




Research Article

Trends and volume of successful application of Musharakah as a major mode of financing in Pakistan: A case study of Meezan bank limited

Anita Ali¹, Mariuam Shafi², Aftab Hussain Tabasam³, Anam Ashiq⁴,
Malik Shahzad Shabbir^{5*}

¹Hailey college of commerce, University of the Punjab, Lahore, Pakistan

²Department of Economics, Lahore College for Women University, Lahore, Pakistan

³Department of Management Sciences, University of Roonch, Rawalakot, AJK, Pakistan

⁴School of Economics and Management, North China University of Water Resources and Electric Power, Zhengzhou, China

⁵Department of Management Sciences, University of Lahore, Lahore, Pakistan

*Corresponding Author email: Mshahzad786.pk11@gmail.com

Submitted: 15 April 2022

Revised: 21 June 2022

Accepted: 28 June 2022

ABSTRACT

The objective of this study is to examine the trends and volume of successful application of musharakah as Islamic modes of financing among Islamic financial institutions (IFI) and standalones Islamic branches (SAB) of conventional banks in Pakistan. This study has taken four full Islamic banks and four SAB banks, who provide their services for musharakah financing. The data set for all eight banks has been extracted from annual reports of these banks, started from 2011 to 2018 and used univariate analysis. The findings of this study indicate that Meezan bank leads in running musharakah investment portfolio from both Islamic banks and SAB of conventional banks with four hundreds and seventy two (472.45) billions rupees in total and (86.34%) percent growth in Running Musharakah portfolio annually. Whereas, bank Al-Falah leads in running musharakah investment from SAB with twenty five (25.353) billions rupees. Furthermore, Meezan bank limited (MBL) gains success in running musharakah investment as sixty seven (67.61) billions Pakistani rupees in one year among all banks operating running musharakah investment banks in Pakistan.

Keywords: *Musharaka; Investment Portfolio; Meezan Bank; Pakistan*

1. INTRODUCTION

Musharakah comes under the definition of Islamic modes of financing. However, connotation of term musharakah is associated with term "Shirkah". In Islamic fiqh the term "Shirkah" define as sharing. Furthermore, it is divided into two kinds, such as Shirkat-ul-milk, which concerns as joint ownership of two or more person in a particular property and Shirkat-ul-aqd, which consists on a partnership pretentious by mutual funds. Whereas, Shirkah-ul-aqd has three sub kinds such as, shirkah-ul-amwal, where all the partners invest some capital into a commercial enterprise. Shirkah-ul-Aamaal, where all the partners jointly undertake to render some services for their customers, and fee charged from them is distributed among them according to an agreed ratio. In Shirkah-ul-wujooh, people

purchase the commodities on deferred payment and sell it on spot; the profit earned from this is distributed among them on agreed ratio or percentage. (Usmani, 2012).

It is further divided into two kinds: Optional Partnership (Ikhtiyari) and Compulsory Partnership: (GhairIkhtiyari). Whereas, Shirkat-al-Aqd is also known as contractual partnership or partnership by contract or joint commercial enterprise. It is an agreement between two or more individuals to share their assets, labor or liabilities for the purpose of earning profit. This type of partnership is affected by the mutual contract among the partners. It is further divided into three major types such as, Shirkat-al-Amwal, Shirkat-al-Aamaal and Shirkat-al-Wujuh.

However, musharakah is almost analogous to "Shirkat-ul-amwal" where two or more persons invest their capital in a joint commercial venture. Both of them established a relationship of mutual contract through their parties. However, sometimes it includes Shirkat-ul-amwal also, where partnership take place in the business of services. The particular principle that has been mentioned in the famous maxim: "*Profit is based on the agreement of the parties, but loss is always subject to the ratio of investment*". Therefore, such a condition seems to be justified, and it can be supported by the general principle laid down by the Holy Prophet in his famous hadith: "*All the conditions agreed upon by the Muslims are upheld, except a condition which allows, what is prohibited or prohibits what is lawful*".

Musharaka is one of the positive and productive substitutes for financing, free of interest and other Shariah restrictions (Usmani, M.I. 2002, p.87). It has a great impact on production and distribution and playing a very vital role in enhancing the economic activities of banks in order to maximize the profit which is one of the key objectives. The concept of Diminishing Musharaka refers to the joint venture where the client and financing body, which is normally bank or financial institutions get agreed to sub divide the share of financier into smaller units and the client will purchase these units periodically one by one until and unless he purchased the entire units.

In shirkah-ul-amwal, every partner has a right to take part in the management, and to work for it (Gafoor 1996). However, the partners may agree upon a condition where the management is carried out by one of them, and no other partner works for the Musharakah. In such a case the "sleeping" (silent) partner shall be entitled to the profit only to the extent of his investment, and the ratio of profit allocated to him should not exceed the relative size of his investment in the business. However, if all the partners agree to work for the joint venture, each one of them shall be treated as the agent of the other in all matters of business, and work done by any of them in the normal course of business shall be deemed as being authorized by all partners (Usmani, M.I. 2002, p.92).

In home financing, the customer forms a partnership with the financial institution for the purchase of a property (Saeed, 2001). The financial institution rents out their part of the property to the client and receives profit in the form of rent, which is based on a mutually agreed fair market value. Any amount paid above the rental value increases the share of the customer in the property and reduces the share of the financial institution (Lewis & Algaoud 2001, p. 43). Musharakah financing is the most vital method to influence the

economic activity in the Islamic Economy; which includes Musharakah of depositors, bank and investors in the funding of project and participation in the profits and risks. Therefore, it affects savings, investment and the domestic resources gap. The profit and loss share (PLS) contracts, in general, allow two or more parties to pool their resources for investment purposes and to share the investment's profit-and-loss (Chong and Liu, 2009).

In Pakistan, however, we do have adopted two banking products based on the principles of Musharakah. One being Diminishing Musharakah, which is commonly used for providing long term financing and the other being Running Musharakah, which is to finance customer's working capital and/or short term requirements. Diminishing Musharakah, as the name indicates, is a form of declining or diminishing partnership over time. Under this setup, two or more participants, may become partners in joint ownership of an asset (*Shirkat ul Milk*). The common of financing provided under Diminishing Musharakah is based on the principles of *Shirkat ul Milk*. In fact, Diminishing Musharakah offered by Islamic banks, such as Meezan Bank can be categorized as a combination of Musharakah and Ijarah, whereby partners who form a common partnership in an asset or a combination of assets, can further initiate another contract (*Ijarah Mutahayyia Bi Tamleek*) on the Musharakah assets and under this Ijarah contract, a partner can lease their share to another partner and hence with time the ownership gets transferred to the lessee.

The other form of Musharakah, commonly used in Islamic banks, particularly at Meezan Bank Limited, is known as Running Musharakah which is a Shari'ah compliant alternative to the running finance/ OD facility offered by conventional banks worldwide. Under this mode of financing, the partners (i.e. the bank and the client) may become partners in a commercial contract (*Shirkat ul Aqd*) and become stakeholders in the client's business operations and the financing, being short term in nature but revolved over time, is provided mainly to finance client's working capital. Moreover, it is used for financing short term asset building of a client, the main accounting over-heads financed under this Islamic product comprise of inventory and receivables. Furthermore, profit is shared at gross level (under a ceiling level) and according to the capital investment of each of the entities. Above the profit ceiling level, it is allowed to share minimal amounts of the profit as per agreement with the client, normal profit sharing above ceiling level is 0.01% for the Bank and 99.99% for the customer. The bank only takes a little portion of the profit above ceiling level while the entire amount goes to the client himself. The other application of Musharakah are seen on the liability side (i.e. deposit side), where products involving a combination of Musharakah, Mudarbah and Wakalah are designed and offered to the customers.

2. LITERATURE REVIEW

Musharakah means a relationship established under a contract by the mutual consent of the parties for sharing of profits and losses in the joint business. It is an agreement under which the Islamic bank provides funds, which are mixed with the funds of the business enterprise and others. All providers of capital are entitled to participate in management, but not necessarily required to do so. The profit is distributed among the partners in pre-agreed ratios, while the loss is borne by each partner strictly in proportion to respective capital contributions.

As a participatory mode with profit-and-loss sharing, Musharakah is considered to be the most desired mode of Islamic financing. Whereas, Diminishing Musharakah (DM) is now being used extensively in many areas for financing fixed assets such as houses and motor cars Shabbir and Wisdom (2020). It is used mostly when one party who wants to own an asset cannot afford to pay the full price and takes the assistance of financing from another party which ends up with the complete ownership of the asset by the first party who purchase the share of the other party over a period of time while at the same time complying with the rules of the Shari'ah Liu et al (2022). When used in home financing, Diminishing Musharakah can be viewed as a form of shared ownership, which makes it different from an interest-based mortgage. DM arrangements allow equity participation and sharing of profits on a pro-rata basis, they also provide a method through which the bank keeps on reducing its equity in an asset against periodical payments, ultimately transferring ownership of the asset to the client Nawaz et al (2022). The procedure involved in Diminishing Musharakah is that the Islamic bank enters with a client into a partnership in which they both invest in the equity capital required to finance a project, and possibly also participate in the management; both share in the profits according to a pre-determined basis or in losses according to their investment. The bank would be also responsible for major maintenance, repair and insurance in respect of its share of a property. The client makes rental and Musharakah Unit payments based on the level of equity held by the bank, with each payment, the bank's equity reduces followed by a reduction in the rental calculated on the reducing equity Nawaz et al (2021). The client purchases the bank's equity through the purchase of Musharakah Unit from the bank, accordingly, its share is progressively increasing and the bank's equity is diminishing until the bank has no equity (Musharakah Unit) and thus the client acquires complete ownership. Similarly, the rental payments keep reducing with the bank's diminishing equity in the asset until no further rental payment has to be made.

A home financing transaction under DM involves the combined purchase of a house by the Islamic bank and the client and the bank's leasing its share to the client. The transaction involves the creation of a joint ownership in the property and the rent of the Islamic bank's share to the client for an agreed period of time. For example, the Bank may contribute 90% and the Buyer 10% of the purchase price. The client makes the promise to purchase the bank's share and purchases the units at different stages. Over a period of up to 20 years, the client will make monthly payments for the purchase of Musharakah Unit through which the bank will sell its share of the home to buyer. The bank leases out its share to the client for the use of the property with the option to buy it, the bank receiving agreed rental payments for the use of the property for instance (Nawaz et al 2022; Sadiq et al 2021; Shabbir and Zeb 2020; Wen et al 2022; Wang et al 2022; Liu et al 2022; Zehra et al 2022; Shabbir 2020; Yaqoob et al 2022;). Periodically, the client purchases a pre-agreed percentage of the bank's share in the property, thereby increasing the client's ownership in the property and reducing the bank's share by a similar amount. The rental paid on the bank's share is adjusted according to the bank's diminishing share; and the transaction ends with the transfer of ultimate ownership of

the entire property to the client upon successful completion of the lease term. If a client wishes to purchase the bank's remaining share in the property prior to the agreed date, the Diminishing Musharakah agreement will be terminated upon payment.

Then the client will become the whole sole owner of enterprise. This scheme of financing commonly practiced in Interest Free banking Sector is Diminishing Musharaka through which generally houses are financed. Therefore, it is sometimes referred to as "home finance". In Islamic jurisprudence the word Diminishing Musharaka in the sense aforementioned does not exist for the reason that it is actually the combination of three different transactions which are partnership by ownership, leasing of partner share and at very last purchasing take place. The important thing about these three transactions is legal status that in the light of shariah none of the above transaction is impermissible but still there is a need to highlight the Shariah's status of combination of all three in one arrangement such as (Altaf et al 2020; Arif et al 2021; Bai et al 2022; Butt et al 2021; Dai et al 2022; Ehsan et al 2021; Jun et al 2021; Kumari et al 2021; Khuong et al 2021; Liu et al 2022; Nawaz et al 2022; Matloob et al 2021; Saher et al 2021; Muhammad et al 2022; Mughal et al 2022; Shabbir et al 2021; Yaqoob et al 2022). The shariah ruling in this regard is transparent and clear. If there are more than one transaction and all are arranged in such a way that each one is interlinked and conditional to other. Such arrangement is unlawful and prohibited and leads the Agreement void. On the contrary to this if each transaction is totally independent and does not have made any dependency on others then this is legal and permissible in the light of shariah.

Although Islam excludes interest earnings from financial activities, it does not necessarily mean that the financier cannot earn a profit. In order to do so, the financier has to ensure that gains made on the original amount are directly related to the risk undertaken on the investment (Siddiqui 1987). In economic terms money has no intrinsic value; it is only a medium of exchange, therefore, earning interest on a medium of exchange without bearing any risks does not sit well in the Islamic system (Rahman 1994, p.14). Islamic financing is, therefore, an asset-backed financing. When a financier contributes money on the basis of the profit-and-loss sharing instruments, it is bound to be converted into assets having intrinsic value (Usmani, M.T. 1998, p.19).

Kashi and Mohamad (2017) examine the technical issues underlying the implementation of the Musharakah and Mutanaqisah partnership (MMP) model by Islamic banks in Malaysia. The study uses a qualitative methodology based on interviews. It concludes that the MMP model is converging with the Bay' BithamanAjil (BBA) and conventional housing loans. Abdullah and Saiti (2016) examine the issuance of Musharakah bonds in the structure of financing the waqf real estate development projects in Singapore in 2001 and 2002. The methodology involves a case study, including documentary and contents analysis of selected materials. The research finds the Musharakah bonds do not satisfy the conditions relating to a valid contract and lawful income. Hassan and Soumare (2014) propose a model to study the interactions between Musharakah and Mudarabah certificate holders and the government. The model provides a unifying framework for the improvement of access to funds in the Islamic financing context.

The study concludes that investors will be willing to take the risk if they believe that their capital is at least guaranteed by the government (Hassan and Soumare, 2015). Moreover, Hassan and Smolo (2011) aimed to highlight the fundamental principles underlying implementation of Musharakah mutanaqisah (MM) and its distinctive features, when compared to other modes of finance based on an extensive literature review. The study indicates that MM has a comparative advantage for both financier and the customer when compared with conventional loans. Ariffin et al. (2015) examined the current practice of MM principle in Malaysia, based on survey questionnaires on sixteen Islamic banks. The respondents agree that the principle of profit and loss sharing element under equity-based financing represents the true spirit of Islamic banking practices.

Ouidad (2014) analyzes the Musharakah and Mudarabah financing schemes as profit loss sharing (PLS) methods to solve asymmetric information problems. The results show that Mudarabah financing provides a powerful incentive to the entrepreneur. Also, it cannot resolve moral hazard problem. Ahroum and Achchab (2017) introduce a new framework by applying the Gordon and Shapiro model on the valuation of sukuk Musharakah with a joint venture as underlying, where negotiating of the profit and loss sharing ratio is not sufficient to have a fair price of sukuk Musharakah. This framework differs from the standard bond pricing methodology broadly, which uses nowadays in the determination of sukuk prices. Selim (2008) establishes an Islamic finance approach of Musharakah based on the conventional capital asset pricing model (CAPM), the study finds the existence of Musharakah necessarily yields a lower beta-risk of investments than that compared to the market. Also, a zero risk-free rate of return is optimal in the case of Musharakah.

A deeper analysis of the above literature indicates that the Musharakah itself is a key product in banking sector. Since, all the partners are liable to similar risks and rewards in a Musharakah transaction, the determination of profit is left up to the parties to decide on the basis of pre agreed profit sharing ratio ; whereas the loss (if incurred) is to be shared in proportion to the capital investment. Being such a product whereby the risks and rewards during a transaction can be clearly defined, Musharakah becomes one of the key products as for its feasibility, applicability and usage. Consequently, it has been adopted rigorously in the entire global Islamic Banking industry.

3. DATA AND METHODOLOGY

This study uses the data from annual reports of eight (8) Islamic and conventional financial institutions start from 2011 to 2018. This study states equally four (4) Islamic and four standalone branches of commercial banks for data analysis perspectives. The purpose of this annual data set is to investigate at what extent running Musharkah effects the investment portfolio under different circumstances of Islamic and conventional banks in Pakistan. This study consists of full fledge Islamic banks such as (Al- Baraka bank, Bank Islamic, Dubai Islamic bank and Meezan bank) and stands alone branches (SAB) of commercial banks for instance (Bank Alfalah, Bank of Punjab, Fayal bank and Habib bank limited). This study implies univariate analysis through quantitative research and polite survey method.

$$IP_{it} = \alpha_{it} + \beta X_{it} + IB_{it} + \delta_i + \varepsilon_{it} \quad (1)$$

$$IP_{it} = \alpha_{it} + \beta X_{it} + SAB_{it} + \delta_i + \varepsilon_{it} \quad (2)$$

In the above two equations the subscripts i and t represent the Islamic bank and conventional banks respectively, where $i = 1-8$ and $t = 2011-2018$. The percentage of Investment portfolio (IP) treated as dependent variable in both cases over the previous period. Whereas, X_{it} represents the explanatory variables in that groups through a vector. The IB_{it} represents the Islamic financial institutions and SAB_{it} symbolizes the variable related of stands alone Islamic branches of commercial banks. Finally, δ_i denotes the institutional effects, and ε_{it} is the error term.

There are two types of risk for instance; financial risk and operating risk bear by investors during their investment portfolio Nawaz et al (2022). They expected a good rate of return on their investment as relatively compared to interest rates offer in banks. Whereas, rate of investment as marginal efficiency represents expected rate of return from net income of investor. Consequently, the decision of investors on their investment can elaborate from following equation. Where, C_0 stands for value of fixed capital, R defines annual expected rate of net return, g elaborates rate of investment on marginal efficiency.

$$C_0 = \frac{R1}{(1+g)^1} + \frac{R2}{(1+g)^2} + \dots + \frac{Rn}{Rn(1+g)^n} \quad (3)$$

This equation must be at least equal zero or a positive. When the quantity of investment increases in the economy, the profitability of new investments tends to decline. As a result of the emergence of diminishing returns, the decrease in final goods prices, and the higher expense of replacement by growing the demand for investment. These lead to decreasing the marginal efficiency rate of capital in the economy (Dwivedi, 2010). Therefore, the function of investment can elaborate as below formula:

$$I = I_0 + mP_1 - mP_2 + mP_3 \quad (4)$$

The investment is positively related to the return rate of depositor's musharakah and the return rate of investor's musharakah, whereas it is an inverse relationship with the musharakah as financing tool of banks. It consists of the return rate of depositors' musharakah (P_1), the return rate of bank's musharakah (P_2) and the return rate of investor's musharakah (P_3). It leads to more effective monetary policy instruments in the management of economic activity. Whereas, the increase in the return rate of depositor's musharakah encourages savings and provides funds for investment, as well as the increase in the return rate of investor's musharakah encourages investors to increase the investment, as well as reducing the return rate of bank's musharakah increase both savings and investment Adele (2018). Therefore, the present value depends on the inflation rate considers more reliability in expressing the profitability of the project from the economic perspective.

Accordingly, the present value takes the following formula: Where, PV as present value, R defines annual expected rate of net return, i is the inflation rate.

$$PV = \frac{R1}{(1+i)^1} + \frac{R2}{(1+i)^2} + \dots + \frac{Rn}{(1+i)^n} \quad (5)$$

In the case of musharakah financing and use, the inflation rate as an instrument for the discount of the return of projects, loans and bills, the Central bank's control of determining the legal reserve ratio and the amount of commercial banks reserves will be reduced for the influence of the participants' preference, where the amount of reserves at the commercial bank depends on the preference of individuals to participate through the commercial bank or demand of money as a currency, as well as the performance of the State bank.

Therefore, the marginal efficiency rate of investment comprises the inflation compensate, operating compensate and zakat compensate. While g elaborates rate of investment on marginal efficiency and (i, o, z) defines inflation, operational and zakat compensate respectively.

$$g = i + o + z \quad (6)$$

The investor's return determines according to the Musharakah rate between the bank and the investor, and the success of the project and earnings depend on the efficiency of operational risk management by the investor. Therefore, the bank can increase the return for the investor by increasing the investor's Musharakah ($P3$), in return decrease the Bank's Musharakah ($P2$). Therefore, both the return rate of Bank's Musharakah ($P2$) and the return rate of depositor's Musharakah can be seen as a residual of the return rate of investor's Musharakah ($p3$). If the revenues are irregular, the marginal sufficiency rate of investment as the following:

$$C = \frac{R1}{(1+g)^1} + \frac{R2}{(1+g)^2} + \dots + \frac{Rn}{(1+g)^n} \quad (7)$$

When the total revenue increases the marginal sufficiency rate of investment increases, as well as when the return rate of investor's musharakah rises, the marginal sufficiency rate of investment increases.

Table 1. Running Musharaka Portfolio of Banks (Pak Rupees in Millions)

Years	Meezan Bank	Bank Islamic	Dubai Islamic	Al Baraka Bank	HBL	Faysal Bank	Bank Alfalah	BOP
2011	750	-	-	-	-	-	-	-
2012	1,314	-	-	-	-	-	-	-
2013	10,350	-	-	-	-	-	-	-
2014	28,730	-	2,765	-	-	-	-	-
2015	48,340	-	16,455	150	-	-	3,153	-
2016	78,300	10,116	4,718	150	-	-	10,424	1,651
2017	145,910	38,689	5,821	150	1,138	540	12,153	2,074
2018	158,860	24,404	10,480	650	4,871	7,342	-	-

The portfolio of running musharakah investment is an innovation by Meezan bank in 2011 with seven hundred and fifty (750) millions of rupees. The above table indicates that within six (6) years running musharakah investment rises and reaches on one hundred and fifty eight (158.86) billions Pakistani rupees in Meezan bank. Later this investment portfolio has adapted by several Islamic and SAB banks in Pakistan. Moreover, bank of Islamic has started running musharakah investment in 2016 with ten thousand one hundred and sixteen (10,116) million rupees and continually increased on twenty four thousands four

hundred and four (24,404) millions rupees in 2018. However, Dubai Islamic as second, largest bank after Meezan bank, who got rapid investment in running musharakah two thousand seven hundred and sixty five (2,765) in 2014 and reached on ten thousands four hundred and eighty (10,480) millions rupees in 2018. Al-Baraka bank is the one least investor bank regarding running musharakah investment from Islamic financial institutions. It has started investment in 2015 with portfolio just only one hundred fifty (150) millions rupees and continue this particular amount of investment next two years. Whereas, in 2018 this amount of investment increased and reached on six hundred and fifty millions rupees. The SAB branches of Habib bank limited (HBL) and Fayal bank have taken initiative of running musharakah in same year as 2017 with investment portfolio one thousand one hundred and thirty eight (1138) and five hundreds forty millions rupees respectively and large edged with four thousands eight hundreds and seventy one (4,871) and seven thousands three hundred and forty two (7,342) million rupees in 2018 respectively. The bank Alfalah started running musharakah investment in 2015 with three thousands one hundred and fifty three and increased at twelve thousands one hundred and fifty three in 2017. The bank of Punjab (BOP) has started investment in 2016 with portfolio one thousand six hundred and fifty one (1,651) millions rupees and ended with two thousands and seventy four (2,074) millions rupees in 2017.

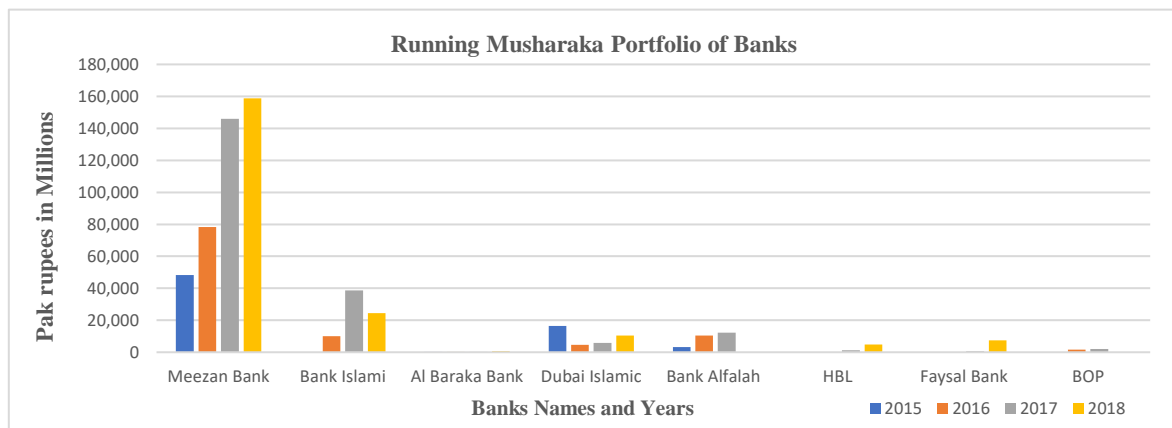


Fig. 1. Running Musharaka Portfolio of Banks

The overall results from above figure1 indicate that Meezan bank leads in running musharakah investment portfolio from both Islamic banks and SAB of conventional banks with four hundreds and seventy two (472.554) billions rupees. Whereas, bank Al-Falah leads in running musharakah investment from SAB with twenty five (25.730) billions rupees. The most less investment of running musharakah portfolio goes toward Al-Barak bank from Islamic banks and BOP from SAB conventional banks with investment ratio as one billion (1.1) and three billions (3.725) rupees respectively. Furthermore, Meezan bank has also one more advantage in one year success running musharakah investment as sixty seven (67.61) billions rupees among all banks operating running musharakah investment in Pakistan. Whereas, Faysal bank leads from SAB conventional banks in one year success running musharakah investment as six (6.8) billions rupees among all SAB conventional banks. The appendixes (2, 3, 4, 5, and 6) are available after references for more details regarding

investment trends of all banks, volume of investment, running musharakah investment portfolio of all banks

4. RATE OF RETURN (PROFIT RATE) FROM RUNNING MUSHARAKAH AND INVESTMENT PORTFOLIO

In Running Musharakah, the bank and the customer enters into Shirkat Ul Aqd contract or Business Partnership contract in which Bank provides financing to customer on the basis of customer's operating business. In this, Meezan bank assigns particular limit to the customer and he can withdraw funds from the bank subject to his overall running musharakah approved limit during the musharakah period. Customer pays provisional profit at the end of each quarter on the basis of desired/agreed profit rate which is subject to the final settlement based on annual accounts or sometimes half yearly accounts of customer. In running musharakah, profit is booked on accrual basis and it is adjusted at the time of declaration of Musharakah Profit (annual closeout) by Musharakah partners. As on December 31st, 2018, Meezan Bank's total Running Musharakah portfolio is Rs. 158.86 Billion, which is 30.5% of MBL's total financing portfolio. However, Meezan Bank's overall Running Musharakah Financing Portfolio income for the year 2018 is Rs. 9,425 Millions which is 31.20% of overall Bank's Financing Portfolio Income.

Whereas, in Diminishing Musharakah, the bank and the customer enters into Musharakah contract based on Shirkat Ul Milk for the purpose of financing of fixed asset or agreed share of fixed asset (i.e. plant, machinery, house and land etc.). In this both parties (Bank and Customer) participates in a joint ownership of fixed asset. The share of bank is divided into number of units which is rented to the customer by Bank. The customer pays profit in the form of rent periodically as per the agreement for utilizing Bank's share of Musharakah Asset and also purchases Bank's share of fixed asset (Musharakah Asset) over the period of transaction. In Diminishing Musharakah Financing, profit is recognized on accrual basis. As on December 31st, 2018, Meezan Bank's total Diminishing Musharkah Financing Portfolio is Rs. 97.93 Billion, which is 18.75% of MBL's total financing portfolio. However, the overall Diminishing Musharakah Financing Portfolio Income is Rs. 7,403 Millions which is 24.51% of overall Financing Portfolio Income of the Bank during the year 2018.

It clearly shows the significance of Musharakah Financing as Meezan Bank Limited, being a premier Islamic Bank in Pakistan, is mainly focusing on Musharakah Financing including Running Musharakah and Diminishing Musharakah and these modes of Musharakah Financing covers alone 49.25% of Meezan Bank's total financing portfolio.

5. CONCLUSION

Musharaka is common word used in Islamic fiqh books. Its dictionary meaning is 'to share'. In business terms it is joint enterprise of two or more than two persons or organization where all the parties share their profit or loss on agreed terms and conditions of the joint venture. In Arabic language, the root words of Musharakah are shirkah or shirk which means partnership. Musharakah can take the form of an unlimited, unrestricted, and equal partnership in which the partners enjoy complete equality in the areas of capital,

management, and right of disposition. Each partner is both the agent and guarantor of the other. Another more limited investment partnership is also available. This type of partnership occurs when two or more parties contribute to a capital fund, either with money, contributions in kind, or labor. Each partner is only the agent and not the guarantor of his partner. For both forms, the partners share profits in an agreed upon manner and bear losses in proportion to the size of their capital contributions.

Even though Musharakah is considered to be the most authentic form of Islamic financing, the risk associated with sharing losses means that it is not as popular as the other modes. To make the product more appealing to the customer, some financial institutions have started guaranteeing profits in Musharakah. In running musharakah investment portfolio, the Meezan bank leads with four hundred and seventy two (472.554) billions rupees from all banks. The bank Al-Falah tops with twenty five (25.730) billions rupees from SAB of conventional banks. The less investment of running musharakah portfolio goes toward Al-Barak bank from Islamic banks and BOP from SAB conventional banks. Meezan bank is a leading success running musharakah investor as sixty seven (67.61) billions rupees from all banks in one year and Faysal bank leads from SAB conventional banks in one year success running musharakah investment.

Reference:

- Abdullah, A. and Saiti, B. (2016), "A Re-examination of musharakah bonds and waqf development: The Case of Singapore", *Intellectual Discourse*, pp. 541-562, available at: <///C:/Users/Hatm/Downloads/933-1-2076-1-10-20170106.pdf> (accessed 16 September 2017).
- Adela, H. (2018). The impact of Musharakah financing on the monetary policy in the Islamic economy. *Review of Economics and Political Science*, 3(3/4), 139-152.
- Ahroum, R. and Achchab, B. (2017), "Pricing of Sukuk Musharakah with joint venture as underlying, beyond the use of PLS ratio", *Journal of Islamic Accounting and Business Research*; Bingley, Vol. 8 No. 4, pp. 406-419, available at: www.emeraldinsight.com/doi/pdfplus/10.1108/JIABR-03-2016-0036 (accessed 22 November 2017).
- Altaf, K., Ayub, H., Shabbir, M. S., & Usman, M. (2021). Do operational risk and corporate governance affect the banking industry of Pakistan? *Review of Economics and Political Science*.
- Arif, A., Sadiq, M., Shabbir, M. S., Yahya, G., Zamir, A., & Bares Lopez, L. (2020). The role of globalization in financial development, trade openness and sustainable environmental-economic growth: evidence from selected South Asian economies. *Journal of Sustainable Finance & Investment*, 1-18.
- Ariffin, N.M., Kassim, S. and Razan, D.A. (2015), "Exploring application of equity-based financing through Musharakah Mutanaqisah in Islamic Banks in Malaysia: perspective from the industry players", *International Journal of Economics, Management and Accounting*, Vol. 23 No. 2, pp. 241-261, available at: <http://journals.iium.edu.my/enmjjournal/index.php/enmj/article/view/338> (accessed 9 October 2017).
- Bai, D., Jain, V., Tripathi, M., Ali, S. A., Shabbir, M. S., Mohamed, M. A., & Ramos-Meza, C. S. (2022). Performance of biogas plant analysis and policy implications: Evidence from the commercial sources. *Energy Policy*, 169, 113173.

- Butt, M. A., Ayub, H., Latif, B., Asif, F., Shabbir, M. S., & Raja, A. A. (2022). Financial risks and performance of conventional and Islamic banks: Do reputational risk matters? *Journal of Islamic Accounting and Business Research*.
- Chong, B.S. and Liu, M. (2009), "Islamic banking: Interest-free or interest-based?" *Pacific-Basin Finance Journal*, 17(1), 125-144, available at: <///C:/Users/Hatm/Downloads/1-s2.0-S0927538X08000036-main.pdf>
- Dai, Z., Sadiq, M., Kannaiah, D., Khan, N., Shabbir, M. S., Bilal, K., & Tabash, M. I. (2022). Correction to: The dynamic impacts of Financial Investment on environmental-health and MDR-TB diseases and their influence on environmental sustainability at Chinese hospitals. *Environmental Science and Pollution Research*, 1-1.
- Ehsan, S., Tariq, A., Nazir, M. S., Shabbir, M. S., Shabbir, R., Lopez, L. B., & Ullah, W. (2021) Nexus between corporate social responsibility and earnings management: Sustainable or opportunistic. *Managerial and Decision Economics*.
- Gafoor, A.L.M. (1996). *Interest-Free Commercial Banking*. Malaysia: A.S.Noordeen.
- Hassan, M K., Smolo, E. (2011), "The potentials of musharakah mutanaqisah for Islamic housing finance", *International Journal of Islamic and Middle Eastern Finance and Management*, 4(3), 237-258, available at: www.emeraldinsight.com/1753-8394.htm (accessed 30 September 2017).
- Hassan, M.K. and Soumare, I. (2015), "Guarantees and Profit-Sharing Contracts in Project Financing", *Journal of Business Ethics*, 130(1), 231-249, available at: <https://link.springer.com/article/10.1007/s10551-014-2201-0> (accessed 22 September 2017).
- Jun, W., Mughal, N., Zhao, J., Shabbir, M. S., Niedbała, G., Jain, V., & Anwar, A. (2021). Does globalization matter for environmental degradation? Nexus among energy consumption, economic growth, and carbon dioxide emission. *Energy Policy*, 153, 112230.
- Kashi, A. and Mohamad, A. (2017), "Does Musharakah Mutanaqisah converge with Bai Bithamin Ajil and conventional loans?" *International Journal of Law and Management, Patrington*, 59(5), 740-755, available at: www.emeraldinsight.com/doi/abs/10.1108/IJLMA-04-2016-0044. (accessed 7 September 2017).
- Kumari, R., Shabbir, M. S., Saleem, S., Khan, G. Y., Abbasi, B. A., & Lopez, L. B. (2021). An empirical analysis among foreign direct investment, trade openness and economic growth: evidence from the Indian economy. *South Asian Journal of Business Studies*.
- Khuong, N. V., Shabbir, M. S., Sial, M. S., & Khanh, T. H. T. (2021). Does informal economy impede economic growth? Evidence from an emerging economy. *Journal of Sustainable Finance & Investment*, 11(2), 103-122.
- Lewis, M.K. & Algaoud, L.M. (2001). *Islamic Banking*. Cheltenham, UK: Edward Elgar. *Malaysian Business*. (2001). A Welcome Alternative. Dec 16
- Liu, C., Ni, C., Sharma, P., Jain, V., Chawla, C., Shabbir, M. S., & Tabash, M. I. (2022). Does green environmental innovation really matter for carbon-free economy? Nexus among green technological innovation, green international trade, and green power generation. *Environmental Science and Pollution Research*, 1-9.
- Liu, Y., Sharma, P., Jain, V., Shukla, A., Shabbir, M. S., Tabash, M. I., & Chawla, C. (2022). The relationship among oil prices volatility, inflation rate, and sustainable economic growth: Evidence from top oil importer and exporter countries. *Resources Policy*, 77, 102674.

- Liu, J., Jain, V., Sharma, P., Ali, S. A., Shabbir, M. S., & Ramos-Meza, C. S. (2022). The role of Sustainable Development Goals to eradicate the multidimensional energy poverty and improve social Wellbeing's. *Energy Strategy Reviews*, 42, 100885.
- Matloob, T., Shabbir, M. S., & Saher, N. (2020). Women's political representation in the local governance of Azad Jammu and Kashmir, Pakistan. *Review of Economics and Political Science*.
- Mughal, N., Arif, A., Jain, V., Chupradit, S., Shabbir, M. S., Ramos-Meza, C. S., & Zhanbayev, R. (2022). The role of technological innovation in environmental pollution, energy consumption and sustainable economic growth: Evidence from South Asian economies. *Energy Strategy Reviews*, 39, 100745.
- Muhammad, I., Ozcan, R., Jain, V., Sharma, P., & Shabbir, M. S. (2022). Does environmental sustainability affect the renewable energy consumption? Nexus among trade openness, CO2 emissions, income inequality, renewable energy, and economic growth in OECD countries. *Environmental Science and Pollution Research*, 1-11.
- Nawaz, S., Koser, M., & Shabbir, M. S. (2021). THE CONCEPTUAL FRAMEWORK OF STUDY TO ANALYZE THE STATUS OF WOMEN IN PAKISTANI FAMILY SYSTEM. *Pakistan Journal of Educational Research*, 4(4).
- Nawaz, S., Koser, M., Bilal, K., Shabbir, M. S., & Latif, R. (2021). The Conceptual Framework of Early Child Marriage in Pakistani Society. *PalArch's Journal of Archaeology of Egypt/Egyptology*, 18(09), 1762-1776.
- Nawaz, S., Kiran, A., Koser, M., Shabbir, M. S., & Zamir, A. (2022). The role of safety management to analyze the current situation of honour killing in Pakistan. *Journal of Public Value and Administrative Insight*, 5(2), 424-439.
- Nawaz, S., Kiran, A., Shabbir, M. S., Koser, M., & Zamir, A. (2022). Does domestic violence affect the freedom of women life in Pakistan. *Journal of Public Value and Administrative Insight*, 5(2), 440-454.
- Nawaz, S., Shabbir, M. S., Bilal, K., Koser, M., & Latif, R. (2021). Does Literacy Rate Decrease the Sexual Harassment Cases in Pakistan?. *PalArch's Journal of Archaeology of Egypt/Egyptology*, 18(18), 559-573.
- Nawaz, S., Shabbir, M. S., Shaheen, K., & Koser, M. (2021). The Role of Human Rights and Obligations toward Cross Gender Empowerment under the domain of Islamic Laws. *iRASD Journal of Management*, 3(3), 208-217.
- Nawaz, S., Koser, M., Boota, A., & Shabbir, M. S. (2021). The effects of Cultural Limitations, Constitution, Feminism, Sexual Orientation status among the Women in Pakistani Families. *Pakistan Journal of Humanities and Social Sciences*, 9(3), 526-534.
- Ouidad, Y. (2014), "Does Profit Loss Sharing (PLS) solve moral hazard problems?", *Journal of Islamic Economics, Banking and Finance*, 9(3), available at: http://ibtra.com/pdf/journal/v9_n3_article1.pdf
- Rahman, Y.A. (1994). *Lariba Bank. Islamic Banking: Foundations for a United & Prosperous Community*. Hiawatha, IA, USA: Cedar Graphics.
- Ramos Meza, C. S., Bashir, S., Jain, V., Aziz, S., Raza Shah, S. A., Shabbir, M. S., & Agustin, D. W. I. (2021). The Economic Consequences of the Loan Guarantees and Firm's Performance: A Moderate Role of Corporate Social Responsibility. *Global Business Review*, 09721509211039674.

- Saher, N., Matloob, T., & Shabbir, M. S. (2020). Exploring the role of Biradari in career growth: Evidence from public sector organizations of Islamabad. *Journal of Research in Emerging Markets*, 2(3), 13-24
- Said, L. R., Bilal, K., Aziz, S., Gul, A., Shabbir, M. S., Zamir, A., & Abro, H. (2021). A comparison of conventional versus Islamic banking customers attitudes and judgment. *Journal of Financial Services Marketing*, 1-15.
- Sadiq, M., Usman, M., Zamir, A., Shabbir, M. S., & Arif, A. (2021). Nexus between economic growth and foreign private investment: evidence from Pakistan economy. *Cogent Economics & Finance*, 9(1), 1956067.
- Saeed, A. (2001), "Muslim Community Cooperative of Australia as an Islamic Financial Service Provider" in Abdullah Saeed and Shahram Akbarzadeh (eds.), *Muslim Communities in Australia*. Sydney: UNSW Press, pp.188-205.
- Selim, H.T. (2008), "An Islamic Capital Asset Pricing Model", Emerald Publishing Limited, Vol. 24 No. 2, pp. 122-129, available at: www.emeraldinsight.com/doi/abs/10.1108/08288660810876831 (accessed 30 November 2017).
- Shabbir, M. S. (2022). Regulatory and Supervisory Regime of Islamic Banking System in Nigeria: Challenges, Constraints and Way Forward. *Journal of Islamic Banking & Finance*, 39(2).
- Shabbir, M. S., & Wisdom, O. (2020). The relationship between corporate social responsibility, environmental investments and financial performance: evidence from manufacturing companies. *Environmental Science and Pollution Research*, 1-12. DOI: 10.1007/s11356-020-10217-0
- Shabbir, M. S., Kiyani, M., & Zeb, A. (2019). Impact of Terrorism on Exclusive Indian Economy. *Journal of Indian Studies*, 5(1), 29-45.
- Shabbir, M. S., & Khalil ur Rehman, A. (2015). Are Islamic financial institutions become challenge or opportunity for Western Countries?. *European Journal of Economics, Finance and Administrative Sciences*, 4(84).
- Shabbir, M. S. (2018). Classification and prioritization of waqf lands: a Selangor case. *International Journal of Islamic and Middle Eastern Finance and Management*, 11(1), 40-58.
- Siddiqui, M.N. (1987). *Partnership and Profit-Sharing in Islamic Law*. Leicester, UK: The Islamic Foundation.
- Soumaré, I., & Hassan, K. (2014). Guarantees and profit-sharing contracts in project financing.
- Usmani, M.I. (2002). *Meezanbank's Guide to Islamic Banking*. Karachi, Pakistan: Darul- Ishaat.
- Usmani, M.T. (1998). *An Introduction to Islamic Finance*. Karachi, Pakistan: IdaratulMa'arif. 7
- Usmani, M.T. (2012). *An Introduction to Islamic Finance*, Kluwer Law International, The Hague.
- Warde, I. (2000). *Islamic Finance in the Global Economy*. Edinburgh: Edinburgh University Press.
- Wang, G., Sadiq, M., Bashir, T., Jain, V., Ali, S. A., & Shabbir, M. S. (2022). The dynamic association between different strategies of renewable energy sources and sustainable economic growth under SDGs. *Energy Strategy Reviews*, 42, 100886
- Wen, Y., Shabbir, M. S., Haseeb, M., Kamal, M., Anwar, A., Khan, M. F., & Malik, S. (2022). The dynamic effect of information and communication technology and renewable energy on CO2 emission: Fresh evidence from panel quantile regression. *Frontiers in Environmental Science*, 1123.

Yaqoob, N., Ali, S. A., Kannaiah, D., Khan, N., Shabbir, M. S., Bilal, K., & Tabash, M. I. (2022). The effects of Agriculture Productivity, Land Intensification, on Sustainable Economic Growth: A panel analysis from Bangladesh, India, and Pakistan Economies. *Environmental Science and Pollution Research*, 1-9.

Yaqoob, N., Jain, V., Atiq, Z., Sharma, P., Ramos-Meza, C. S., Shabbir, M. S., & Tabash, M. I. (2022). The relationship between staple food crops consumption and its impact on total factor productivity: does green economy matter?. *Environmental Science and Pollution Research*, 1-10.

Zehra, N., Umair, H., Shabbir, M. S., & Mallouli, A. E. (2022). The Role of Islamic Banking Development and its impact on Financial Stability: Evidence from Morocco's Financial Institutions. *Pakistan Journal of Humanities and Social Sciences*, 10(1), 354-365.

APPENDIXES

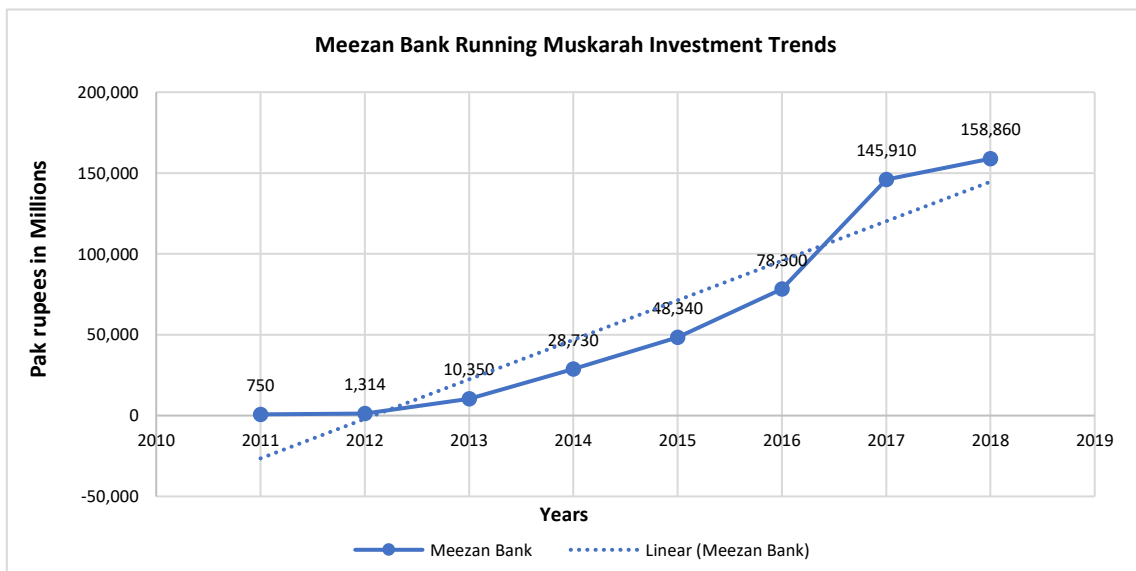


Fig. 2. Meezan Bank Running Musharkah Investment Trends

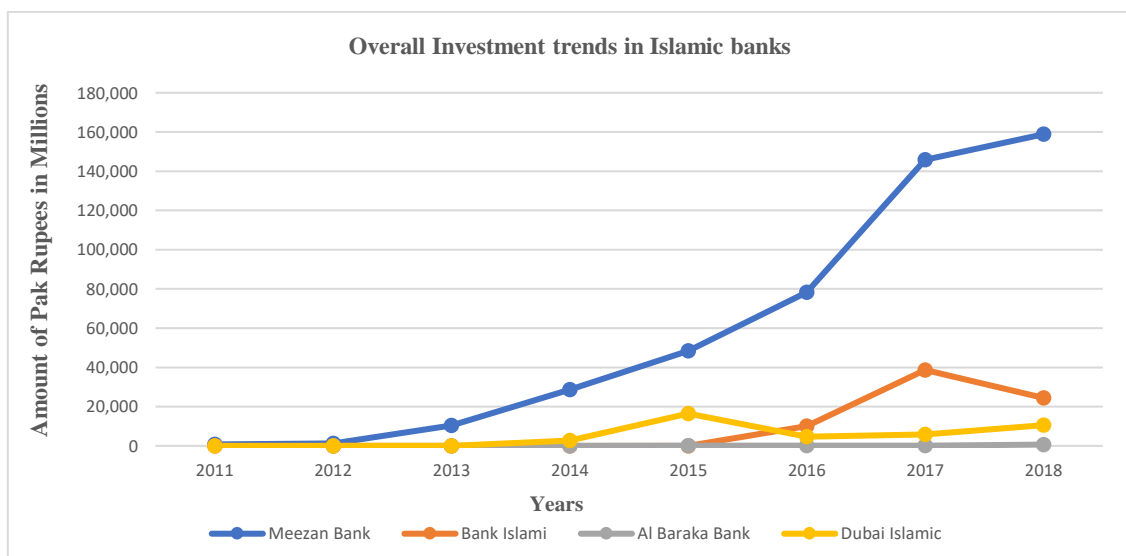


Fig. 3. Overall Investment trends in Islamic banks

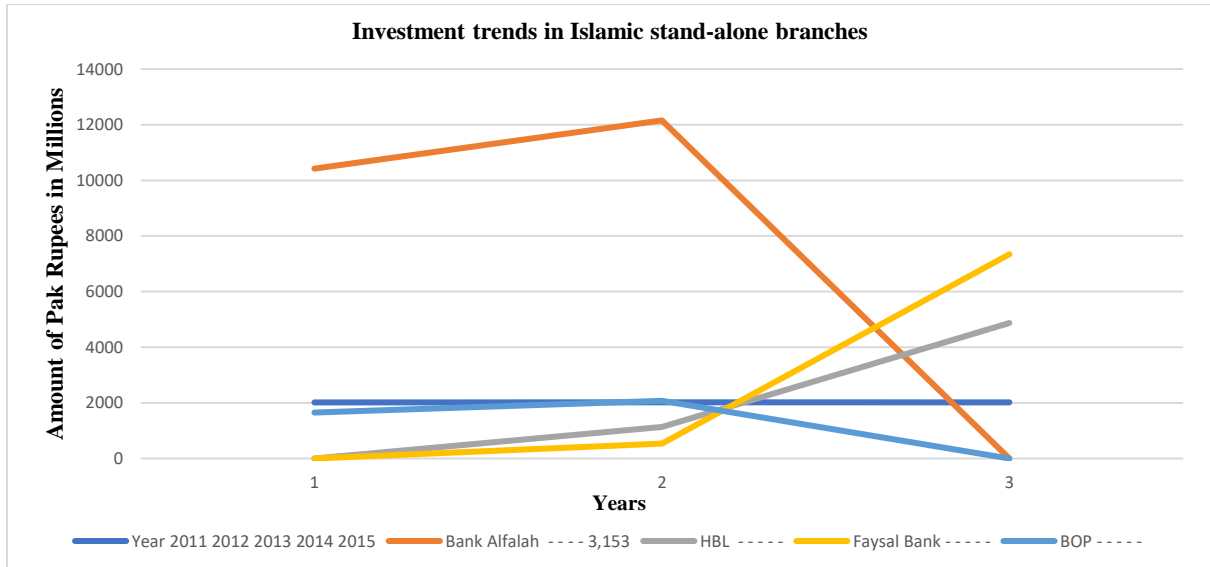


Fig. 4. Investment trends in Islamic stand-alone branches

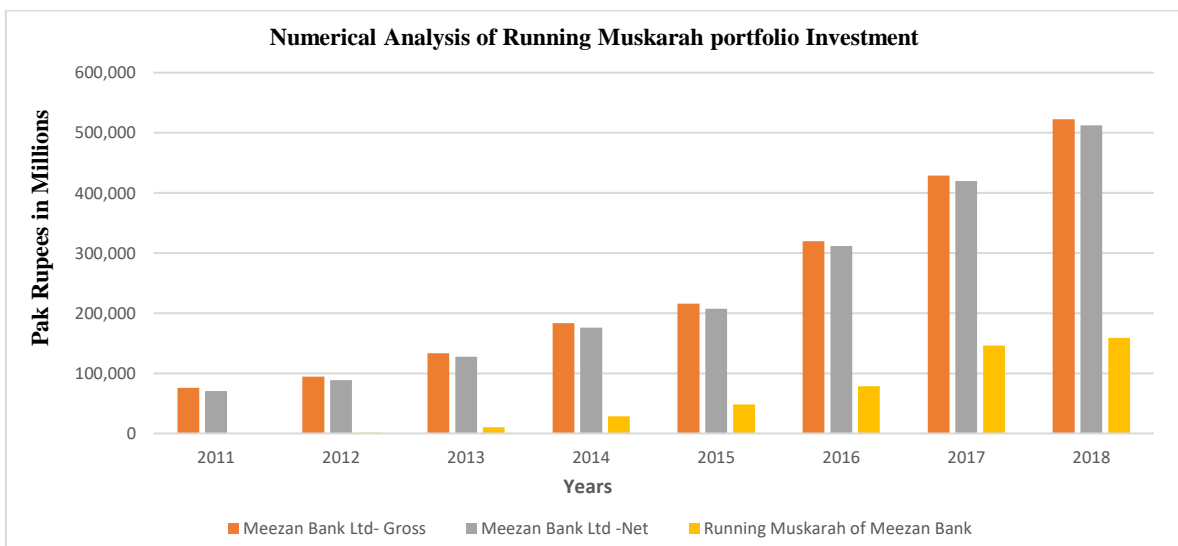


Fig. 5. Numerical Analysis of Running Musharkah portfolio Investment

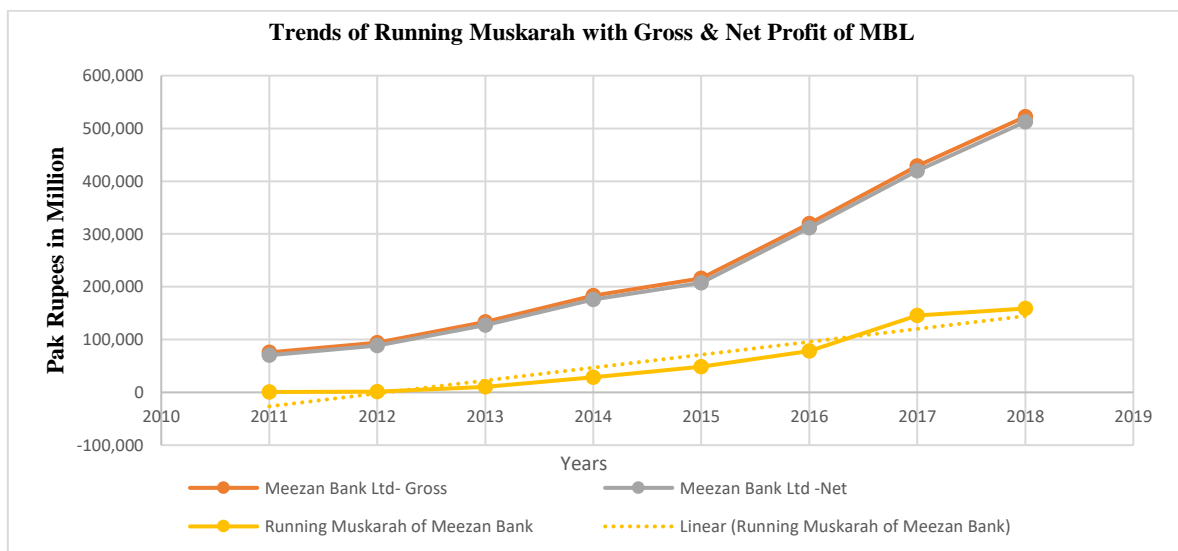


Fig. 6. Trends of Running Musharkah with Gross & Net Profit of Meezan Bank Limited