MONEY & BANKING

MUSHARIKA

Sharing of profit:

The companies generally prepare their final accounts once in a year; therefore, bank's share on Musharika investment becomes receivable only once in year, however, the Musharika Agreement stipulates that the companies shall provisionally pay the bank's share in profits at the projected rate end of each calendar quarter. The final adjustment is however made from the payment the last quarter of company's accounting year. If the profit earned by a company is more than the projected figures a little more shall be paid to the bank in the last quarter and if the profit earned is less than projected bank shall be paid a smaller sum at the end of the last quarter. Banks allow a revote to the companies for prompt payment.

Major obstacles for banks in Pakistan to adopt Musharika:

- There has been a lack of adequate preparation for introducing the change in the banking system from interest-based to interest-free financing.
- The banks and business communities do not have sufficient motivation to prefer Musharika over other modes of finance.
- The business community apprehenders that if they enter into Musharika agreement with banks for financing, there may be undue interference by the banks in their management.
- The business community is reluctant to make full disclosure of its financial affairs for a number of reasons including the existing tax system.
- The business community perceives the Islamic system of Musharika as full of complexity.
- A proper legal framework for strengthening the institution of Musharika has been missing.
- Promotion of the Musharika system has also suffered due to interest-based government borrowing schemas.
- There has been lack of any strong affirmative policy action in favor of profit-sharing modes of financing as against other modes of finance based on fixed rate of return.