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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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Abstract

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

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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 been identified, and the performance of musharakah has been evaluated. The paper should contribute to a better understanding of the implications of using PLS modes of finance, particularly musharakah.

Keywords

Sudan Islam Banking Profit Loss Partnership

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