'Running *Mushārakah'* by Islamic Banks in Pakistan: Running from *Mushārakah* or Moving back to Square One

> And We sent our messengers with Clear Signs and sent down with them the Book and the Balance (of Right and Wrong), that men may stand forth in justice (Qur'an 57:25).

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A common man, anywhere in the world, who knows a bit about Islamic finance, may consider Islamic banking as *a system based on the principle of not charging interest, prohibited under Islam; instead, the lender shares a part of the profit – or loss – with the borrower*[1]. Despite a basic flaw in this layman definition – using the words lending and borrowing, as nothing could be charged in lending, borrowing process – it points to the fundamental principle of Islamic banking that the investor or financier has to participate in the profit, or bear the loss, or take the business risk.

Islamic economics, banking or finance was conceived about seven / eight decades ago to avoid the impacts of capitalism and its relationship to inequality. The vision, in the words of Muhammad Ali Jinnah, the Father of Pakistani nation, was "*to work our destiny in our own way instead of following the Western economic theory, and present to the world an economic system based on true Islamic concepts of equality of manhood and social justice*" (Inaugural Speech at SBP, July 1, 1948)[2]. Accordingly, Islamic banking was launched originally with specific objectives of replacing interest with profit / loss sharing and reducing inequalities.

The main problem, rather scourge of the conventional system is the socialization of loss and privatization of gain. Banking and non-banking financial institutions are earning huge profits using the tools of interest, short selling, pre-mature off-setting of contracts and speculation, thus rendering loss to the masses in general, and to the poor and the middle

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[1] See for example: Zia Haq*; Islamic banking to make India debut in PM Modi's home state Gujarat*; Hindustan Times June 01, 2016 http://www.hindustantimes.com/india/islamic-banking-to-make-india-debut-in-modi-s-home-state-gujarat/story-qp9TjJ5v9Hwmp3WM3iSPKI.html

[2] This vision becomes preface of almost all strategic plans of the State Bank of Pakistan for introducing and promoting Islamic banking and finance in the country even at present.

income groups all over the world in particular. Islamic banking formally emerged in 1970s and became a buzz word by the end of 20th century when it started replicating conventional tools of producing money. The Western / American economists are worried about the future of their own nations due to problems created by the capitalistic system.[3] But Islamic banks are increasingly following the conventional tools; they are doing almost the same and, as such, they are generally criticized for replicating the conventional products carrying fixed / inflexible rates of return and not using the partnership based modes namely *mushārakah* and *muḍārabah* for their financing operations, and not taking business risk even in debt creating modes.

The objective of introducing Islamic banking is firstly to transform the process and procedures of financing transaction to Islamic principle of *ribā* prohibition, and secondly to realise ideal objectives of Sharī'ah with socio-economic benefits (Usmani[4] : 24; also see Pp. 238-246) in the shape of broad based financial inclusion and providing opportunities to all for employment, income and growth. According to the Holy Qur'ān, those who are unable to discharge their social obligations due to economic constraints are to be accommodated while those who do not have such constraint are not exempted from discharging their social responsibilities Hasanuzzaman S.M; 1999: 148). Islamic banks could be the most pertinent institutions to realise this objective.

Islamic banking was visualised as a means to end discrimination against the down-trodden and the poor groups in the societies which Qur'ān abhors and treats it equivalent to *fasād* (corruption) (2:27, 11:85; 28:4 and 77). The frequent mention in the Qur'ān that Allah does not like *fasād* and *ẓulm* (one meaning of *ẓulm* is depriving others of their rights as directed implicitly in verses 2:, 279, 282) make it obligatory for the State and the management and Sharī'ah boards of the IFIs to plug all loopholes which make it possible for the people to indulge in corruption and unjust economic practices.

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[3] Renowned French economist Piketty in his best-selling book "*Capital in the Twenty-First Century*", 2013 [English translation by Arthur Gold Hammer, Harvard University, 2014] uses over a century of data on US, Britain, France and other developed countries to uncover a startling fact that an ever increasing inequality at the expense of majority in the society is a natural state and the most likely outcome of the way capitalism has been practiced throughout history (http://tribune.com.pk/story/701368/the-curse-of-inequality/.

[4] Usmani, M. Taqi (2000); *An Introduction to Islamic Finance*, Karachi.

We may briefly indicate the some fundamental principles of Islamic finance as: i) Prohibition of *ribā*[5] and *gharar*[6]; ii) Ban on short selling; iii) Risk not to be separated from the ownership - business risk taking and sharing - not risk transfer; iv) While conventional banks deal in money and monetary papers only, Islamic banking is about asset-backed financing; v) Exchange of real assets or Papers representing them – not notional assets as in case of some kinds of Derivatives; vii) Finance to increase ability to create wealth in the real sectors of production and exchange; and viii) Truthful completion and efficacy of the contracts[7].

Emphasis on use of *Mushārakah* / *Muḍārabah*

A prerequisite of Islamic banking is that all financing is based on real assets in line with the principles of credit and forward trading as provided in the Sharī'ah in respect of *shirkah*, *mu'ajjal* and *salam* contracts. Although both trade based and partnership based modes, if practiced as per their Sharī'ah essentials, can contribute to development and value creation (Ayub, 2007: 467-68), but special emphasis has been given to the latter category (for essential features of mushārakah, see the book by Usmani M. Taqi (2000, Pp 35-42). While discussing the rationale of using mushārakah based model, Usmani contends that borrowers from conventional system generally earn huge profits and only a small proportion (e.g. 8 or 9 %) is taken by the bank as interest; out of which a small part goes to the depositors; even that small part is recovered by the industrialists as interest is treated as tax deductible expense. The net result is that all the profits of the enterprise is earned by the persons whose own capital does not exceed 10 % of total investment in a business or project, while the people owning 90 % of the investment get no more than the fixed rate of interest. As described by Usmani M. Taqi, the net result of using modes like *murābaḥah* and leasing are often the same as that of interest based financing; and hence many Sharī'ah boards are '*unanimous on the point that they are not ideal modes of financing*'. It is despite the

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[5] *Ribā* means and includes any increase over and above the principal amount payable in a contract obligation, not covered by a corresponding increase in labour, commodity, risk or expertise (Ayub, 2007).

[6] Avoiding *gharar* implies that the contracts must be free from uncertainty about the subject matter and its counter value in exchanges; quality and quantity must be known and contract must not be doubtful or uncertain so far as the rights and obligations of the contracting parties are concerned (Ayub, 2007:53, 61).

[7] See Usmani; 2000:18-22, 238-246; JIBM, Vol.5 No.2, 2015, Editorial; Chapra, M.U., (1979); Objectives of the Islamic Economic Order; Maududi, S.A.A., (1984); Economic System of Islam; Ahmad, K., (1983); in Z. Ahmad, Iqbal and M.F. Khan (Editors).

fact that financing under these modes is fully backed by assets (Usmani M. Taqi; 20; 238-246).

Journey from ‘Running Finance’ to ‘Running *Mushārakah*’

As ‘Running Finance’ is a major mode of conventional finance for providing working capital to the corporate clients, Usmani M. Taqi presented the idea of running *mushārakah* based on *shirkah al-‘aqd* in his above referred book (2000: 68-74). The idea came under application of the premier bank of Pakistan that is operating under the Sharī‘ah supervision of Mufti Usmani himself firstly in 2008-09. By dint of flexibility as available in conventional OD, RM turned out to be the number one mode of financing by the Bank in 2015 being 25 % of its financing portfolio (from just 2 % in 2012), while *murābaḥah* came down only to 10% of its total portfolio[8].

But, what is being practiced cannot be termed as *mushārakah* in real sense. It has rather further contaminated the originality of Islamic banking and will strengthen the tendency of Islamic banks to use *‘artificial devices’* as apprehended by Mufti Usmani, *“and a true Islamic system will not come into being”* (2000, Pp.244-45). All IBIs in Pakistan are preparing to follow the premier bank in using the RM. The market is taking it as an alternative to OD based borrowing, while *mushārakah* can never be borrowing. Hence, the JIBM is making an earnest effort to suggest to the SBP and its Sharī‘ah Board to take notice of the development and issue regulations for the IBIs to ensure Sharī‘ah compliance and to clarify with regard to financial reporting of such financing.

Key features of the RM product

Shirkah al-‘aqd based running *mushārakah* offers an alternative to the running finance facility mainly for corporate customers, who took 78.2% of total IBIs’ financing in Pakistan as at end June, 2015 and who want luxury of drawing cash any time and paying at any time, thus paying return on the used finance out of the Limit that is approved for them. The modes like *murābaḥah*, *istiṣnā‘*, *salam* do not meet their requirement due to conditions of giving / taking delivery, transfer of ownership and risk specific to the goods under a transaction, issue of multiple deliveries in different consignment, invoices, etc. In other words, RM has minimum documentation requirement with a ‘Facility Limit’ sanctioned in client’s

[8] In 2007, 80% plus share in financing by all IBIs in Pakistan was represented by *murābaḥah* (44%), *ijārah* (24%) and Diminishing *mushārakah* (25%) respectively. *Mushārakah*, *muḍārabah* combined were about 1.7 %. In December, 2015, industry wise *mushārakah* share rose to about 15 %.

name for the period of one year or any agreed term during which client keeps on drawing and depositing the funds just like a conventional interest based OD.

Profit sharing ratio (PSR) is agreed with two tiers and practically whatever amount of profit is over and above the KIBOR linked target rate, equivalent to market OD rate, is given to the client as per prior firm commitment. Bank's RM investment is equivalent to the average balance of the RM Account maintained with the Bank in the name of the Customer calculated on daily product basis over the *mushārakah* Facility period.

At the end of the RM facility period, the bank receives the amount of target / desired profit rate applied to the Average *Mushārakah* Investment. At the same time, customer returns the investment on account basis as provisional settlement. After availability of actual accounts for the *mushārakah* period, actual figures are calculated and *mushārakah* matured.

As a result, corporate sector has increasingly preferred Running *mushārakah* over *murābaḥah* or *ijārah*, which earlier were their cherished modes, because they can get huge sums and have to pay a fixed rate without any juristic requirements as in case of *murābaḥah* or *ijārah*.

RM Capital and Bank's Investment

A *mushārakah* limit or facility is approved for the client. Just like the OD limit, RM Limit is calculated as (80) % of the average value of Stock-in-Trade and Trade Receivables appearing in the preceding (4) financial years' statement of the applicant company. The results of the following two formulae are added to arrive at Average *mushārakah* Investment: i) Adjusted Cost of Goods Sold (COGS) multiplied by inventory turnover in days and divided by *mushārakah* period in days; and ii) Adjusted COGS multiplied by average collection period in days and divided by *mushārakah* period in days [9]. The inventory turnover concept - how much time the inventory usually takes to convert it into sale; and the receivable cycle concept are used. The cost of sales items like the raw materials consumed, fuel and power, chemicals and supplies, salaries, wages and benefits, with opening stocks less closing stocks etc. are taken to calculate the *mushārakah* capital, while certain expenses like rents, tax, insurance, travelling expenses of the management, repair & maintenance, stores &

[9] In case RM is for one year, inventory Turnover in days equals to average inventory divided by cost of goods sold and multiplied by 365 days. Average collection period in days equals to average accounts receivable divided by cost of goods sold and multiplied by 365 days.

spares, plant depreciation, plant insurance are exclude. For profit calculation, adjusted COGS are deducted from the Net Sales, which are then adjusted for other Direct Expenses related to the operating business. Profit may be paid at the benchmarked rates by the client provisionally on monthly or quarterly basis. Final settlement of *mushārakah* Profit/ Loss is made after receipt of financial statements for the *mushārakah* period from the customer.

With regard to profit sharing ratio (PSR), it is mutually agreed that up to the profit ceiling (bank's target rate) profit would be shared in proportion to the investment by the bank and the customer. Regarding the profit over and above the agreed profit ceiling, bank agreed to decrease its share to as low as 0.01 giving 99.99 % to the client. If any amount of profit still goes to the bank, it might be given to the client as gift (*hibah*). One Sharī'ah scholar of the premier bank told us that Mufti Taqi Usmani prohibited them to give *hibah* of any amount calculated as per the second tier. However, with ratio further tilted towards the client (99.999: 0.001) the bankers found the solution, as facilitated by the Sharī'ah scholar themselves. Practically, it has been observed that need for such *hibah* does not arise as the bank's share in additional profit is only a few Rupees (Rs. 2 or 0.02 Dollar in one RM case of an IBI) to get which the industrialist partner would not be interested even.

To fulfill the juristic requirement, parties agree that loss, if any, will be shared between the parties in proportion to their respective investment ratio[10]. However, practically it may never happen as the provisional profit as per the agreed profit ceiling is charged to the customer. Claim for any loss is subject to availability of audited accounts that is generally after a few months. Any client might hardly be prepared to offer its books of accounts for scrutiny while it has availed of the bank's capital at so cheap rate. One RM contract entered into by the premier bank with a Company during 2008-09 revealed that the Bank contributed 75 % of the total RM investment. But the company, with only 25 % investment, took 97.5 % of the *mushārakah* profit giving only 2.5 % to the Bank, despite the fact that

[10] In case of RM for wheat purchase operations, it was decided that in the event of the *mushārakah* loss, a Review Committee at the request of the Bank shall determine whether the *mushārakah* loss was due to dishonesty, gross negligence or breach of any covenant of the *Mushārakah* Agreement by the Customer. If the majority members decide that the *mushārakah* Loss was due to dishonesty, gross negligence or breach of any covenant, the customer shall bear the whole of the *mushārakah* loss.

the ceiling rate agreed at that time was 14.40 % (1.00% over the KIBOR of 13.40%)[11].

Sharī'ah Issues in RM as being practiced

1) Capital of the partners in *shirkah al-'aqd* should be known in advance / before the time of starting business; it should be mixed implying that all assets of *shirkah* would be in collective / joint ownership of the partners[12]. In the RM, however, the nature of investment of joint capital remains ambiguous over the period. The process of debit and credit goes on up to the date of maturity and the profit is calculated on the basis of daily products of net financing just like interest. All other processes and calculations are not more than eyewash.

   A senior Islamic banker claimed during discussion that such identification does not take place even in case of *muḍārabah* or *shirkah* based pools constituted for Deposit Management and profit distribution as accepted by Sharī'ah supervisory boards of all Islamic banks in the world. This argument is not valid because in deposit pools although the investment by each depositor is calculated by daily averages, but specific assets based on *murābaḥah*, *salam*, *ijārah*, *istiṣnā'*, DM etc. are identified and assigned to the pools. Similarly, the joint assets' pools in SBP's *shirkah* based '*Export Refinance Scheme'* have identified assets of the banks and the equivalent investment by the State Bank. But, no such identification is possible in RM and removing *jahālah* in this regard is almost next to impossible. It happens sometimes that two or even three banks provide Running finance on the same inventory. So to us, the issue is not of the 'Daily Product', but of the total lack of clarity about the use of the joint capital and identification of the *mushārakah* assets the income of which has to be distributed.

2) According to the principles of *shirkah*, a stipulation that one partner will get as profit share a lump sum from the profit or a percentage (e.g. 5%) of the capital renders the *shirkah* void (AAOIFI; 3/1/5/8). All partners should be sharing the profits meaning that one partner cannot say that after certain earnings and profit distributed at that level, he

[11] The lower level of banks profit from RM contracts to be taken by the banks in present situation can be estimated when the KIBOR is as low as around 6%, while the SBP policy rate came down from around 13 % in 2009 to 5.75 in May, 2016 (SBP website and Pakistan Economic Survey, GOP; 2015-16).

[12] For definition of *shirkah al-'aqd* and its details, see: AAOIFI, Sharī'ah Standards on *Shirkah*, Clause: 2/1.

will be getting all profit over and above that level (Usmani: 35-41). It might be because of the reason that practically it would mean one party taking fixed return as in case of *ribā*. This, as per AAOIFI's Standard (clause 3/1/5/7; Also see Sharī'ah basis in Appendix B to the Standard) renders such partnership contract void.

3) Although giving *hibah* by a partner to the other at the time of distribution of profit is permissible as per AAOIFI's Standard, but if it becomes a norm to the effect that one party gets a fixed return by formal understanding, it becomes *ribā* based activity. The stipulation that the parties will share profit in first tier in the ratio of their investments is meaningless and of no effect because the bank gets a fixed rate without fail and the major part of the profit goes invariably to the industrialist / client. Also, this is against the philosophy of Islamic banking as explained by Usmani M. Taqi [13].

4) Mufti Taqi Usmani's assertion, "*In the proposed (RM) system, all the partners are* treated *at par*" (2000; P.73) is not upheld in the procedure as practically developed, as the client takes almost all profit giving only a tiny part to the financing partner. It is formally agreed that bank's share over and above the target profit, shall decrease to as low as 0.001 giving 99.999 % to the client. With such ratio tilted towards the client (99.999: 0.001) the bank's share in additional profit could be only a few Rupees to get which the industrialist partner would not be interested even. Hence, the mutually agreed condition or term as a result of which all profit except a tiny part goes actually to the client violates the principles of sharing profit in *shirkah.*

5) The money withdrawn by the clients from the RM Limit is used by them for any purpose and anyway they wish for which they pay a pre-fixed return equivalent to conventional OD rate. This dilutes the basic philosophy of Islamic banking that all financing has to be backed by any identifiable real sector transaction.

6) Islamic banks manage the deposits on basis of *muḍārabah*, so they cannot make a gift or charitable donations without clear consent of the depositors (AAOIFI, Standard on *muḍārabah*, Clause: 9/6). RM leads to forfeiture of the right of the depositors to get profit. Getting a fixed

[13] He contends that borrowers from conventional system generally earn huge profits and only a small proportion (e.g. 8 or 9 %) is taken by the bank as interest; out of which a small part goes to the depositors. The net result is that all the profits of the enterprise is earned by the persons whose own capital does not exceed 10 % of total investment in a business or project, while the people owning 90 % of the investment get no more than the fixed rate of interest (Usmani M. Taqi, Pp. 20; 238-246).

benchmarked rate and forfeiting the remainder for benefit of big corporate entities without explicit authority of the depositors might not be allowed under the law of *muḍārabah*.

A related issue is that as per the agreement, the bank has to bear the pro-rata loss, if any. Hence, the bank is taking risk on depositor's money while it is not sharing the profits properly; it is a clear violation of finance principle even, and would be counted as *ẓulm* as depositors are not paid profit with justice.

7) Commercial usage (*ʿurf*) is one of the bases for validity of some new commercial transactions particularly in Ḥanafī Law. But we do not come across any such kind of valid *mushārakah* in commercial *ʿurf* in the whole history of over fourteen centuries of Islamic commercial law in which one partner gets a fixed amount /rate on its investment, leaving the remainder for the other partner(s), and the contract is still considered as *mushārakah*[14].

8) RM contracts by Islamic banks would imply that the depositors indirectly become partners in the business of the client's corporate business; the idea may be valid theoretically; but practically, it is not so. The formula is being applied arbitrarily and neither the joint assets are properly identified nor the profits are fairly shared. It has been seen that in case two or more banks provide running finance to one entity, they might be financing even for fixed assets creating some Sharīʻah related or practical issues.

Is RM better than *Murābaḥah* or Leasing?

In view of the Sharīʻah issues as discussed above and also due to impact of such kind of controlled *mushārakah* on future behaviour of banks and the corporate sector, RM seems to be worse than the fixed earning modes as allowed in Islamic commercial law. Fixed return with lower documentation added by *fatwá* of Sharīʻah compliance and *ḥalāl* business by the highest religious authority on Islamic finance in the contemporary world might result in derailing the process of transformation of the system to the principles of Islamic economics and finance.

The bulk wheat purchase at harvest time by the Government of Punjab was used to be financed by the IBIs by way *murābaḥah*. But from the year 2015 even they refused to do *murābaḥah* with Islamic banks and offered

[14] It has been seen in recent past, of course, in fictitious *Muḍārabahs*, a kind of Ponzi schemes, in which Rs. (5000) per month per Rs. 100,000 were given to early birds while at the end all investors suffered, particularly the late comers.

RM with KIBOR related fixed rate. Not only a target profit rate for the bank, but also the "Target Profit Benchmark" is mutually agreed. Profit ceiling taken as the target profit rate and actual total average *mushārakah* Investment was conveyed to the Customer, the Punjab Food Department. The Running Finance *Mushārakah* Agreement was signed by the parties together with other security documents. Profit up to ceiling amount was to be shared according to the investment ratios in the Actual Average *mushārakah* investment for the period, while the profit over and above the ceiling amount had to be shared in the ratio of 0.0001% p.a. and 99.9999% p.a. meaning that profit over and above the target rate will practically go to the customer partner only. Another issue in this *mushārakah* could be that as per experience it happens sometime that the Punjab Government advises its Food Department not to sell the wheat stocks any time over the year and finance is repaid to the concerned banks. It also happens if some stock remains unsold. How the profit will be calculated in this situation is the issue. Either the finance might be included in the next year's Limit or the stock could be deemed to be sold; both options involve Sharī'ah issues.

Financing on the basis of leasing, *murābaḥah*, etc, according to Usmani (2000:20-22), is clearly distinguishable from the conventional financing on the following grounds (briefly): i) In lease or *murābaḥah*, no money is advanced by the financier; rather goods / assets are purchased by the financier and sold / leased to the clients; ii) In conventional finance, loans may be advanced for any profitable purposes and the clients may use the funds anyway they wish. But in *murābaḥah* / leasing, all financing has to be for clearly identified objects not prohibited in Islam; iii) Financier has to face commodity and market risk, in addition to the credit risk in *murābaḥah* and *ijārah* on account of which it becomes eligible for profit / rent; in *ijārah*, the financier has to bear the loss if the leased assets is destroyed without any negligence by the lessee; and iv) In *murābaḥah* the bank's receivable once agreed become and remains fixed while in interest based finance the borrower's payable keeps on increasing so long as money remains payable.

In RM, however, neither any identified objects or assets are required nor the financier has to face commodity and market risk. It gives the clients freedom to use the Limit as they wish without any requirement of proof regarding the use. In the market, it is being taken as debt. This is why, the issue of Capital adequacy ratio (CAR) has not arisen, nor the discussion on profit smoothing / equalisation reserves (PER) is relevant here. Hence it is worse than *murābaḥah*, *salam*, leasing and other modes with fixed rate of return as the latter category, if genuine, performs the requisite function of linking finance with production and business activities.

Further, IBIs are facing practical problems while doing Running *mushārakah*. Some Islamic bankers have accepted that practically many errors and mistakes are committed and the customers do not give proper and timely information. A practical-cum-Sharīʻah issue is that the companies have specific need for finance; if two or three banks step in approving finance on the same inventory, etc; the Limits available would be much more than its total requirement with the result that the client will be using (cheap) funds at its discretion without reference to the joint business and *mushārakah* of the both or all involved banks might become invalid[15]. It also calls for careful and tougher regulation.

On account of fixed charge and flexibility comparable with conventional OD, business people are increasingly demanding only Running *mushārakah* instead of *murābaḥah* or other modes so much so that even Islamic bankers or personnel of their Sharīʻah departments are hesitant to allow them. In the words of a senior Islamic banker, *'business people fight with them and even with Sharīʻah scholars to allow them RM facility'*.

RM, Regulatory Issues and the Sharīʻah Scholars

The main reason indicated by Islamic bankers for giving profit over and above the minimum agreed level of KIBOR related return to the client is that in the environment where the conventional system occupies major part of the market, clients are not ready to do real *mushārakah* with the bank. During discussion with some Sharīʻah scholars associated with Islamic banks we asked as to how they or Sharīʻah boards are approving this kind of '*mushārakah*' with fixed return for the bank as happens in lending. The only argument given was that the Sharīʻah allows a partner to give its part of the profit as *hibah* to the other. To give more weightage to their decision, they also referred to the instructions of the State Bank vide BPD Circular No. 1 dated January 21, 2004 that binds the banks in Pakistan to benchmark all corporate lending, including the '*Overdraft and Running Finance*' with the KIBOR with spread as the parties may mutually decide. This argument carries little weight because firstly, giving OD Limit is the function of the conventional banks, not obligatory for

[15] If two or more banks extend RM financing to the same client, these banks become partners to each other and should be agreeing on PSR and be aware of the same at both tiers level.

Islamic banks, and secondly, the Sharīʻah rules cannot be made subservient to the regulatory rules for the conventional finance. Further, the Circular allows some exemptions and the Sharīʻah Boards of the IBIs should have suggested to the State Bank to allow exemption to Islamic banks as philosophy of Islamic banking does not allow fixing the return rate in *mushārakah* as in case of debt.

Ribā has created *fasād* in the world and corrupted the economic and financial systems. Islamic banks must not become a party to this corruption by replicating the interest based products. Even bigger sin is contaminating the noble institution of *shirkah* with the main culprit - interest based debt system, and humiliating Islamic finance and its Divine principles. Islam, the religion of nature, has given clear guidance for maintaining justice, fairness and tranquillity in the human societies. It's duty of the regulators, management of IFIs, the practitioners, the business community and, at the top of it, the Sharīʻah scholars, to help evolve the system according to its noble principles and values and not to pollute it. One wonders as to how a product not formally approved by the SBP's Sharīʻah Board crept into the system covering increasing part of IBIs' portfolio and none of the major stakeholders took its notice.

To conclude, converting to 'Running *Mushārakah'* is moving back to square one as with increasing adoption of RM by all IBIs, only a little difference that could be seen earlier between the two systems operating in parallel would be coming closer to zero. The suggested formulas may seem to be good apparently, and hence approved by some Sharīʻah boards, but their arbitrary application in various types of businesses / industries creates many unresolved issues with regard to specification of *mushārakah* assets and separation of operational activities from overall expenses for running a business or a Plant / factory. Further, due to becoming a norm and a formal agreement that profit over and above the target rate shall go to the client, RM based financing becomes a debt disbursed on fixed charge. We urge the State Bank of Pakistan and its Sharīʻah Board to take notice of this hazardous trend and issue necessary directions. The genuine practices based on *murābaḥah*, leasing, *salam* etc. must not be replaced with the fictitious kind of *shirkah*. Further, the bases for *fatāwá* and procedure for approving structured products (See: Editorial, JIBM, Vol. 4, No. 2, 2014) may be agreed and made binding for all Sharīʻah Boards for approving or rejecting any structured products.

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