

**The Activities:**

• **The Musharaka Contract**

1. *Musharaka* is an Arabic term which means:
  - A. A professional investor. **T F**
  - B. A joint stock company. **T F**
  - C. A joint enterprise formed for conducting a business. **T F**
2. *Musharaka* is sometimes called:
  - A. A silent partnership. **T F**
  - B. A full partnership. **T F**
  - C. A limited liability partnership. **T F**
3. Profits are shared:
  - A. In proportion to the amount invested. **T F**
  - B. According to a fixed *Sharia'a* ratio. **T F**
  - C. 50:50. **T F**
4. Losses are shared according to:
  - A. The proportion of the amount invested. **T F**
  - B. According to a fixed *Sharia'a* ratio. **T F**
  - C. 50:50. **T F**
5. The difference between *Musharaka* and *Mudaraba* is:
  - A. Risks and returns in *Musharaka* are shared in proportion to the capital invested. **T F**
  - B. Investment in *Mudaraba* comes only from the *Rab ul Mall*. **T F**
  - C. In *Musharaka* all the partners share the loss in proportion to the ratio of their investment. **T F**
  - D. In *Mudaraba* any losses are suffered by the *Rab ul Mall* alone. **T F**
6. *Musharaka* is a *Sharia'a*-compliant Islamic mode of finance because the risk is such that, if the *Rab ul Mall's* client does not pay on time, or does not pay at all, the *Rab ul Mall* is at risk. **T F**
7. Under a *Musharaka* contract, the *Rab ul Mall* has no control over the management of the funds. **T F**
8. Under a *Musharaka* contract, the *Rab ul Mall* has full control over the management of the funds. **T F**
9. Under a *Musharaka* contract, the *Rab ul Mall* is exposed to a total loss of capital invested. **T F**
10. Under a *Musharaka* contract, the *Rab ul Mall* is exposed to no loss of capital invested. **T F**
11. Given the investment contribution in a *Musharaka* contract between the bank as *Rab ul Mall* and the partner, outlined below, the following is the *Sharia'a*-compliant profit/loss share that could have been agreed:

Investment contribution	Profit share agreed	Loss share agreed
50/50	70/30	50/50

**T F**

12. Given the investment contribution in a *Musharaka* contract between the *Rab ul Mall* and the partner as outlined below, the following is the *Sharia'a*-compliant profit/loss share that could have been agreed:

Investment contribution	Profit share agreed	Loss share agreed
70/30	70/30	60/40

**T F**

- **For Questions 44 to 46, only one of the potential answers is correct. Insert A, B or C where indicated below each question.**

1. Which of the following is the most appropriate definition of *Musharaka*?
  - A. *Musharaka* refers to a contract for the sale of an item of property in which the seller declares his cost and adds an agreed profit and sells the item to the buyer at the cost plus an agreed profit.
  - B. *Musharaka* refers to a partnership arrangement in which two or more persons contribute capital to an enterprise and one or more of such persons also manage the enterprise.

C. *Musharaka* refers to a partnership arrangement in which one or more persons contribute funds and one or more persons contribute management effort to an enterprise (but the investors and managers are not the same persons).

 **Answer:**.....

2. A venture capital firm is willing to participate as an investor in a *Musharaka* financing for a 20-year toll bridge franchise held by a franchise operator. However, the venture capital firm wants to exit in 10 years. Is this permissible?

- A. No, because in *Musharaka* financing the investor must be committed for the entire duration of the venture.
- B. Yes, the transaction could be structured as a diminishing *Musharaka* in which the venture capital firm receives extra dividends and the operator's equity share increases over time.
- C. Yes, but the venture capital firm and the operator cannot agree to the 10-year term at the time of contracting. The parties could voluntarily agree to a buy-out of the venture capital firm after the financing is implemented.

 **Answer:**.....

3. Which of the following statements most accurately depicts the difference or similarity between *Mudaraba* and *Musharaka*?

- A. In a *Mudaraba* transaction, the financing party typically does not play a role in management. In a *Musharaka* transaction, the financing party may play a role in management.
- B. In both *Mudaraba* and *Musharaka* transactions, the financing party typically plays a role in management.
- C. In a *Musharaka* transaction, the financing party typically does not play a role in management. In a *Mudaraba* transaction, the financing party may play a role in management.

 **Answer:**.....

### • Glossary of used Arabic terms

Transliteration	Translation	Arabic
Sharia'a	The Islamic Way/Law	شريعة
aqd	contract	عقد
ijab	offer	ايجاب
qabul	acceptance	قبول
thaman	price	ثمن
aqd batil	invalid contract	عقد باطل
riba	usury	ربا
Gharar	risk and uncertainty	غرر
murabaha	cost-plus sale	مراجعة
dayn	debt or libability	دين
bay bi-thaman ajil	credit sale	بيع بثمن آجل
ijara	lease	إجارة
sarf	currency exchange	صرف
salam	Islamic forward sale	سلم
istisna	Commission to manufacture	استصناع
mudaraba	silent partnership	مضاربة
musharaka	partnership	مشاركة
halal	permissible	حلال
haram	prohibited	حرام