



# **Introduction to Musharakah**

**ISLAMIC ECONOMICS PROJECT**

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# MUSHARAKAH

- It is a partnership in which partners invest as well as perform services for the firm.
- In Musharakah, there is no limitation on partners as to who can work and who can invest.
- Each partner can invest as well as work for the firm.
- It can be formed between two or more persons.

# PROFIT SHARING MECHANISM

- In Musharakah, profit sharing ratio has to be agreed at the start of the Musharakah contract.
- Profit Sharing ratio does not need to be equal for all parties.
- Profit sharing ratio in Musharakah does not need to be equal to capital contribution ratio.
- It is possible that a partner with lower capital ratio is assigned a greater profit sharing ratio if it is mutually agreed.

# PROFIT SHARING MECHANISM

- No partner is allowed any fixed profit.
- Profit sharing ratio is applied to the actual profit earned.
- In case of loss, loss is shared between partners based on capital contribution ratio.

## **MUSHARAKAH IN LIABILITY PRODUCTS**

- Musharakah is used in Islamic Finance in liability products.
- Islamic banks use Musharakah contract while offering remunerative deposit products.
- Musharakah can be used in offering both checking and non checking remunerative deposits by Islamic banks.
- If bank as Mudarib also wants to invest in the investment pool, then, a hybrid of Mudarabah and Musharakah is used.

# **MUSHARAKAH IN ASSET PRODUCTS**

- Musharakah in Asset side products i.e. in providing finance is rarely used by Islamic banks.
- On a limited scale, Islamic banks use Musharakah in treasury placements and while offering financing to blue chip companies.
- As compared with Mudarabah, bank has lesser risk in Musharakah as in case of loss, it is shared between the partners.
- Moreover, the loss is borne by bank and the client to the extent of capital invested.
- Finally, the investment is also shared while in Mudarabah, the whole investment is provided by Rabb-ul-Maal.

## **MUSHARAKAH IN ASSET PRODUCTS**

- The reason for the rare use of Musharakah in providing finance is:
  - Lack of documentation,
  - Lack of trust and
  - The fact that Bank provides bulk of the capital and is liable to incur loss to the extent of capital provided by it, which is usually higher than client's capital contribution.



# Thank You

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