



DIMINISHING PARTNERSHIP AS SOLUTION TO TURKEY'S HOUSING CRISIS: AN ANALYSIS FROM ISLAMIC LAW PERSPECTIVE

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ABSTRACT

The concept of decreasing *mushārahah* or *al-Mushārahakhtu'l-mutanāqīshah* involves a capital operation within a partnership, culminating in the transfer of ownership. Unlike traditional practices, this partnership model emerged in the 20th century and has since become a specialized arrangement in contemporary financial practices, notably within interest-free financial institutions or participation banks. In diminishing *mushārahah*, the financial institution gradually reduces its share in the partnership until it is wholly transferred to the customer, who then assumes the role of managing partner. This arrangement aims at providing interest-free financing while generating profits for all involved parties, offering diverse banking services beyond permanent *mushārahah* setups. It entails multiple individuals joining forces in an income-generating venture, with one party progressively acquiring the shares of others until they gain sole ownership through successive independent sales contracts. Diminishing *mushārahah* is an alternative to conventional methods, particularly within interest-free financial institutions across industry, trade, agriculture, and tourism. This research investigates integrating diminishing partnership systems into Turkish housing finance, primarily through *Ijārah*-based diminishing *mushārahah* financing methods, post the pandemic-induced housing crisis. The study identifies infrastructure, staff training, and product competitiveness as areas needing improvement in the participation banking sector, suggesting legal adjustments and regulatory frameworks for effective implementation. This research emphasizes the necessity of comprehensive legislative changes within Turkey's financial framework to accommodate diminishing partnership systems. It offers original insights and proposes legal amendments that uniquely contribute to participatory banking research. It presents a fresh perspective on home financing, promoting economic autonomy and housing market accessibility through innovative approaches.

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1. INTRODUCTION

Mushārakah or partnership in *Islāmic* corporate law refers to a capital partnership with varying capital ratios and profit shares (Ābidīn, 1984). Originating from an ancient company structure, it encourages collaboration for profit sharing. Interest-free banking has led to the evolution of financing methods, such as Diminishing Partnership or *al-Mushārakah al-Mutanāqīṣah* (Bayındır, 2005). This approach gradually concludes the partnership, transferring ownership over time. Originating from Sami Hammud's 1976 doctoral study, it gained traction during the First Islamic Banking Symposium in 1979 (Ḥammūd, 1982). This study highlights the diminishing partnership as an alternative partnership financing model, highlighting *Sharī'ah* regulations prohibiting both parties from taking a lump sum of profit beyond their equity shares. It also emphasizes the importance of sharing appreciation of home value over time (AAOIFI Shari'ah Standards, 2010).

Turkey, struggling with a severe economic crisis from COVID-19 and historic earthquakes affecting 11 significant cities, faces housing challenges, especially for low-income groups. Global recessions intensified following the COVID-19 pandemic and the Russia-Ukraine war, with subsequent contractions post-February six earthquakes. The OECD lowered Turkey's 2023 growth forecast from 3.0% to 2.8% in March 2023 (Sabırsız and Şöhret, 2024). The crisis has led to job losses, falling household incomes, and difficulty paying for essentials such as food, shelter, and healthcare. Despite public and private sector efforts, the housing sector remains inadequate regarding demand and affordability (TOKİ, 2020) despite reports that the state plans to build or renovate 13 million housing units annually, with an annual target of 1 million. The government implemented measures such as reducing interest rates, introducing land registry applications, and imposing work allowances to address surplus supply and economic challenges (Tanrıvermiş, 2020). Because of the economic reformation, during the March 2024 Money Market Board meeting, the Central Bank of the Republic of Turkey raised the policy rate of interest with a 500-Point Interest Rate Increase to 50% (Erkoyun and

Butler, 2024); this escalation marked the policy rate's highest nominal level since March 2003. This caused a 14.9% decrease in housing sales from January to November 2023, according to TÜİK report (Kaya and Gönültaş, 2023). Homeownership has been an elusive dream for many, with average monthly rents in smaller towns and cities around \$600 (Uras, 2023).

Turkey's housing crisis calls for alternative financing aligned with economic realities and *Islāmic* principles. Hussen (2022) highlights the role of government incentives in firm performance, while Erdem and Tatli (2024) explore *Islāmic* finance's potential, particularly in diminishing partnerships beyond SMEs. Paylan and Kavas (2021) show that economic uncertainty affects consumer behavior. These studies support diminishing partnerships as a *Sharī'ah*-compliant, sustainable housing solution that eases financial burdens and promotes economic stability.

The study proposes a 'diminishing partnership' model for Turkish Participation Banks, which is already in use in countries such as Bangladesh and Pakistan. This *Islāmic* banking model, which strictly adheres to regulations prohibiting interest-based transactions and *gharar* (uncertainty), offers an ethical solution to the housing crisis. Mortgages, often associated with *gharar* and gambling, are considered unethical. The Diminishing Partnership from Turkey, however, provides many advantages, including interest-free funding, progressive property ownership, affordable homes, secure property markets, responsible lending while preventing extended financial strain, flexible payment options, and economic development. DP's *Sharī'ah*-compliant and ethical nature offers certainty and removes any risk associated with speculation from the financing process. The program distributes home ownership responsibilities and risks across a period to ease home ownership costs. Participation banks establish affordable home ownership options through their housing offerings, which reach out to low and medium-income families to buy homes. The responsible lending approach under DP counters reckless lending while cutting down long-term debt problems. The implementation of DP in Turkey encounters multiple barriers consisting of regulatory restrictions and legal requirements, along with difficulties in awareness, elevated initial expenses, profit concerns, and market competition, along with delayed ownership transfer processes, complex operational procedures, administrative work, and property valuation uncertainties, and possible contractual misuse.

2. LITERATURE REVIEW

Rosly (2005) suggested that diminishing partnership (DP) could enhance stability by reducing market volatility and potentially minimizing financial crises. In their 2014 study, Amin, Rahim, and Razak (2014) investigated the determinants shaping Malaysia's demand for home financing. They underscored the significance of demographic variables such as marital status, ethnicity, and religious dedication in forecasting the future appeal of *Islāmic* home financing products, which were deemed *Sharī'ah*-compliant as early as 1979. However, *Islāmic* Banks rarely utilize it for various reasons despite its notable advantage of expediting ownership transfer compared to conventional mortgage methods (Kameel, Meera, and Razak, 2009).

Diminishing partnership (DP) contracts, which are compliant with *Sharī'ah* principles, have been widely accepted among *Muslim* scholars for their potential to promote responsible lending and financial stability. Studies (Smolo and Hassan, 2011; İbeçoğlu, 2023) have shown that these contracts can alleviate poverty through Microfinance and interest-free loans to small and medium-sized enterprises (SMEs). Operational challenges such as property taxes and rental rates, however, must be resolved for DP to be practical and user-friendly.

Within this model, cooperative housing organizations in Canada, the UK, and the USA have successfully offered interest-free financing for thousands of homes to the *Muslim* community (Selim, 2020; Loundy, 2013). Bebercuma (2006) suggests that the housing above finance system must be examined for its continued existence. Bendjilal and Khan (1995) highlight the potential of DP in alleviating poverty by reducing homelessness and enhancing stability by reducing market volatility.

According to Asadov et al. (2018), *Islāmic* financial institutions should split all contract expenses rather than just the Property Buyer's (PB) portion. By their suggested strategy, the house would be rented to a third party at the going rate, with the option for the PB to move in later, provided they agree to pay the current market rental rate, which would be split between the *Islāmic* Bank and the PB. This approach avoids uncertainty and adheres to *Sharī'ah* law by not using interest-based standards. Moghul (2017) strongly emphasized encouraging ethical investing, carrying out social obligations, and incorporating spirituality and the UN Principles of Responsible Investment into *Sharī'ah*-compliant home finance. Bayındır and İnanır (2005) have highlighted the importance of partnership

frameworks in *Islāmic* capital management, which emerged in the mid-20th century. Interest-free banking, which advocates for capital management within the partnership principle, has gained traction in Turkey. Dinc (2017) underlined Turkey's success in Murabaha financing for mortgage purposes, suggesting it could serve as a global model.

3. HOUSE DEMAND IN TURKEY THROUGH DP

The 2018 crisis, exacerbated by political tensions with the US (Çakmaklı et al., 2020; Coşkun, 2016; Gül, 2017) in Turkey, led to a severe economic downturn, resulting in a significant devaluation of the Turkish Lira against the US dollar and a surge in inflation. This led to numerous firms declaring bankruptcy and high unemployment rates (Akçay and Güngen, 2019; Uddin 2018). As the pandemic unfolded globally, governments enforced unprecedented measures, including lockdowns and business restrictions, altering societal dynamics and economic landscapes. The Turkish economy, housing markets, and households were severely impacted, with the lack of a recovery period and lockdowns shuttering small and medium-sized enterprises, including construction firms, amplifying economic downturns and unemployment (Sari, 2022).— The pandemic compounded pre-existing economic woes, particularly unemployment and the housing crisis. Even before the pandemic, Turkey had grappled with a high unemployment rate, which surged further after COVID-19 emerged (TÜİK, 2020).

In Turkey, purchasing a new home remains unattainable, mainly for low and middle-income individuals. Escalating house prices and loan expenses steadily deteriorate home ownership's feasibility, dimming prospects with each passing day. Rent prices have surged sixfold nationwide over the past four years, with metropolitan areas experiencing even steeper hikes. Data disclosed by Istanbul Metropolitan Municipality Deputy Secretary General Buğra Gökçe underscores a staggering 583% surge in rents nationwide between 2019 and 2023, with metropolitan cities witnessing an average increase of 697%. Antalya recorded the highest rent escalation at 1109%, followed closely by Mersin at 963%, Muğla at 935%, Ankara at 833%, and Istanbul at 713%. He added that the surge in rental rates surpasses even the escalation in the dollar exchange rate, marking an unprecedented spike in real estate prices (Öztürk, 2023).

According to data from The Central Bank of the Republic of Turkey (TCMB), residential and square-meter unit prices tripled

between 2010 and 2020, significantly exacerbating affordability issues (TCMB, 2020). The accessibility of affordable housing, particularly for low-income groups, has become increasingly complex, with social housing initiatives proving inadequate in quantity and affordability (Çetin, 2021). He notes that vulnerable populations encounter heightened challenges in obtaining suitable housing amidst escalating prices and scarce affordable alternatives.

4. UNDERSTANDING *MUSHĀRAKAH* CONCEPT: AN OVERVIEW

The term *mushārahah*, meaning partnership, denotes capital partnership, or a contractual partnership. Modern usage often refers to companies formed by contract to avoid ambiguity. Classical fiqh doctrine divides *mushārahah* into three parts: capital partnership (*Shirkatu al-amwāl*), business partnership (*Shirkatu al-a'māl/al-abdān*), and credit/reputation partnership (*Shirkatu al-amwāl*) (Shubayr, 2007; Zuḥaylī, 1984). These partnerships are further categorized into '*Shirkatu al-Mufāwāḍah*' and '*Shirkatu al-inān*' parts, based on capital ratios, profit-sharing, loss-bearing rates, and partners' savings authority (Döndüren, 1997). According to classical fiqh, '*mushārahah*' equates to 'capital partnership' and falls under the '*Shirkatu al-inān*' category (İnanır, 2015). It involves two or more individuals investing specified capital and sharing ensuing profits and losses (Hammad 1996), resembling a joint-stock company (Bayındır, 2005). In such partnerships, profits need not align with capital, but losses do (Zayla'ī, 1973). Partners are not guarantors of each other but representatives. Thus, a qualified (*mumayyiz*) child can participate as a *wakīl* (representative). Partnerships can engage in general trade or specific sectors, not mandating all partners as *Muslims*. Under Islamic law, capital and profit must meet certain conditions (Kāsānī, 1974).

In classical *fiqh*, *mushārahah* equates to a capital partnership, resembling a joint stock company (İnanır, 2015; Hammad, 1996; Bayındır, 2005). Conditions include partners acting as agents, specific capital rights, and prohibiting debt-embezzled capital (Aynī, 2000). In interest-free banking, *mushārahah* funds commercial activities jointly managed by the bank and entrepreneur, forming agreed-upon capital (Tunç, 2010; Uddin and Okur 2023). Profit-loss-sharing occurs, with the entrepreneur receiving both profit share and labor reward. The partnership involves a business agreement, joint capital participation, and proportional profit sharing, for example, 60%, 40%, 70%, or 30%, regardless of the outcome (Tunç, 2010).

Mushārahah, a cornerstone of interest-free banking, ensures an equitable distribution of profits and returns. It involves the bank's capital contribution to projects, sharing ownership and management authority. The bank acts as the capital supplier, while partners handle operations. Profits and returns are shared among partners, reflecting the fairness of *Islāmic* finance principles. Unlike classical *fiqh*, modern partnerships can involve multiple individuals or entities, termed '*mushārahah*' instead of '*Shirkatu al-amwāl*'. Compared to *muḍārahah*, where the risk lies with the capital provider alone, *mushārahah* allocates risk to both capitalists and entrepreneurs (Çelik, 2017). While *muḍārahah* focuses on labor-capital partnership, *mushārahah* emphasizes capital, utilizing *muḍārahah* structures.

Often, *mushārahah* partnerships, a cornerstone of *Islāmic* finance, develop into *muḍārahah* setups following the need for capital management. In joint-stock companies, the operator and financiers assume roles akin to *muḍārib* and *rabbu'l-māl* (operator-financier), respectively. In interest-free banking, various entities can hold the operator's title. Within a *mushārahah*, however, any partner may take on this role, showcasing the adaptability and versatility of this system. *Islāmic* jurists differ on whether a bank or company can convert *muḍārahah* capital into investment by adding its own. According to Ḥanafīs and Ḥanbalīs, the manager (*muḍārib*) can add personal capital without consent, while Shāfi'īs require owner permission, and Mālikīs allow it under *muṭlaq* (absolute) *muḍārahah* contracts (Kāsānī, 1974; Mālik, 1324).

4.1 TYPES OF MUSHĀRAKAH

Mushārahah, an *Islāmic* finance concept, manifests in several forms in modern business. However, there are two main types of *mushārahah*. In this type of *mushārahah*, none of the partners intends or will to leave the partnership after a certain period of time or only provide financing. The common and primary goal is to establish a business and grow the company further by making a profit from that business (Durmuş, 2011). Since this is the case, the partners' capital remains constant in principle, and at least it does not decrease by gradually transferring it to each other. For this reason, this partnership is called permanent/fixed *mushārahah* (Hasan, 2016).

4.1.1. THE MECHANISM OF DIMINISHING PARTNERSHIP

The method of capital operation through a partnership that concludes with the transfer of ownership is termed ‘decreasing *mushārah*’ or ‘diminishing partnership.’

In classical fiqh, this form of partnership, which culminates in the transfer of capital, was not explicitly addressed. Originating in the 20th century (Bayındır, 2015) it emerged as a distinctive form of *mushārah*, initially implemented in the tourism sector in Egypt. This transaction, now known as ‘*al-Mushārah almutanāqīshah*’ or diminishing partnership, represents a specialized form of partnership arrangement in contemporary financial practices.

Within the context of interest-free financial institutions/banks, the ‘diminishing *mushārah*’ process involves a partnership structure where the institution's share gradually decreases until it is entirely transferred to the customer, who acts as the managing partner (Umrānī, 2010). This transaction is designed to provide interest-free financing and generate profits. Through this method, the bank, as a partner, engages in interest-free investments, thereby increasing its profits by effectively deploying its capital. Simultaneously, other partners involved in the arrangement benefit from interest-free financial resources to pursue their targeted investments in securities or real estate, all within the bounds of legitimacy. In contrast to permanent or fixed *mushārah* arrangements, DP offers various alternative banking services catering to diverse needs and preferences. Moreover, because the goods ultimately transfer to the customer, they are incentivized to work more diligently and actively, increasing the popularity of this method over other *mushārah* arrangements (Uddin, 2020).

A DP transaction is characterized by two or more individuals partnering in an income-generating venture. Within this arrangement, one party commits to gradually or entirely purchasing the shares of the other partner(s). As a result, while the share of one or all parties decreases until it reaches zero, the committed party ultimately assumes sole ownership of the project or property (Kawāmilah, 2006).

This partnership envisages the gradual transfer of the property right over a common asset from one of the partners, the financial institution, to the other partner, the customer, through successive independent sales contracts. As the financial institution's share in the partnership decreases, its share of the profit also decreases at the same rate, and at the end of the specified period, the ownership of the asset subject to the partnership is wholly transferred to the customer.

However, in this partnership, the parties also have the authority to sell their shares to each other or to third parties. The concept of DP, in addition to capital partnership in the doctrine, also includes *muḍārabah*, which ends with the transfer of ownership (Umrānī, 2010).

However, DP, a particular type of capital partnership, is used as an alternative to the compound *murābahah* method (Hassan, Hossain, and Muneeza, 2024), mostly by interest-free financial institutions in the North African region, to realize a project between the entrepreneur and the financial institution or to procure an asset such as tools and equipment (İnanır, 2017). This partnership is implemented in many areas that generate regular income, such as industry, trade, agriculture, tourism, transportation, service, health, construction, and energy sectors (Uddin, 2020).

4.1.2 LEGAL ASPECT OF DP

Although opinions vary among contemporary *Islāmic* jurists, a prevailing consensus (*Ijmā'*) is that DP is a permissible and legitimate transaction, provided that it adheres to *Sharī'ah* principles and avoids any potential drawbacks, such as combining multiple contracts within one or stipulating one contract within another (Bayındır, 2005). *Islāmic* jurists have evaluated the processes involved in diminishing *mushārahah* from a *fiqh* perspective, leading to the emergence of six distinct approaches. These include viewing DP as *Shirkatul-milk*, *Shirkatu al-'inān* as a subset of *Shirkatul-a'qd*, a form of *muḍārabah*, a new contract, a contract with variable names based on its application, and a type of partnership resembling *Ijārah* (Kacı, 2020). However, upon closer examination, it has been determined that while DP shares similarities with these transactions, it does not precisely align with any single one. Instead, it represents a mixed or hybrid financial contract whose legal nature may vary depending on its specific formulation and execution. Furthermore, it has been noted that DP differs from permanent *mushārahah* and *Ijārah* in its outcomes, particularly in that it results in asset assignment rather than a straightforward sale (*Bay' al-Wafā'*) (Kawāmilah, 2006).

4.1.2.1 DIFFERENT LEGAL ACTIVITIES INVOLVED IN DIMINISHING PARTNERSHIP

When the transactions in DP are examined in terms of contract theory, it is seen that it is not a single contract but a compound financial

contract consisting of several contracts (Ayub, 2017). Especially considering the DP methods applied in different ways, some have mixed financial contracts, while others have the characteristics of compound financial contracts. Sometimes, it is seen that the *Shirkatu al-‘inān* and the sales contract, sometimes the muḍārabah and sales contract, and sometimes the *Sharikatul-ijārah* and sale contract are combined in one contract. Today's *Islāmic* jurists generally agree regarding the permissibility of such a combination (Umrānī, 2010). According to this;

- a. The relationship between the managing partner/customer and the interest-free financial institution is a *Shirkatu al-‘inān* contract,
- b. A commitment (*ta‘ahhud*) contract stating that the interest-free financial institution will sell its shares to the managing partner, and the latter will purchase this share,
- c. The gradual transfer of the interest-free financial institution's shares to the managing partner's customer can be considered an installment sales contract (*‘Aqd Bay‘ al-taqṣīṭ*) (İnanır, 2017).
- d. If an interest-free financial institution rents a common asset to a customer or a third party, it constitutes an *Ijārh* contract.

A partnership that results in the transfer of immovable property ownership can be considered a *Shirkatu al-‘inān*. Here, the interest-free financial institution promises to transfer its partnership on the real estate, while the other partners promise to purchase this property. In this scenario, one of the parties (interest-free financial institution) provides capital support, while the other partner participates in the partnership with land and labor. In an *‘inān* partnership, it is unnecessary for both partners to actively participate in business management (Qudāmah, 1997). The profit to be generated here is shared according to the principles and rates determined in the contract. Although this partnership is mainly similar to the *‘inān* partnership, it differs from the *‘inān* partnership in that the capital of one of the parties is not cash, and it contains a promise regarding share transfer. In the *‘inān* partnership, however, the parties' capital must be in cash, and there should be no condition for a share transfer. While Ḥanafīs and Shāfi‘īs require capital to be in cash in the *‘inān* partnership, Mālikīs do not require this condition (Sarakhsī, 1993). However, whether the view of the Mālikīs is taken as a basis or the view of the jurists (Qudāmah, 1997) who say, "If the value of the goods included in the partnership can be determined in cash at the time

of the contract, even if they are not cash, an ‘inān partnership can be made with them," this difference does not pose a problem (Bayındır, 2015). Accordingly, based on the opinion that the *shirkat* contract containing the promise of transfer of ownership is permissible, it is concluded that the partnership practice that ends with the transfer of ownership, which interest-free banks implement, is permissible (Bayındır, 2005).

4.1.3. PRACTICES OF DIMINISHING PARTNERSHIP

Different forms of diminishing *mushārahah*, a key concept in interest-free banking, emerge in practice. Today, we see its application on movable and immovable properties. Partnerships involving immovable property are mainly realized in the construction sector, such as building construction. Accordingly, the bank becomes a partner by providing capital to people who own land suitable for construction but cannot build on the land because they lack capital, and the bank provides project financing. The completed projects/buildings are assessed by selling or leasing them to generate profits. According to the contract, the bank gradually transfers its shares to its partner after a specified period, withdrawing from the partnership while receiving its share of the profits (Rammal, 2004). Partnerships involving movable property are established to facilitate the provision of items such as cars, machinery, tools, and equipment necessary for workplaces such as hospitals and workshops. The legal status of these transactions can differ depending on various factors. Capital partnership in diminishing *musharakah* is applied as follows in financing a project or purchasing real estate:

The financial institution/bank and the client—referred to as the managing partner, form a shared capital and become partners on a project with profit potential. The contract includes the following:

- a. Parties may lease their shares to third parties through a separate lease agreement or,
- b. The financial institution leases its shares to the managing partner with a separate lease agreement for a specific price and
- c. When terminating the partnership, the financial institution ensures a gradual transfer of shares to the customer, the managing partner, through successive contracts that are agreed upon beforehand. Each contract is independent in terms of construction, validity, and maturity. Profits and losses are aligned with respective shares, further emphasizing the benefits

of the process. Both the partnership and sale are executed in a single but separate contract (AAOIFI Shari'ah Standards, 2010). Parties commit to sharing rental income from purchased assets or the institution's share, fostering a sense of mutual gain. Property rights transition from the institution to the customer over an agreed period, decreasing the institution's rental share accordingly. Ultimately, ownership transfers fully to the customer (Umrānī, 2010), providing the audience with a sense of confidence in the process and its outcomes.

4.1.4 DIMINISHING PARTNERSHIP METHOD FOR HOUSING FINANCING

The goal of the interest-free method of financing with DP is to reach an alternative to the mortgage housing financing method, which is widely applied through interest-bearing banks (Yanpar, 2014). However, the implementation of this method is as follows:

- a. The customer determines the house he wants to buy and collects information about the price and similar details, then;
- b. In the interest-free banking system, the customer initiates the process by approaching the bank and negotiating to purchase a specific property using the DP method. Subsequently, the customer enters into a contract with the bank, expressing the intention to acquire the identified property through this method. Additionally, the customer signs a rental agreement with the bank, stipulating the lease of the property to be purchased. At this point, both parties mutually agree to purchase and rent the property: for the customer, the objective is property ownership, while for the bank, it is to lease out the property and generate rental income. Notably, the customer, who is also the property's tenant, signs the rental agreement through the *mushārah* arrangement rather than directly with the bank. In practice, however, the bank facilitates and manages all transactions (Yanpar, 2014).
- c. The house is purchased, with 20% of the cost provided by the customer and 80% by the bank.
- d. The customer makes monthly payments to the bank, comprising a portion of the bank's share of the house and a rental fee. Consequently, the bank's ownership stake in the house diminishes monthly while the customer's shares increase. However, the customer's rental fee must constitute profit,

ensuring no loss occurs in principle. If the customer defaults on the house rent, a loss may occur. In such circumstances, the house will be sold, and the proceeds will be distributed between the bank and the customer based on their respective share status in the *mushārah* partnership. Additionally, any outstanding rental fees owed by the customer will be collected (Alam and Ershad Uddin 2023).

- e. The monthly rent paid by the customer constitutes the profit of the *mushārah* partnership, which is then shared between the bank and the customer based on their respective share ratios within the partnership. However, reimbursing this profit to the customer may lack significance. Alternatively, the customer could pay rent proportionate to the bank's remaining share in the property.

Upon the customer's acquisition of all the bank's shares in the DP, full ownership of the house transfers entirely to the customer (Yanpar 2014). The timing for the customer to receive the title deed can be established based on the agreement terms. Let us illustrate this with an example scenario;

Suppose Zimam and Erdoğan entered a DP agreement to purchase a house valued at \$1,000,000. They agree to contribute equally to the purchase price. Therefore, each initially invests \$800,000 and \$200,000, with 80% and 20%, respectively. They also agree that Tawqer will gradually buy out Zimam's share over ten years. According to their agreement, Erdoğan pays Zimam a portion of the rental income generated from the property each month. Simultaneously, Erdoğan increases his ownership share in the property by paying Zimam an additional amount. Erdoğan will own the property outright at the end of the ten years.

- A is Zimam's initial investment, which is \$800,000.
- B as the initial investment by Erdoğan, which is \$200,000.
- P is the total property value, which is \$1,000,000.
- R as the monthly rental income generated.
- M is the agreement's duration in months, which is $10 \times 12 = 120$ months.
- x as the additional amount paid by Erdoğan each month to increase his ownership share.

For example, Ownership Share:

Zimam's initial ownership share (X_A) is 80% of the property value, and Erdoğan's initial ownership share (X_B) is 20%:

$$\begin{aligned} \text{Equation (1)} \\ X_A &= \frac{A}{P} \times 100 = \frac{800,000}{1,000,000} \times 100 = 80\% \\ X_B &= \frac{B}{P} \times 100 = \frac{200,000}{1,000,000} \times 100 = 20\% \end{aligned}$$

Monthly Payments:

- Erdoğan pays Zimam a portion of the rental income each month, which is $X_B \times R$.
- Erdoğan also pays Zimam an additional x amount to increase his ownership share.
- So, Erdoğan's total monthly payment to Zimam is $X_B \times R + x$.

Total Payment Over Ten Years:

- Erdoğan will make these payments over $M=120$ months, so the total payment (T) can be calculated as:
 $T = M \times (X_B \times R + x)$
- Zimam's initial ownership share is 80%, and Erdoğan's is 20%.
- Erdoğan pays Zimam cap X sub cap B $\times R + x$ monthly to increase his ownership share.

Erdoğan's total payment to Zimam over ten years is $T = M \times (X_B \times R + x)$.

This equation ensures that Zimam receives a portion of the rental income each month and gradually sells his share of the property to Erdoğan. This is just a simplified representation of how DP works mathematically. In practice, factors such as profit-sharing ratios, rental agreements, and payment schedules may vary based on the parties' specific terms.

5. DISCUSSION OF DIMINISHING PARTNERSHIP

In terms of transactions and contracts, defining and explaining the method in a single legal transaction is impossible. The partnership, cooperation, and financing system being implemented presents a complex contractual structure, both in terms of the relationship between the parties and the relationship of the parties with the organizing company. It is observed that there is more than one contract within the system. Contemporary legal systems have realized that the

classical contract classification is insufficient to explain some economic and financial transactions and create their legal framework. They have had to include different contract types in the system. One of these contracts is an intangible financial contract.

When looking at a new model that combines more than one contract, it is made together for these and similar reasons. However, making a combined contract does not always mean eliminating religious drawbacks. The contracts must also be revised according to Sharia principles (Uddin 2025). In order to eliminate all these drawbacks, the system must be analyzed by putting it into concepts and clarifying which legal procedure fits in the *Islāmic* legal system and whether there is a conflict with the basic principles (Uddin 2023).

This system adopts a traditional Gold Day logic for savings and collaboration, reminiscent of the practices often associated with homemakers. Under this system, rooted in a cooperative mindset, prospective homebuyers determine the desired house's price range and affordability for installment payments. Subsequently, they join a suitable group where members cooperate and support one another in achieving homeownership. Essentially, participants in the same group financially assist each other in acquiring homes.

Since multiple types of contracts are combined in this model, it can be analyzed in terms of financial contracts. Initially, the partners establish a partnership or company among themselves, resembling the '*Shirkatu al-'inān*', a contract company in the classical system. With the pooled funds, one member becomes a homeowner each month. The monthly contributions are then allocated to the partner selected to purchase a house. As the property does not yet belong to this partner, rent is paid to the other partners in proportion to their shares; installment payments continue. As the installments are fulfilled, the purchasing partner's stake in the house increases while other partners' shares decrease. In this regard, the relationship between the homeowner and the other members aligns with the concept of a 'diminishing partnership' (DP).

In this DP, one of the parties acquires ownership of the house at an ever-increasing rate with the payments they make, while the share of the others decreases in the process. However, this should be considered as a particular type of decreasing *mushārah*. Accordingly, in the lottery system, the partner who comes out first in the lottery becomes the owner of the entire house when he pays the last installment. In this way, a new member is hosted every month. In each house purchased, each of the other members who have not yet purchased a house becomes a partner in proportion to the payment they

make. As a result, at the end of the maturity period, everyone in the group becomes a homeowner.

Under the lottery system, it is possible to consider the organization fee received by the company as a proxy fee. The company puts forth effort to organize this business, opens branches, employs staff and experts, provides equipment, and carries out various activities, especially advertising, to find new members, and spends for all these. In addition, it receives a kind of mandate from each member to form a suitable group to which that member can belong. For this reason, it would not be right to consider this fee as a fee received in return for a loan and consider it as interest. However, this fee must be within reasonable limits and repaid in a manner that will not cause any loss to the member leaving the partnership. If this fee is not for profit and can be kept within the actual cost limit as much as possible, there will be no harm in terms of Sharia.

6. CONCLUSION

The diminishing partnership method is a significant financing tool within *Islāmic* economics and interest-free banking. It operates on the fundamental principle of profit-loss sharing and facilitates the gradual transfer of ownership through independent sales contracts. While this method resembles other financial mechanisms such as *muḍārabah*, financial leasing, and installment sales, its adoption by interest-free banks remains limited because of various economic, social, and financial factors rather than purely fiqh-related reasons.

One of the primary hurdles to the widespread implementation of DP lies in the need for more legal legislation and the absence of necessary infrastructure. Efforts to remove these obstacles and establish a legal framework for alternative financing methods, including leasing, could pave the way for greater utilization of such mechanisms within interest-free banking systems.

The DP contract inherently involves promises related to the purchase and sale of shares and the risks associated with gradually exiting the partnership. Overcoming these challenges necessitates a deeper understanding of such transactions' economic, legal, and accounting dimensions. Moreover, the potential of interest-free financial institutions, particularly in real estate acquisition, holds promise for addressing the economic challenges posed by the current interest-based system. For instance, the Diminishing Property Partnership method offers a viable avenue for individuals to acquire

property without interest, shielding both parties from the adverse effects of inflation.

Furthermore, the broader adoption of interest-free financing methods, such as DP, can contribute to economic growth, employment generation, and poverty alleviation. Directing small savings toward productive investments and fostering equitable access to housing can transform economic landscapes, particularly in Turkey.

In light of the current economic challenges stemming from interest-based systems, exploring and adopting alternative financing methods grounded in *Islāmic* principles offer a promising pathway toward sustainable economic development. Concerted efforts, however, are needed to overcome existing barriers and create an enabling environment to implement interest-free financial mechanisms effectively. Through collaborative action and a commitment to *Islāmic* economic principles, the DP method and similar approaches can play a pivotal role in shaping more equitable and prosperous economies.

Turkey has significant potential in interest-free banking since it enjoys global transaction volume and market shares. However, it has yet to significantly differentiate itself from the conventional banking system regarding infrastructure and personnel training. Interest-free banking products often need more competitiveness than conventional offerings, mainly regarding financial costs. Addressing these challenges requires establishing a strong legal framework for alternative interest-free banking financing systems. Offering alternative savings financing methods could accelerate collection in default cases and prevent customer victimization. By enhancing legal infrastructure, providing incentives, and rethinking enforcement practices, Turkey can unlock the full potential of participation banking and foster a more competitive and inclusive financial sector, benefiting consumers and contributing to the overall stability and growth of the Turkish economy. The diminishing partnership system, with its structure and practical functioning, is often discussed in the literature section, but more guidance is needed on integrating this system into existing legislation, which can help reduce the housing crisis and foster other small-medium entrepreneurship businesses in the country.

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