no interest, encounters an urgent need for short-term finance, making recourse to the mudarabah concept useless. The necessary funds can be provided to him by the institution through qard al-hasanah. There are probably other circumstances where qard al-hasanah has its value for the lender; these circumstances will gradually develop with the day to day business of the Islamic financial institutions.

4.7.4. Deferred Payment Sale (Bai Muajjal)

This transaction allows the sale of a product on the basis of deferred payment in installments or in a lump-surn payment. The price of the product is agreed to between the buyer and the seller at the time of the sale and cannot include any charges for deferring payments.

4.7.5. Purchase with Deferred Delivery (Bai Salam)

In this transaction the buyer pays the seller the full negotiated price of a specific product which the seller promises to deliver at a specified future date. This transaction is limited to products whose quality and quantity can be fully specified at the time the contract is made.

4.7.6. Tadamun or Takaful (Solidarity)

Takaful literally means "mutual guarantee". In the context it is the Islamic answer to the modem concept of insurance, which is one of the most important subjects among scholars. This type of contract represents Islamic insurance based on a collective sharing of risk by a group of individuals whose payments are akin to premiums invested by the Islamic banking institution in a mudarabah for the benefit of the group. After a certain period, the group may expect to stop making further payments while remaining insured. The purpose of this solidarity mudarabah may be life assurance and it may also be risk insurance covering a property. If the assured person dies before the end of his covered time, or an insured risk on the property materializes, then payment is made out of the account of the insured person; if there is not enough money in that account, the outstanding balance is covered by the money of the other participants inside the same pool. This is what is meant here by solidarity; the participants in a solidarity mudarabah share the consequences of a mishap. In other words, the participants in a given solidarity mudarabah have the right to share the surplus profits generated by such a mudarabah but at the same time they are liable for contributing to amounts in addition to the premiums they have already disbursed, if their initial premiums paid in during a particular year are not sufficient to meet all the losses and risks incurred during that year.

علم و فن میں حضرت امام احمد بن حنبل رحمۃ اللہ علیہ کا کوئی ثانی نہیں : (محدث ابوزرعہ)

been regarded with apprehension by some Muslim economists, for example M. Siddiqi, who contended that the simple fact that murabaha enables a buyer to finance his purchase with deferred payments, as against accepting a mark-up on the market prices of the commodity, means that the financier, in this case the Islamic bank, earns a predetermined profit Without bearing any risk.15

This form of contract is widely used for import finance. So the bank sells a commodity to the client for a predetermined amount or rate of profit over and above the total costs. Usually, goods or commodities are provided to the order of the client according to definite specification, but, following the rules of the Shariah Supervisory Board (SSB) (which is established in each bank under them bank's articles of association in order to make sure that each bank's transactions confirm to Islamic shariah), the client is not obliged to accept the goods or commodities, even if they are provided according to the given specification.

4.7.3. Beneficence Loans (Qard al-Hasanah)

Qard al-hasanah means an interest-free loan, which is the only loan permitted by shariah principles. Funds are advanced without any profit or charge for humanitarian and welfare purposes. Repayments are made over a period agreed by both parties. A levy of a modest service charge on such a loan is permissible provided it is based on the actual cost of administering the loan.

One may wonder how lending could be a business proposition once interest is "abolished. It seems that the Islamic financial institutions are advised to make use of qard al-hasanah in the following circumstances:

(a) In the case of musharakah between the institution and the client, it often happens that not all of the institution's shares in the project can be earmarked for the right to participate in profits; otherwise no substantial share would be left to the other partner, namely the client. Therefore the institution's participation is split into two parts: one constitutes a share in the partnership capital and the other a share in the working capital provided through qard al-hasanah.

(b) A qard al-hasanah can also be provided to a client of the institution who has cash-flow problems, either in order to protect the institution's investment, or, when the cliQ1t is reliable, to boost the institution's image and reputation at no great risk.

(c) A third use of qard al-hasanah may occur when a client who has with the financial institution a blocked savings account which generates world market share to promote sales in an attempt to outstrip its competitors, in the belief that it could control the progress of technological innovation of computers. While the users of the equipment leased on a rental system are major enterprises and their usage is continuous, the rented equipment is usually used in a transient manner, whether the case is "rental" or "rent" the lessor is charged with the responsibility for maintenance. Especially, in the case of "rental" the lessor is also charged with the responsibility for coping with the products obsolescence, so that it may be termed a service-oriented business.

4.7.1.2. Economic Role of Ijara

Lease financing because of its special features can supplement the existing conventional forms of financing and further accelerate investment in the private sector.

There is a large requirement of balancing and modernization of the existing industry. As a supplementary source of term credit, lease financing through balancing and modernization of the existing industry, will improve capacity utilization, quality, production cost, profitability, internal generation of cash for future investment and international competitive capability to increase exports.

Lease financing is most suited to the programmes of balancing, modernization and replacement. It would involve a small dosage of investment which would carry relatively smaller investment risk but would result in a quick value added production. It would increase capacity utilization and thus contribute to the growth of the economy.

4.7.2. Murabaha (Cost Plus Financing)

Murabaha is generally defined as the sale of a commodity for the price at which the vendor has purchased it, with the addition of a stated profit known to both the vendor and the purchaser. It is a cost-plus-profit contract Islamic financial institutions aim to make use of murabaha in circumstances where they will purchase raw materials, goods or equipment etc. and sell them to a client at cost, plus a negotiated profit margin to be paid normally by installments. With murabaha, Islamic financial institutions are no longer to share profits or losses, but instead assume the capacity of a classic financial intermediary.

The legality of murabaha is not questioned by any of the schools of law. There are of course differences in the details. However, the use of murabaha as a credit vehicle by the Islamic financial institutions has

The primary advantage of ijara over the conventional forms of borrowing to finance equipment is that the ownership of the asset remains with the lessor. The financing is largely unrelated to the size of assets and the capital base of the lessee and depends principally on the ability of his cash flow to service payments of lease rentals.

Ijara is probably the most suitable means to raise investment funds especially for industries where rapid technological innovation is either underway or desired and for top class firms which are quickly expanding their business or small and medium enterprises and firms which have normally insufficient assets and capital base to meet normal collateral requirements of most other forms of long term financing. The basic security under the ijara arrangement is the "ownership of the equipment". The title of ownership to the equipment remains with the leasing company and in case of serious default the equipment is repossessed.

4.7.1.1-. The Modern Concept of Ijara

Leasing is the modem technique that can be compared with the Islamic technique of ijara. Leasing is based on the same fundamental concept of ijara according to which one does not have to own an asset in order to enjoy the benefits of it. It is now being applied on a large scale to business activity. There are obvious examples of businesses which have benefited from their investment in fixed assets over the years. Some businesses have made substantial capital profits from the sale of assets or have been able to improve the look of their balance sheets by the revaluation of assets. In the main, the profitability of a business lies in the use to which the resources are put It is the use, not necessarily the ownership, which matters. Once a business decision for example the investment appraisal, has been made on some new venture, the choice of purchasing or leasing is partly a matter of arithmetic, partly a question of the availability of capital.

A comparsion between leasing and other similar forms of transactions, such as rental, will give a clearer picture. "Rent" as is shown by the rent a car business, is a contract according to which the objects are leased to individuals or a number of users for a much shorter period than their actual usefullife.14

In contract law, the "rental contract" specifies the lease and usage for an indefinite period. A typical example is IBM's computer sales system. This system was initiated by the company which has an over-whelming the profit side, thereby allowing the rate of return to financing to be determined by productivity in the real sector. It will be the real sector that determines the rate of return to the financial sector in the Islamic financial system rather than the other way around. For these reasons, Islamic banking tends to reduce the vulnerability of the capital importing country to fluctuations in the level of capital inflows and to a sharp slowdown of new investment due to uncertainty among investors.

In the Islamic system, no such instability exists when a bank, rather than issuing fixed liabilities, issues shares to its depositors. In this case assets acquired by the banks are transparent to investors, they are no more or less than the deposits supporting them. If there is a decline in the value of the bank's assets then it will not be to the advantage of depositors to withdraw their money because their share would consequently decline. Also the welfare of a depositor does not depend on the actions of other depositors because each gets a share in the bank's value which is independent of whether some withdraw their shares while others do not. In fact there is a greater incentive to remain in the bank when it suffers a decline in the value of its assets because otherwise it will mean acceptance of a loss on initial deposit. whereas retaining shares in the bank will give hope" for a revaluation of the bank's assets in the future.13 Perhaps the greatest advantage of such a system is that it not only resolves the bank's problem of panic among its clients but it also does not require the provision of deposit insurance and other government interventions surrounding banking institutions.

4.7. Other Financial Instruments of Islamic Financing

The Islamic banks are engaged in developing various instruments of financing which not only conform to the Islamic tenets of equity and fairness but will also stand the test of day to day business, corporate needs of the modern world and the sophisticated tools of scientific analysis. The Islamic banks have identified and developed a relatively broad range of business and banking contracts. These include:

4.7.1. Ijara (Leasing) Definition and its Advantages

Ijara means a lease contract as well as a hire contract. In the context of Islamic banking it is a lease contract under which the bank of financial institution leases equipment or a building to one of its clients against a fixed charge.

☆ اترکوا قولی بخبر الرسول ﷺ ☆حدیث شریف کے مقابل میرے قول کو چھوڑ دو (ابو حنیفہ) ☆

equity holders experience capital gains and increase the ratio of expenditure to income; when the boom breaks, thriftiness increases. Thus, long-run average growth may occur in cycles.

Interest rate volatility has defeated all efforts to restore stability to exchange rates. In a fixed parity system it is impossible to keep the exchange rates pegged because of the movement of "hot" money to take advantage of interest rate differentials. The effort to keep the exchange rate pegged leads to a significant loss of central bank reserves and impairs confidence in the strength of the currency. In a floating exchange rate system, where the rate tries to find its own equilibrium level and fluctuate excessively from day to day in response to international interest rate movements bearing no relationship to underlying economic conditions, it becomes difficult to predict exchange rates. This renders long-term planning almost impossible. A country facing a recession is unable to keep its interest rates low because such a policy leads to an outflow of funds, depreciates the exchange rate of its currency, and raises the cost of living. 12 To prevent an even deeper plunge in the value of its currency, the recession-ridden country is forced to maintain interest rates at a higher level than dictated by the need for recovery. This, in turn, slows down the recovery and undermines confidence in the government.

The elimination of interest and its replacement by profit-loss-sharing would not only change the level of uncertainty but also redistribute the consequences of uncertainty over all parties to a business. It would moreover, by removing the daily destabilising influence of fluctuating interest rates, bring about a commitment of funds for a longer period and also introduce a discipline in investment decisions. In such an environment the strength or weakness of a currency would tend to depend on the underlying strength of the economy, particularly the rate of inflation, and exchange rates. Accompanied by the Islamic emphasis on internal stability in the value of money, exchange rates should prove to be more stable because all other factors influencing exchange rates, such as cyclical developments, structural imbalances and differences in growth rates, are of a long-run nature and influence expectations about long-term trends in exchange rates.

Moreover, in the Islamic system, there will also be a greater interdependence and a closer relationship between investment and deposit yields because banks can primarily accept investment deposits on the basis of profit-sharing and can provide funds to the-enterprises on the same basis. Due to the fact that the return to liabilities will be a direct function of the return to asset portfolios and also because assets are created in response to investment opportunities in the real sector, the return to financing is removed from the cost side and relegated to (if interest is high and profit is low or negative) would be eliminated and justice established between the two. The impact of this should be healthy on both savers and entrepreneurs.

When it comes to the question of stability, it must be realized that the stability of any economic system may be evaluated either empirically or analytically. Empirically, the simulation of an econometric model of a given economy has been successfully tried to evaluate stability. The results of such investigations, however, lack the generality of analytical results. 10 Furthermore, this approach cannot be employed in the present case since a full-fledged Islamic economic system does not as yet exist.

Analytical methods of examining stability have also been developed by economists and have provided important general results. Such methods have not yet been applied to study an Islamic economy and have in any case their own limitations. More importantly, stability is quite responsive to government action and regulations, hence a definitive analysis requires the specification of several institutional details.

All things considered, there appears to be room for offering some remarks on the stability of an equity-based Islamic economy. The profit in the equity-based system will be dependent on the profit-sharing ratio and the ultimate outcome of the business. The share of the entrepreneur or financier cannot fluctuate violently from month to month. Moreover the distribution of the total return on capital (profit plus interest) between the entrepreneur and the financier would be determined more equitably by economic considerations and not by speculative financial market forces. In case of dividends it can however, be reduced in bad times and, in extreme situations, even passed. So the burden of finance by shares is less. There is no doubt that in good times an increased dividend would be expected, but it is precisely in such times that the burden of higher dividend can be borne. This factor should tend to have the effect of substantially reducing business failures, and in turn dampening, rather than accentuating, economic instability. Minsky argues that when each firm finances its own cash flow and plans to invest its own retained profits, there is no problem of effective demand, the financial system is robust and investment has great inertia. When firms can raise outside finance direct from rentiers or through the banks, they are liable to instability. Schemes of investment are planned that are viable only if the overall rate of investment continues to rise. A fragile debt structure is built up. When the acceleration in the rate of investment tapers off, some businesses find current receipts less than current obligations, and a financial collapse occurs.11 During a boom, undertake necessary investments. In the process they would also provide investment opportunities to savers who are either unable to find lucrative opportunities, for direct investment, or are unable to locate partners or mudaribs for profitable investment of their savings.

4.6. The Role of Equity Financing in Mobilising Funds and Stabilization of the System

Given Islam's emphasis on equity financing, there should re a greater urge to save for investment in one's own business. If there are profitable opportunities for investment which cannot re exploited by reliance merely on internal cash flows, access could be had for premises, equipment and supplies through leasing, murabaha or bai muajjal, and supplier's credits. Businesses desiring further expansion could also mobilise resources on the basis of profit, mudarabah or musharakah. Market forces will take care of those who act in a self-defeating manner. Nevertheless, a state-regulated proper auditing system can be instituted to safeguard the interest of investors.

Joint stock companies should also play an important role in an Islamic economy. Their shares would re available to investors who are not active or do not wish to make their funds available to sole proprietors or partnerships. Corporate equities constitute a substantial proportion of total capital formation in capitalist societies.

In an Islamic economy, it is always possible for an individual investor to diversifym and reduce his risk by making fMlancial institutions and investment trusts a vehicle for his investment because such institutions diversify their own risk by properly regulating their exposure to different sectors of the economy as do individuals and firms. It must be clearly understood that the return on equity in an Islamic economy will not re equal to just "profit" but will rather re the sum of what constitutes "interest plus profit" in the capitalist economy and is called "return on capital". It will include the reward for saving and risk-taking, on the one hand, and entrepreneurship, management and innovation, on the other.

Hence the Islamic system should be able to ensure justice between the entrepreneur and the financier. No one would be assured of a predetermined rate of return. One must participate in the risk and share in the outcome of business.

This may not necessarily change the total outcome. It would no doubt change the distribution of the total outcome in accordance with the Islamic norm of socio-economic justice. It would also eliminate the erratic and irrational fluctuation between the shares of the savers or financiers and the entrepreneurs. Hence situations where the savers suffer (if interest is low and profit is high) or the entrepreneurs suffer

peaks in business for which purpose it may not be desirable or feasible to have a permanent increase in equity.
A number of steps would need to be taken to bring about the transformation to ann equity-based financing system in the gradual Islamisation of the economy of Muslim countries.
Firstly, projects should be selected for funding through partnerships primarily on the basis of their expected profitability rather than the creditworthiness or solvency of the borrower.9 This factor, together with the predominance of equity markets and the absence of debt markets, has led Muslim scholars to conclude that, potentially, in an.Islamic system, there would be : (a) a greater number and variety of investment projects that would be seeking financing; (b) a more cautious, selective, and perhaps more efficient project selection by the savers and investors; and (c) a greater involvement by the public in investment and entrepreneurial activities, particularly as private equity markets develop.

Secondly, to enable firms to increase their equity it may be necessary to "regularise" the existing stock of "black" money (arising from tax evasion), the major outlet for which currently is mainly capital outflows or conspicuous consumption. This move should help draw a substantial volume of such funds into the fold of investment Without this move it may be difficult to increase equity because there may not be a sufficient volume of "white" money in the economy for this purpose. In the next chapter we will be discussing this issue in the context of the middle east stock markets.

Thirdly, tax laws should be revised to treat interest payments in the same way as dividends and profits are now being treated, and taxes should be levied on gross profits before interest payments. In fact, it would be desirable to impose a higher rate of tax on the interest portion of the gross income than that applied to profits to accelerate the transformation to an 'equity-based financing structure.
Fourthly, the tax structure of Muslim countries should be streamlined to ensure that it does not discourage investment and channel even legally earned profits into "black" money. While Islam does allow the levying of taxes to a reasonable extent to meet all necessary and desirable state expenditures, it does not permit an unjust tax structure which penalises honesty and creates the un-Islamic tendency of evading taxes.
Finally, the formation of appropriate financial institutions and investment banks should be encourged to make venture capital available to businesses and industries and thus enable them to

امام محمد بن ادریس شافعی رحمۃ اللہ علیہ کا سن ولادت ۱۵۰ ہجری اور سن وفات ۲۰۴ ہجری ہے ☆

cooperation, businesses rendered services to each other without receiving any profit, commission or remuneration.
These different forms reflected not only Islamic brotherhood and mutual trust but also fulfilled the common needs of businessmen on a mutually cooperative basis.

Historical experience has shown that during the jahiliyah (pre-Islarnic) period, trade (over many territories) stretched over long distances and all financial resources were mobilised on the basis of either interest or mudarabah and musharakah. Islam, however, abolished the interest basis and organised the entire production and trade on the basis of mudarabah and musharakah. With the abolition of interest, economic activity in the Muslim world did not suffer any decline. In fact there was increased prosperity.
A combination of several economic and political factors, including the ability to mobilise adequate financial resources, were responsible for this prosperity. All these factors together provided a great boost to trade which flourished from Morocco and Spain in the west, to India and China in the east, Central Asia in the north, and Africa in the south. Therefore, the economic prosperity in the Muslim world had made possible a development of industrial skill which brought the artistic value of the products to an unequalled height.

Mudarabah and musharakah were the basic methods, by which financial resources were mobilised and combined with entrepreneurial and managerial skills for purposes of expanding long-distance trade and crafts and manufacture. They fulfilled the needs of commerce and industry and enabled them to thrive to the optimum level given the prevailing technological environment.

4.5. Steps to be Taken to Transform to an Equity Financing System
It was mentioned earlier that to abolish interest implies that all businesses in Muslim countries, including industry and agriculture, currently operating on the basis of a mix of equity and interest-based loans, would have to become primarily equity-based.
This requires that all financial needs of a permanent nature, whether for fixed or working capital, should normally be expected to come out of equity capital in an Islamic economy. This broader equity-capital base may be supported to the extent necessary by medium-and long-term mudarabah advances. Short-term loan financing, even though in a profit-and-loss sharing framework, may be resorted to only for bridge-financing or temporary shortage of liquidity resulting from seasonal

☆ امام مالک بن انس رحمۃ اللہ علیہ کی ولادت سن ۹۳ ہجری میں اور وفات ۱۷۹ ہجری میں ہوئی ☆

such trees as henna whose leaves are used or in those trees whose flowers are used. 7

(iii) A combination of sole proprietorship and partnership
In practice, business organisations would reflect a combination of sole proprietorship and mudarabah or a combination of musharakah and mudarabah. Not all savers can, or are interested in participating in the management of a business and may be just looking for opportunities to invest their surplus funds for short, medium or long-term periods. They could in this case make financing available to on-going businesses and share in the profits and losses in accordance with agreed ratios.

(iv) Joint stock companies
These constitute along with financial institutions the most convenient form of investment available to a majority of savers, who have neither their own businesses to invest in nor the ability to evaluate running business or become sleeping partners. Corporate shares would be more attractive to them because of, the relative ease with which they can acquire them when they wish to invest, or to sell them when they need the liquidity. In the light of Islamic teachings it will however be necessary to reform joint stock companies to safeguard the interests,of share holders and consumers, and also to reform stock exchanges to ensure that share prices reflect more or less the underlying economic conditions and do not fluctuate erratically in response to speculative forces.

(v) Cooperation
In addition to the above forms of business organisation, which are all profit-oriented, "cooperation", which is service- oriented, could make a rich contribution to the realisation of the goals of an Islamic economy. With the emphasis of Islam on brotherhood, "cooperation" in its various forms to solve the mutual problems of producers, businesses, consumers, savers, and investors should receive considerable emphasis in a Muslim society.

Cooperative societies could render a number of valuable services to members, including temporary financial accommodation when necessary through a mutual fund, the economies of bulk purchases and sales, maintenance facilities, advisory services, assistance or training for solving management and technical problems, and mutual insurance. Cooperation is a mutually beneficial relationship for all concerned, and everyone's participation is completely voluntary.8

Informal cooperation between craftsmen and businesses is quite widespread in Muslim history. In all these forms of informal banks, considers depositors of one financial year as partners in the proceeds of that financial year, regardless of matching between the periods of projects in which their funds were used. Indeed, even some proceeds pending from previous years, for which accruals or provisions were made, are included in the proceeds of the year in question. On the other hand, some yields corresponding to the said financial year are excluded, if they are not yet due, and left to a future year.

Such an accounting system was necessary to reconcile the depositors' need to withdraw funds, regardless of the liquidation of investment in which their funds are used, with the continuity of the bank's investments which constantly flow in a mixed basket, and the need to make regular accounts every financial year, as an accounting unit for this basket.

(2) Agricultural Partnerships

Privately owned agricultural land could be exploited in one of the three ways:

(a) directly by the owner,

(b) indirectly by renting it (ijara), (c) through agricultural partnership.

The two main frameworks in traditional Islamic law for agricultural enterprise are

(a) muzara' a (share cropping) and musaqat (water partnership or tree-sharing). Both these techniques typically afford a partnership between capital and labour.

(a) Sharecropping

Muzara' a (sharecropping or crop partnership) is a contract whereby the landlord puts his agricultural land at the farmer's disposal to farm and the farmer undertakes to give the owner an amount of the agricultural products. This framework is, of course, based on the generally accepted view that there should be a partnership between capital and labour.

(b) Tree-sharing

A contract is termed musaqat (water partnership or tree-sharing) when one person strikes a deal with another person calling for the latter to trim and water those fruit trees whose fruits are either one's own, or are at his disposal, in exchange for an amount of the fruits, as agreed upon. If a contract of musaqat or treesharing related to fruitless trees, like willows and sycophants, it is not valid. However, it would be valid in 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 or lenders on the other. Consecutive partnership formula, practised by all Islamic

میں نے امام شافعی سے زیادہ کسی کو عقل والا نہیں پایا (ابو عبید)

MUSHARAKAH FINANCING MODEL

Dr Saad Al-Harran

(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