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and the financier does not get a low return even when the business is paying high dividends. Since the ultimate outcome of business is uncertain, one or other of the two parties, entrepreneur or financier, suffers from injustice is an interest-based arrangement and Islam wishes to eliminate injustice.

To sum up the sole proprietorship form of business organisation, along with mudarabah financing, needs to be encouraged as it will help achieve the goals of Islam. It provides self-employment, and enables the entrepreneur to stay in his own town or village, thus helping reduce concentration of population in a few large urban centres.

(ii) Partnership

It is the relationship which exists between two or more persons carrying on a business in common with a view to profit.

The definition provides us with three requirements for a partnership in that there must be a business, that it must be trading (carrying on), and that it must have the capability of making a profit.

Where, at the beginning of a business, one partner provides, say £5,000 in, cash and the other provides the professional skill and expertise to make the venture work it will be a matter for them to decide how the rewards of the business are to be shared out.⁶ In the absence of any agreement no interest will be paid on capital, profits will be divided equally and, in the event of a dissolution, the second partner will be required to bear an equal share of any loss of capital, although he will not be entitled to share in the increase in value of capital unless it has been turned into partnership property.

The distinctive features of the partnership is the right of each of the partners to participate in running the firm and it is this right which gives rise to a number of obligations which partners have towards each other. If it is accepted that each partner participates then it is obviously important that there is a sound relationship between them.

Partnership in an Islamic society may take one of two juristic forms, mudarabah or musharakah. The Islamic jurists have proposed other forms of partnership to provide credit and finance for Agricultural, manufacturing and trading purposes.

These are:

(1) Consecutive Partnership

The instrument of financing is a real innovation on the part of the Islamic banks.

The formula is used as a basis for the distribution of profits among depositors, who, in Islamic banks, hold a middle place between shareholders of equity on the one hand and depositors and lenders on the other. Consecutive partnership formula, practised by all Islamic

MUSHARAKAH FINANCING MODEL

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(Continued from Fiqh-e-Islami Vol.4 No.4)

4.4:1. Channels of Equity in an Islamic Society

Islamic banking is equity-oriented and the Islamic instruments of financing would ideally be based on profit and loss sharing. This would bring a fundamental change in the role of Islamic banks and would convert them from creditors to partners.⁵

The channels that equity investment may take in an Islamic society are the same as elsewhere, namely, sole proprietorship, partnership (including both mudarabah and musharakah) and joint stock companies. Cooperation can also play an important role in an Islamic economy because of its harmony with the value system of Islam and the valuable contribution it can make to the realisation of its goals.

(i) Sole Proprietorship

Generally speaking, the entrepreneur depends essentially in this case on his own finance and management. He may be able to supplement his financial resources by supplier's credits which played an important role in Muslim society in the past and tends to be a major source of short-term capital.

If the sole proprietor needs substantial extra resources on a temporary basis for a specific consignment or profitable opportunities, he may raise the necessary finance from individuals or firms or financial institutions on a profit-and-loss sharing basis, in which case his sole proprietorship will merge into the mudarabah form of organisation. If his need for funds is of a permanent nature, he may consider the entry into his business of other partners and take advantage of the mudarabah or musharakah forms of partnership, depending on whether he needs merely finance or managerial ability as well to complement his own business talent.

What this implies is that an enterprising businessman in an Islamic society need not be constrained in his ambitions by his own finance. He can still expand his business by securing funds on a profit-and-loss-sharing basis. This should actually be better for him as well as the financier in term of justice; the entrepreneur does not have to pay a predetermined rate of return irrespective of the outcome of his business