

[Download This Paper \(Delivery.cfm/SSRN_ID1415239_code1039977.pdf?abstractid=1415239&mirid=1\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1415239_code1039977.pdf?abstractid=1415239&mirid=1)[Open PDF in Browser \(Delivery.cfm/SSRN_ID1415239_code1039977.pdf?abstractid=1415239&mirid=1&type=2\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1415239_code1039977.pdf?abstractid=1415239&mirid=1&type=2)[Add Paper to My Library](#)Share: [f](#) [🐦](#) [✉](#) [🔗](#)

Partnership, Equity-Financing and Islamic Finance: Whither Profit-Loss Sharing?

Review of Islamic Economics (Special Issue), Vol. 11, pp. 67-88, 2007

22 Pages

Posted: 6 Jun 2009

Last revised: 10 Mar 2017

Mohammad Omar Farooq (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1039977)

Independent

Date Written: 2007

Abstract

Proponents of Islamic financial institutions (IFIs) regard their conventional counterparts as Islamically unacceptable, because the latter are interest-based, not based on fair profit-loss sharing (PLS) and risk sharing. Idealization of the PLS mode is questionable as it is not explicitly mandated in Islam's primary texts. The preference for PLS is based on juristic interpretation that evolved in response to the prohibition of *riba*, commonly equated with interest. Contrary to theory, IFIs in practice have marginalized PLS modes and instead adopted mark-up type, interest-substituting, risk-avoiding modes of finance. In this paper it is argued that despite the theoretical idealization, IFIs as businesses are rational in avoiding PLS modes. Partnership is the least common form of business organization for practical reasons. In this context these reasons also cover equity-financing. IFIs are organized as banks, but rather than being financial intermediaries, they are primarily merchant banks. Accordingly, this paper contends that legally restricting or religiously idealizing PLS modes is untenable. The conclusion is that, while paying lip service to PLS modes to define themselves as interest-free aka Islamic entities, IFIs continue to marginalize PLS, packaging conventional banking products under Islamic labels.

Keywords: Islamic economics, Islamic finance, Islamic banking, Islamic banking and finance, *riba*, partnership, equity-financing, *mudaraba*, *mudarabah*, *musharaka*, *musharakah*, Profit-loss sharing modes, PLS modes, Islamic financial institutions, interest, usury, risk-sharing

JEL Classification: A13, B11, B19, B29, G21, G32

[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID1415239_code1039977.pdf?abstractid=1415239&mirid=1\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1415239_code1039977.pdf?abstractid=1415239&mirid=1)[Open PDF in Browser \(Delivery.cfm/SSRN_ID1415239_code1039977.pdf?abstractid=1415239&mirid=1&type=2\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1415239_code1039977.pdf?abstractid=1415239&mirid=1&type=2)

30 References

1. Rajesh Aggarwal , Yousef , (Tarik , [📄](#) [📄](#) [📄](#) [📄](#))
Islamic Banks and Investment Financing
Journal of Money, Credit and Banking , p. [📄](#) [📄](#) - [📄](#) [📄](#)
[Crossref \(https://doi.org/10.2307/2601094\)](https://doi.org/10.2307/2601094)
2. Christopher Caggiano
Are Partners Bad for Business? FaxPoll Results on Questions about Partnership
Inc. Magazine, February. Available at [📄](#)

3. Charles W Calomiris

We use cookies to enhance your browsing experience, to analyze site usage, to assist in our marketing efforts, to help us understand our users and their needs. We also use cookies to help us improve and personalize our content and your digital experience. For more information, see our [Cookie Policy](#) (<https://www.elsevier.com/legal/cookiepolicy>)
[Crossref \(https://doi.org/10.1596/1813-9450-1533\)](https://doi.org/10.1596/1813-9450-1533)

[Cookie Settings](#)[Accept all cookies](#)

[Load more](#)

0 Citations

[Fetch Citations](#)


Do you have negative results from your research you'd like to share?

[Submit Negative Results \(https://www.ssrn.com/index.cfm/en/Negative-Results/\)](https://www.ssrn.com/index.cfm/en/Negative-Results/)

Paper statistics

DOWNLOADS

3,225

ABSTRACT VIEWS

16,626

RANK

7,025

3 Citations

30 References

PlumX Metrics



(https://plu.mx/ssrn/a/?ssrn_id=1415239)

Related Journals

Islamic Law & Law of the Muslim World eJournal (https://papers.ssrn.com/sol3/JELJOUR_Results.cfm?form_name=journalBrowse&journal_id=1012154)

[Follow](#)



Regulation of Financial Institutions eJournal (https://papers.ssrn.com/sol3/JELJOUR_Results.cfm?form_name=journalBrowse&journal_id=146770)

[Follow](#)



Recommended Papers

Islamic Banks and Investment Financing (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=845&rec=1&srcabs=1415239&pos=1)

By Rajesh K. Aggarwal (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=850) and Tarik Yousef (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=854)

Banking on Gambling: Banks Lottery-Linked Deposit Accounts (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=231144&rec=1&srcabs=1415239&pos=2)

By Mauro F. Guillen (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=117268) and Adrian E. Tschoegl (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=28653)

Issues in Income Tax Reform in Developing Countries (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=569214&rec=1&srcabs=1415239&pos=3)

By Charles W. Calomiris (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=123133)

[View more >](#)

[Feedback](#)

SSRN Quick Links	▼
SSRN Rankings	▼
About SSRN	▼

f (<https://www.facebook.com/SSRNcommunity/>)

in ([https://www.linkedin.com/company/493409?](https://www.linkedin.com/company/493409?trk=tyah&trkInfo=clickedVertical%3Acompany%2CentityType%3AentityHistoryName%2CclickedEntityId%3Acompany_493409%2Cidx%3)

[trk=tyah&trkInfo=clickedVertical%3Acompany%2CentityType%3AentityHistoryName%2CclickedEntityId%3Acompany_493409%2Cidx%3](https://www.linkedin.com/company/493409?trk=tyah&trkInfo=clickedVertical%3Acompany%2CentityType%3AentityHistoryName%2CclickedEntityId%3Acompany_493409%2Cidx%3)

🐦 (<https://twitter.com/SSRN>)

(<http://www.elsevier.com/>)

Copyright (<https://www.ssrn.com/index.cfm/en/dmca-notice-policy/>) Terms and Conditions (<https://www.ssrn.com/index.cfm/en/terms-of-use/>)

Privacy Policy (<https://www.elsevier.com/legal/privacy-policy>)

All content on this site: Copyright © 2023 Elsevier Inc., its licensors, and contributors. All rights are reserved, including those for text and data mining, AI training, and similar technologies. For all open access content, the Creative Commons licensing terms apply.

We use cookies to help provide and enhance our service and tailor content.

To learn more, visit [Cookie Settings](#).



(<http://www.relx.com/>)

(<https://papers.ssrn.com/sol3/updateInformationLog.cfm?process=true>)