

# The implication of using profit and loss sharing modes of finance in the banking system, with a particular reference to equity participation (partnership) method in Sudan

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## Purpose

The purpose of this paper is to evaluate the performance of *musharakah* (equity participation) in terms of profitability and risk; to investigate *musharakah* management to recognise the obstacles and factors influencing decision-making and to investigate the implications of using *musharakah* mode of finance.

## Design/methodology/approach

Data from Sudan, which fully adhere to interest-free principles of finance, will be used. Part of the data source is the Sudanese banks' balance sheets and annual reports, which provide bank level data for all Sudanese banks for the period 1990-2004. Initially, some descriptive analysis is provided. The concentration of *musharakah* in the Sudanese Islamic banks each year is provided so as to give an indication of the influence of *musharakah*. The second part of the data is survey data collected from nine banks. The survey has been distributed and collected from staff members of investment departments at the Sudanese banks.

## Findings

The results show the high preference of *musharakah* among banks' staff compared with other modes of finance. The results indicate that the lack of knowledgeable bankers in selecting, evaluating and managing profitable projects is a significant cause for the lack of profit and loss (PLS) projects. The results show the high profitability and risk performance. The paper has exposed the key issues involved in bad debt and general risk degree for *musharakah*.

## Originality/value

The advantages and disadvantages of using *musharakah* have been discussed, obstacles for the scheme have identified, and the performance of *musharakah* has been evaluated. The paper should

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