes made in each scenario and how the changes affect the repayment years
Source: Authors' own

amount of its financing. This clearly conflicts with KOPSYA's mandate to ease the burden of its members. Under co-operatives, every customer is also a member. Hence, both parties should equally benefit from the profit and bear the loss of every transaction.

Adverse situation

KOPSYA avoids financing properties under construction, as it does not wish to take the risk of projects being abandoned. The risk-averse appetite is also in line with the softening property market. In Malaysia, according to the Urban Wellbeing, Housing and Local Government Ministry, there were 134 abandoned housing development projects between 2013 and November 2016 (Yeong, 2016). In 2016 alone, 26 housing development projects were abandoned (Yeong, 2016).

KOPSYA has never taken any bankruptcy action against its customers even under individual financing. This is because co-operatives take the negotiation approach. They try to understand the issues customers face and as such allow for restructuring by adjustment of the tenure and amount. Usually, the payment may come from the client's deposit with other co-operatives. As for MM, KOPSYA deems a member as a business partner and joint owner of the same property. In the case of MM, KOPSYA may buy back all the remaining shares held by the customers and then sell it to a third party. However, in the event of default and foreclosure, KOPSYA can sell the assets (being assets pledged) to a third party at the best price or market price. Either way, any profit arising from the sale would be shared based on current ownership stakes of each partner in the asset (Baharum, 2012).

Regulatory issues

While Islamic banks are supported by guidelines issued by BNM, ICs have not had the opportunity to enjoy the privileges of being under the purview of a proper compliance entity. In 2013, BNM issued the Islamic Financial Services Act (IFSA 2013) in tandem with the Financial Services Act (FSA 2013). The guidelines under IFSA 2013 listed strict requirements that need to be adhered to. While bankers may deem strict compliance to hinder their business going forward; one cannot deny that these strict requirements serve to minimise the banks' liquidity and business risk. In addition, the Sharīʿah Governance Framework was initiated by BNM to take into account the maturing Islamic banking industry, which is evolving rapidly in Malaysia. Suffice it to say that the absence of a specific act or regulation for ICs may trigger issues in cases where the current regulation may not be in compliance with the Sharīʿah principles or may hinder the process of Sharīʿah compliance (Itam *et al.*, 2016).

Although Itam *et al.* (2016) suggest certain governance to be in place, in the case of KOPSYA, the absence of strict regulation may be an advantage. This is because the purpose of the co-operative is to protect the interest of society, but it also requires strict monitoring of the customers' servicing pattern. After all, as the co-operative empathises with its customers, the customers should not misuse the advantages offered by not fulfilling their obligations.

It cannot be denied that the flexibility enjoyed by KOPSYA – given that it faces limited regulatory compliance and restriction – has enabled MM to be favoured by its members. The flexible approach is in line with the mission of KOPSYA in helping out and streamlining the co-operative business. However, KOPSYA's mission needs to be embraced not only by the management but also by its employees. Synchronisation of its mission between KOPSYA and its employees is pivotal to the success of KOPSYA as a whole.

Conclusion

The paper has highlighted the principles of ownership and willingness to negotiate that are reflected in the concept of partnership in the MM contract. Acknowledging the said principles, co-operatives that are established with the motive of uplifting members' socio-economic status provide an ideal of fair and equal treatment, both for the co-operatives and for the members. Although the main premise for an organisation is to generate profits, the concept of fairness is still required under the purview of co-operatives and for the sake of achieving the *maqaṣīd al-Sharīʿah*. Under Sharīʿah, all transactions should be fair, certain and contain no *maysir* (gambling).

One cannot deny that the government lending full support for the development of Sharīʿah-compliant financing is not merely due to the majority of Malaysians being Muslims but because the Islamic finance industry has proven to bring benefits. It can also be concluded that Sharīʿah-compliant financing has come into existence not only as a complement or alternative but more of a solution (Amin *et al.*, 2004). However, while it is undeniable that KOPSYA's MM product has received an overwhelming response not only from its members but also from other co-operatives, much-needed awareness must be created at the level of individuals and corporations. It is hoped that this paper will spark further interest in promoting KOPSYA and ICs' operations, which may directly improve the living standard of the needy.

Recommendations

Knowledge management

In view of the limited guidelines for ICs, there is strong emphasis that each employee of KOPSYA must be knowledgeable about each product offered by KOPSYA. They must, therefore, master MM knowledge because, without understanding how MM works, MM execution may not be smooth and may face difficulties. Hence, the CEO emphasises continuous knowledge amongst the staff. Knowledge can be gained by on-the-job training, external training and knowledge sharing among the staff. The CEO held strong views on the need for training and retraining as a continuous process to ensure that current staff is sufficiently equipped and kept abreast with Islamic finance developments.

Increasing awareness

It is also recommended to have further understanding of KOPSYA's operations. This is because, in some countries, credit unions and co-operative banks have been gaining market share, partly as a result of their more risk-averse policies, greater transparency, and their policy of being less subject to managerial self-serving than other banks (Al-Muharrami and Hardy, 2014). KOPSYA is no exception as its managerial purpose is set by its vision and mission to be clear and transparent. That is why, as KOPSYA is using equity sources for funding projects, it has prompted KOPSYA to be vigilant in taking risks and to opt for secure investments. Some may think that KOPSYA should take calculated risks to gain higher returns, but KOPSYA's management is of the view that a small profit is sufficient to ensure sustainability in supporting mutual solidarity among its members.

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