

MONEY & BANKING

MUSHARIKA FINANCING

Musharika is an arrangement of temporary partnership between the bank and its client. In this arrangement profits are shared in pre-agreed proportion but loss, if any, is borne by the capital only.

The Musharika financing Scheme launched by the Nationalized and now privatized Commercial banks has been designed to meet the working capital requirements of trade and industry. Since the financing of Musharika is being done from the PLS deposits banks are very carefully examining that the line of business of the borrower should not be repugnant to sharia.

This mode of financing can be resorted to and applied to financing transactions of under mentioned categories.

- a) Working capital financing for large, medium and small-scale industries.
- b) Working capital financing for trade and commerce.
- c) Financing to house building finance corporation.
- d) Dairy and poultry.
- e) Orchards including nurseries.
- f) Forestry.

The capital provided by the banks shall be in the form of a checking account like a cash credit or overdraft account in which the deposits and with-drawls of funds are at the convenience of the borrowing company. Whether a public limited or private limited. Musharika proposals are to be considered and negotiated only with those, clients who maintain proper books of accounts and prepare final accounts regularly.

Management: Musharika agreement stipulates that the entire management or operation of the Musharika business shall remain with the borrowing company and the banks shall evaluate and monitor its performance.

The bank are giving due recognition to the managerial skills and good performance of the borrowing company and a portion of the profit is being awarded to the company as Management Fee or management Bonus. Sharing of Profit sharing ratios are determined in accordance with the profit projections compatible with the company's past performance or in the light of future plans keeping in view the general economic climate. The capital provided by the banks is not a part of company's equity but investment to the working capital, therefore, the profit will be shared strictly in proportion to the capital of the company.