

Mudarabah

Tutorial chart - Topic 3

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Mudarabah

mudarabah is a partnership for participation in profit in which capital is provided from one side, whereas labour or skill (*'amal*) is from the other side.

Quran
Allah says:
“Others are travelling through the land seeking Allah’s bounty.”

Sunnah
The prophet said:
“There is blessing in three transactions: credit sales, *muqaradah* and mixing wheat and barley for home consumption, not for trading”.

Ijmat
Ibn al-Munzir in his book on *ijma*, there is generally consensus among the jurists with respect to the validity of *mudarabah*.

Mudarabah
Profit sharing contract



Mudarabah
المضاربة

Muqaradah
المقارضة

From
الضرب في الأرض
traveling through the land

Qirad
القراض
From القرض which means
القطع To cut off
The Meaning is related to Capital

language of the Iraqis

language of Hijaz.

Hanafis/Hanbalis
Adopt term *mudarabah*

Malikis/Shafi'is
Adopt term of Qirad

***musyarakah
and
mudarabah***

```
graph TD; A["musyarakah  
and  
mudarabah"] --- B["1: Malikis, Hanbalis  
mudarabah  
and musyarakah  
are of different  
categories.  
2: Hanafis:  
musyarakah and  
mudarabah  
are the same"]; A --- C["1: Mudarabah  
one party who  
has capital  
but has no skill.  
2: second party  
has skill to manage  
the business,  
but has no capital."]; A --- D["1: musyarakah,  
the capital is  
provided by  
both parties.  
2: Mudarabah  
the capital is  
provided  
by one party"]; A --- E["1: Musharakah:  
both of them  
will run the  
business together.  
2: mudarabah  
the capital  
provider is  
not allowed  
to interfere in the  
management  
of the business."]; A --- F["1: in mudarabah,  
the losses must  
be borne only  
by the capital  
provider.  
2: mudarib his  
loss is in the form  
of losing out his  
time and efforts."];
```

**1: Malikis, Hanbalis
mudarabah
and *musyarakah*
are of different
categories.
2: Hanafis:
musyarakah and
mudarabah
are the same**

**1: *Mudarabah*
one party who
has capital
but has no skill.
2: second party
has skill to manage
the business,
but has no capital.**

**1: *musyarakah*,
the capital is
provided by
both parties.
2: Mudarabah
the capital is
provided
by one party**

**1: Musharakah:
both of them
will run the
business together.
2: *mudarabah*
the capital
provider is
not allowed
to interfere in the
management
of the business.**

**1: in *mudarabah*,
the losses must
be borne only
by the capital
provider.
2: mudarib his
loss is in the form
of losing out his
time and efforts.**

Mudarabah
and Hire
mudarabah and loan
(*qard*) share
the same features
in terms of
capital contribution.

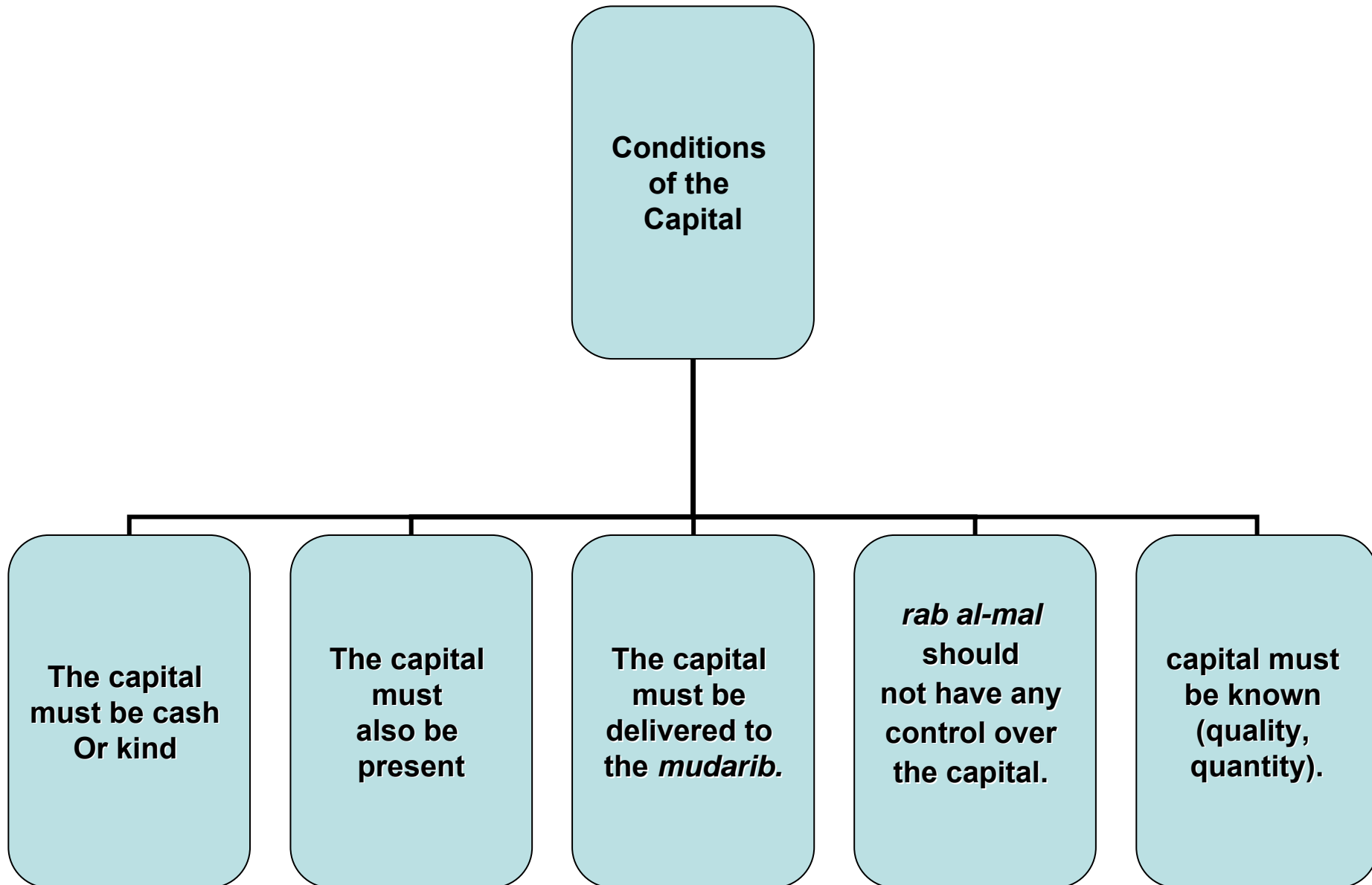
1: contract of hire:
party performs work for
another for amount
to be paid to him.

2: *Mudarabah* is a partnership
One provide capital
the other provide
Business skills

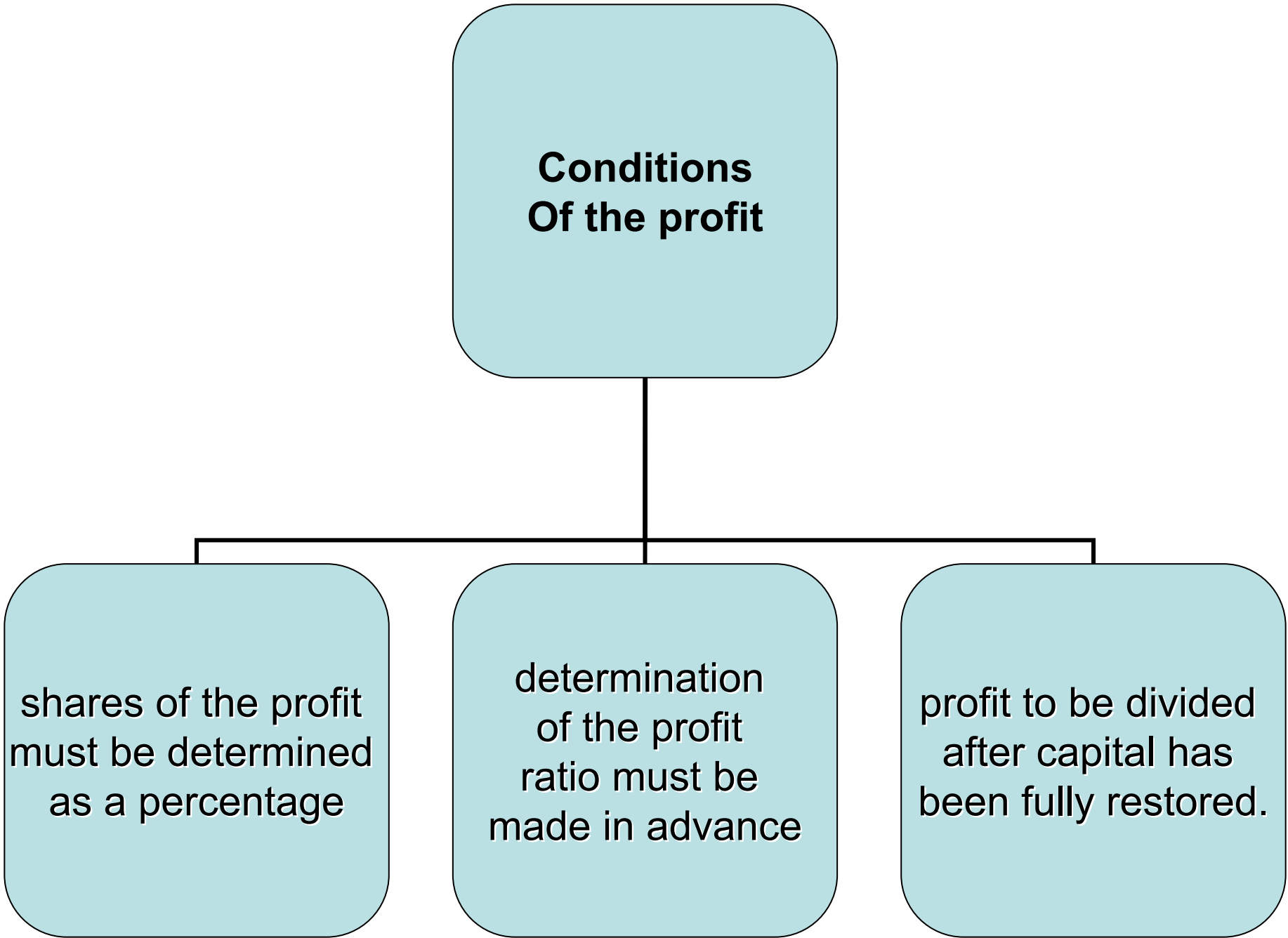
1: contract of hire,
the worker will get
a lump sum payment
2: in *Mudarabah* the
mudarib share the profit.

1: In *mudarabah*, the
capital provider gives
his capital as a partner,
entitling him to a
share of the profit.
2: in a loan contract, gives
his capital to the borrower as
a courtesy from him, he is
not entitled to claim any profit.

Conditions of Mudarabah



Conditions Of the profit



```
graph TD; A[Conditions Of the profit] --- B[shares of the profit must be determined as a percentage]; A --- C[determination of the profit ratio must be made in advance]; A --- D[profit to be divided after capital has been fully restored.]
```

shares of the profit
must be determined
as a percentage

determination
of the profit
ratio must be
made in advance

profit to be divided
after capital has
been fully restored.

Conditions of labour

```
graph TD; A[Conditions of labour] --> B[labour of the contract must be provided by the mudarib.]; A --> C[The capital provider Should not interfere In the business];
```

labour of the contract must be provided by the *mudarib*.

The capital provider
Should not interfere
In the business

Types of Mudarabah

```
graph TD; A[Types of Mudarabah] --> B[Unrestricted mudarabah (mudarabah mutlaqah):]; A --> C[mudarabah restricted (mudarabah muqayyadah):]; B --> D[mudarabah in which the capital is handed over to the mudarib without determination of the type of work that is to be done]; C --> E[a contract in which the capital provider restricts the actions of the mudarib to a particular of investment];
```

Unrestricted *mudarabah* (*mudarabah mutlaqah*):

mudarabah in which the capital is handed over to the *mudarib* without determination of the type of work that is to be done

***mudarabah* restricted** (*mudarabah muqayyadah*):

a contract in which the capital provider restricts the actions of the *mudarib* to a particular of investment

RESPONSIBILITIES OF THE *MUDARIB*



```
graph TD; A[RESPONSIBILITIES OF THE MUDARIB] --- B[ ]; B --- C[ ]; B --- D[ ]; B --- E[ ]; B --- F[ ];
```

mudarib
is responsible to
employ his best efforts
to accomplish the
objectives of the
contract.

responsible
for assuring
the capital that his
money will be
used in the
finest manner
to achieve the goals
of the venture.

To buy and sell
all types of
merchandise.

1: To keep the
property as
deposit or pledge.
2: To rent or
buy vehicle,
equipments.
To travel with
the capital.

ISSUES IN IMPLEMENTATION

mudarabah takes effect immediately after the contract has been concluded.

Shafii, Maliki cannot
Be suspend or delayed
Hanafi can be
Suspended if the
Parties agreed

mudarabah contract is a non-binding contract (*'aqd ghayr lazim*)

Maliki when the work
Start the the contract
Is binding

fixing certain duration to the *mudarabah* contract.

Maliki, shafi disallow
any Fixation of
Duration
Abu Hanifa and
Ahmed allow
AAOIFI support this
View

mudarib is not entitled to mix the capital of the *mudarabah* with another capital, except when authorisation of the *rab al-mal* has been obtained.

Maliki allow
Shafi disallow except
Al mawardi

mudarib is a trustee in respect of the capital that comes to his hand.

Only in case of
Default or
negligence

al mudarib yudarib

almost every jurist from all schools of law disallows the *mudarib* to invest in another *mudarabah* and become the *rab al-mal* to that second *mudarabah* without prior approval from the first *rab al-mal*.

**APPLICATION
OF
*MUDARABAH***

```
graph TD; A[APPLICATION OF MUDARABAH] --> B[Simple Partnership Normal Mudarabah.]; A --> C[General Investment Account (GIA) And Specific Investment Account (SIA).]; A --> D[Project financing]; A --> E[Letter of Credit]; A --> F[takaful]; A --> G[Unit trust];
```

Simple
Partnership
Normal
Mudarabah.

General
Investment
Account (GIA)
And Specific
Investment
Account
(SIA).

Project
financing

Letter
of Credit

takaful

Unit trust

Cont.

General Investment Account (GIA)

GIA is of an absolute *mudarabah* and the ratio of profit sharing is more or less uniform/standard and advertised as a ready package between the bank and the customer.

Specific Investment Account (SIA).

In SIA, the *mudarabah* arrangement is of a restricted *mudarabah*.

The ratio of profit sharing can be negotiated between the client and the bank, and normally a relatively big amount of investment is needed in this type of investment.

Cont.

Project financing

Islamic bank provides financing to the projects and the *mudarib* acts as the manager of the project. The bank does not interfere in the day-to-day functioning of the project. The profit is to be shared between the parties according to an agreed ratio determined.

Letter of Credit based on *mudarabah*.

The most well-known structures used in the issuance of LC are based on *musharah*, *murabahah* or *wakalah*.
LC can be issued using the *mudarabah* contract.

Cont.

Unit trust

The investors provide the capital and the unit trusts company provides management and any profits and losses are to be shared together, according to the agreed profit sharing ratio.

Thank you

Wasalam

شکرا جزىلا