

CAPITAL AND PROFIT SHARING IN ISLAMIC EQUITY FINANCING

**ISSUES
AND
PROSPECTS**

Muhammad Abdurrahman Sadique

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Preface

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

أحمد لله رب العلمين، اللهم صل وسلم وبارك على سيدنا محمد وعلى آله
وأصحابه أجمعين، أما بعد:

This book analyses aspects related to capital and profit sharing in the equity-financing modes employed by Islamic banks. Major topics covered include the significance of existence and presence of capital at the inception of joint equity ventures, possibility of converting debt into capital, formation of equity ventures based on illiquid capital, the method used by Islamic banks for determining the profit sharing ratio in equity-financed ventures and possible alternatives, and measures and clauses resulting in inhibiting the profit sharing mechanism in the current practice. The first chapter is devoted to an objective assessment of equity financing in the Islamic banking practice today, and to exploring means for enhanced application of equity modes.

Due to significant changes that have taken place in the nature and essence of money and monetary value, the nature of capital has become a complex issue. Money in an abstract form has come to play an increasingly prominent role in monetary transactions. This has drawn attention to the relevance of Shari'ah regulations requiring the existence and presence of capital at formation of equity ventures, in the context of modern money. Similarly, equity financing by Islamic banks on many occasions necessitates the involvement of illiquid assets as capital. With regard to sharing profit and

loss in equity-financed ventures, the mechanism currently employed by Islamic banks for deciding the profit sharing ratio between the bank and the client stands in need of a major revision. I have explored some alternative methods more in line with Shari'ah objectives that could be employed for the purpose. Various stipulations sometimes incorporated to equity financing agreements that help one of the partners achieve a near-certain amount of profit have been discussed at length.

I have attempted to provide some new insight on the relevant Shari'ah regulations, which it is hoped would be of significant help to those who seek to bring about a truly Islamic financial culture.

M.A.S.