PROMOTING A SHARING ECONOMY IN THE ISLAMIC FINANCE INDUSTRY: A STUDY OF SELECTED OIC COUNTRIES

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Abstract

Islamic finance has been in existence for the past centuries. Nonetheless, the realization of the real objectives of the industry is still a dream yet to be true. The goal of Islamic finance is to promote a sharing economy whereby money is not concentrated in the hands of a few individuals. This purpose of this study is to investigate the application of *mudarbah* and *musharakah* concepts which facilitate a sharing economy where profit and loss is shared between the bank and customer compared to debt financing that utilizes *murabahah* concept. The methodology is based on secondary data obtained from central banks of five selected OIC countries. The results indicated that Indonesia, Sudan and Bangladesh recorded the highest amounts in terms of *mudarabah* financing while Malaysia, Indonesia and Pakistan recorded the highest amounts in terms of *musharakah* financing. The results also indicated that *murabahah* financing is high in Malaysia, Bangladesh, Indonesia and Sudan. Pakistan registered the lowest amount in terms of *murabahah* financing.

Keywords: Sharing Economy, Mudharabah, Musharakah Islamic Finance Industry, OIC Countries

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I. INTRODUCTION

Prior to the commencement of the Islamic finance industry, there was a wide spread market failure in the conventional financial system since the 1920s. This triggered a substantial unfulfilled demand for alternative financial products that are free from the innate crisis-prone features of the conventional financial sector. The Islamic financial system, with its *Shari'ah* compliant or ethical financial practices, has emerged as an ideal alternative financial system and developed substantially to meet this demand (Simkovic, 2013; Mirakhor and Bao 2013).

According to Abdullah (2016) Islamic finance is the efficient and effective mobilization of resources for the benefit of the real economy. The focus here is the real economy. In order to undertake economic activities that will bring benefit to the real sector, the instruments of *Mudarabah* and *Musharakah* cannot be ignored. There are always some arguments against the modern Islamic financial system that the system has been in operation since last three decades, nevertheless it did not bring any noticeable change in the real economic set-up. Not even in the arena of financing. This is due to the fact that Islamic banks pay more attention only to debt financing and less attention to equity financing which has the potential to promote distributive justice. This is an indication that the claims of Islamic finance to create distributive justice will remain unachieved until risk sharing contracts are given more significance (Usmani, 1998).

This paper argues that *mudarabah* and *musharakah* are among the ideal contracts that will help promote sharing economy and instill justice and fairness as well as stability in the Islamic finance industry. Nevertheless, the application of the above-mentioned contracts in the modern Islamic finance, especially among Islamic banks, continues to dwindle. In several Islamic finance jurisdictions such as Malaysia, *mudarabah* and *musharakah* financing are still less accepted by Islamic banking institutions. Going forward, this paper seeks to examine the application of *mudarabah* and *musharakah* as compared to *murabahah* in the Islamic banking sector of the five selected OIC countries. Secondly, the paper determines the possibility of promoting a sharing economy through the Islamic banking sector. The next section of the paper discusses the literature review followed by the methodology of the study. The final part focuses on the discussion of findings and conclusion.

II. LITERATURE REVIEW

According to Al-Ghazali (1937), the prime objective of the *Shariah* is to promote the welfare of the people, which lies in safeguarding their faith, life, intellect, posterity and wealth. Focusing on the wealth aspect, one of the goals of Islamic economics is to ensure equal distribution of wealth by removing disparity created through mass exploitation of resources to obtain maximum profit (Chapra, 1985). Following the above, the concept of financing in Islam differs from that of conventional financing as Islamic economic principle share risk and rewards in wealth creation by means of equity rather than debt. As a result, the society becomes more entrepreneurial and creative. This differs from the modern capitalism where profit maximization is the sole motive and banks are content with interest income on the loan regardless of the financial and social implications on the business. In contrasts, the Islamic banks should also provide financing in adherence to *Shariah*, which is to ensure overall wellbeing of the society (Abdul Razak, 2011).

In order to provide financing in adherence to *Shariah*, early Muslim scholars who wrote about the development of the Islamic financial system did not only give emphasis on the elimination of *riba* contracts but rather, they urged and promoted the use of risk-sharing instruments such as *Musharakah* and *mudarabah* in Islamic finance so as to achieve the real objectives of the industry. Practitioners on the other hand are keen on *Murabahah* whereby they are assured of profit similar to conventional finance that is bench marked to interest rate. While the early Muslim scholars place emphasis on Profit-Loss Sharing (PLS) in Islamic finance transactions, Islamic finance practitioners in the modern time are most often concerned about increasing their profit share and minimizing risk by replicating the conventional finance products in an attempt to meet *Shariah* compatibility. In the end, they are trapped in the same scenario of risk shifting and risk transfer just as in the case of the conventional finance (Mirakhor and Bao, 2013).

In the opinion of many scholars, the Islamic banking system by nature is supposed to be a model of equity finance. According to Akacem and Gilliam (2002) a good example of the significance of equity finance can be seen in the case of Japan. The financial structure of the Japanese demonstrates a remarkable combination of both debt-based and equity-based financial structures. The readiness of Japanese banks in the postwar period to lend money as well as assume equity stakes in the manufacturing and industrial sector of Japan had greatly enhanced the growth of the economy of Japan (Akacem and Gilliam, 2002). The ideal Islamic finance instruments that will help promote equity finance or a sharing economy and instill justice and fairness in the Islamic finance industry are therefore *Mudarabah* and *Musharakah*.

Musharakah is an agreement between two or more individuals who carry out a specific business so as to share the profits as well as losses that arise in the investments (Abdul-Rahman and Nor, 2017). *Mudarabah* on the other hand is a contractual arrangement between two or more parties in which one party serves as the financier (*rabul mal*) of the other party who is the entrepreneur (*mudarib*), whereby the entrepreneur manages the business enterprise and the profits made are shared among the parties, while the losses are borne by the financier of the project (Cerović et al., 2017).
The legitimacy of *mudarabah* and *musharakah* application can be traced back to the time of the Prophet (pbuh). *Mudarabah* for instance was used in the business enterprise between the Prophet (pbuh) and a business woman who later became his first wife, Khadijah. This is regarded as one of the first instance in the application of *mudarabah* concept which happened more than 15 years even before the Prophet (pbuh) started to receive the revelation. In the *Makkan* society, *mudarabah* was a common practice. This was because Madinah was an agricultural society and thus the practice of crop sharing in the form of *muzara'ah* and *musaqah* were common. *Muzara'ah* involves open fields used for farming crops while *musaqah* has to do with orchards of palm trees (Kahf and Khan, 1992).

In this practice of crop sharing, land together with trees in the case of *musaqah* and land only in the case of *muzara'ah* are considered as fixed assets contributed by the *rab al mal* (the financier) or fund provider and put at the disposal of the *mudarib* (the entrepreneur) or the working partner in the *mudarabah* contract. With these arrangements, the *mudarib* has the opportunity to use the land to do business without having to actually pay for it and this is equivalent to financing. The profit made in terms of output is then shared among the parties based on the agreed profit and loss sharing ratio. However, losses made will be borne by the *rabul mal*. These arrangements ensure the use of assets without actually paying for them which is tantamount to financing. Both *muzara'ah* and *musaqah* require sharing the gross output and allow for limited flexibility in the contractual distribution of operational expenses (Kahf and Khan, 1992).

Past literature revealed that there have been a number of studies on *musharakah* and *mudarabah.* Most of those studies demonstrated the significance as well as the challenges of these two instruments. For instance, Al-Suwailem (1998) believes that *musharakah* has a great potential as a venture capital tool for Islamic financial institutions to raise funds and this will help boost growth in Muslim countries. Even though the author has the opinion that *musharakah* venture capital could fail or face some challenges just like any other type of venture capital, yet it represents an attractive alternative to the debt-based financing especially in Muslim investors.

In a similar disposition, the Standing Committee for Economic and Commercial Cooperation (COMCEC) (2017) documented that, in many jurisdictions such as Malaysia, Indonesia, Pakistan and Sudan, *Murabahah* based financing products are dominant in the Islamic banking industry. The committee therefore recommended that institutions in the Islamic finance industry should be encouraged to use equity-based financing principles such as *Mudarabah* and *Musharakah*. The committee is of the opinion that equity-based financing principles will help promote the development of the real economic sector through financing in infrastructure development, agriculture, SMEs and corporate project financing.

Also, the Central Bank of Malaysia encourages the institutions in the Islamic banking industry to work towards diversifying their range of Islamic products to comprise not only debt-based structures such as *Murabahah* but more importantly equity-based structures such as *musharakah* and *mudarabah* instruments. This is in line with the bank's objective to meet the progressively sophisticated and diversified demand from the market (BNM, 2010). Similarly, according to Ahmad et al (2013) most scholars of Islamic banking and finance are of the opinion that in order for the banking sector to promote risk-sharing, mutual assistance and co-operation, financial activities ought to reflect the principle of profit-loss sharing (PLS) that is exemplified in *musharakah* and *mudarabah*. The authors believe that these should ideally be the foundation stone of Islamic banking. The authors also have the conviction that Islamic banks need to achieve socioeconomic objectives through the use of *musharakah* and *mudarabah* contracts.

With the goal of understanding the needs of *Shariah* instruments, Noraziah (2010) reviewed the parameters set by BNM by means of specific definition in ascertaining significant characteristics. Among the parameters included were *musharakah* covering capital as well as PLS partnership. The author believes that the features recognized in the parameters could assist financial institutions in the industry to classify, comprehend, offer as well as differentiate these instruments from other contracts existing in the industry. The *Shariah* parameters in these two instruments are meant to contribute to socioeconomic development especially in supporting small entrepreneurs.

Also, Amelia and Hardini (2017) studied about the determinants of *Mudarabah* financing in Indonesian Islamic rural banks. The study discovered that most of the Islamic rural banks prefer to use *Mudarabah* financing because of the demand from customers. Hence, an increase in Islamic rural financing leads to an increase in *Mudarabah* financing in Indonesia. Ahmed and Barikzai (2013) documented that Islamic banks involve in investment activities based on a number of instruments such as equity participation which is known as *Musharakah* and agency activities in the form of *Mudarabah* or *Qirad,* cost-plus sale in the form of *Murabaha,* post-delivery sale in the form of *Bai' Salam,* or leasing arrangements especially for equipment. The authors further discussed that it would be quite one-sided to limit Islamic banking to the elimination of *riba* only. This makes sense as only focusing on elimination of *riba* without paying attention to risk sharing, will make Islamic finance never to achieve its objectives.

In terms of challenges in the application of *Mudarabah* and *Musharakah* instruments, Abdul-Rahman and Nor, (2017) recently assessed the application as well as the modus operandi of profit and loss sharing instruments in an attempt to ascertain the challenges in the application of *Mudarabah* and *Musharakah* instruments. In their study, the authors conducted an in-depth interview with personnel from Islamic banks in Malaysia. The results disclosed that there are a number of challenges in terms of profit and loss sharing financing which include difficulty in selecting the appropriate partners, high risk of investment, lack of capital security, and the issue of demand mostly from customers with low credit worthiness.

Moreover, Mirakhor and Bao (2013) for instance did an extensive literature review with the goal of highlighting, explaining, and discussing an ideal Islamic and conventional financial system. The study found that the modern Islamic finance actually developed from the conventional financial system in order to provide solutions to the market failures in conventional finance in terms of the unfulfilled demand for products of Islamic finance. The authors argued that, due to the fact that most of the practitioners in Islamic finance came from the conventional finance background, thus majority of the products developed in Islamic finance are mimicking the conventional finance. Accordingly, the authors believe that the focus is mainly on avoiding *riba* without paying attention to exchange instruments as stated in the first part of the Qur'an verse 275, "…But Allah has permitted trade and has forbidden interest." It is therefore suggested to move towards more risk-sharing instruments such as *mudarabah* and *musharakah* in Islamic finance should be developed to create a robust financial system and help achieve a sharing economy. Notwithstanding the above significance of *mudarabah* and *musharakah, murabahah* financing still dominates the Islamic banking industry.

A number of studies such as Dixon (1992) and Kayed (2012) are of the opinion that *murabahah* has been the most used Islamic financial instrument in Islamic banks. Yet, this instrument is also claimed to be the most controversial and much criticized mode of Islamic banking instrument (Rosly, 2010). Kayed (2012) for instance revealed that the use of *murabahah* is controversial as its procedures are similar to conventional debt financing which may lead customers into indebtedness which is unethical. Kayed (2012) further contended that the use of this instrument is not in line with the *Shariah* because the bank does not take the risk of ownership and liability in the case of property financing.

To offer further understanding about the concept of *murabahah,* Kayed (2012) asserted that *murabahah* is based on cost plus contract that provides a fixed rate of return to the banks and that this concept is one of the most widely used instruments in Islamic banks around the globe. The utilization of this concept offers the bank a guaranteed fixed return, which is similar to conventional financing. Fasih (2012) believed that sales can be based on three diverse categories and the general type of it is what is known as *murabahah* which is a cost-plus transaction is. Dixon (1992) documented that *murabahah* provides prearranged earnings and it is mostly practiced by Islamic banks as compared to other concepts such as *mudarabah* and *musharakah*.

There are arguments that Islamic banks are practicing "artificial *murabahah*" (Kayed, 2012). This is because they give profit-bearing financing to their customers and charge a pre-arranged mark-up under different labels such as service charge and administrative fee. Meanwhile, the prearranged mark-up amount is most often equal to the current interest rate and thus synonymous to *riba*. Islamic banks have also been accused of promoting the culture of consumerism by means of *murabahah* financing to facilitate the purchase of consumer goods rather than entrepreneurial activities through instruments such as *musharakah* and *mudarabah* (Kayed, 2012).

Murabahah can also be in the form of Commodity *murabahah* which is based on the concept of *tawarruq*. In the market today, the common term used to denote *tawarruq* is 'commodity *murabahah* transaction' (Dusuki et al., 2013). *tawarruq* is technically purchasing of a commodity on credit by the *mutawarriq* (seeker of cash) and selling it to a person other than the initial seller (3rd party) for a lower price on cash (Dusuki et al., 2013).

III. METHODOLOGY

The methodology employed in this study is mainly secondary research on existing literature of the topic. Accordingly, secondary data has been used as the main source of data and a simple descriptive statistic, in the form of charts, is utilized to analyze the data collected from the central banks of the selected countries. The countries selected are Bangladesh, Indonesia, Malaysia, Pakistan and Sudan. These countries were chosen because they are among the top countries with large Muslim population and they have a systemically important Islamic finance industry. Availability of data was also taken into consideration in the selection of these countries. Thus, only those jurisdictions with more information about *mudarabah, musharakah* and *murabahah* financing were included in this study. The data selected consisted of semi-annual data of *mudarabah, musharakah* and *murabahah* financing for the period of fourth quarter 2013 (2013Q4) to second quarter 2017 (2017Q2). All the data are in millions of USD. Table 1 in the following page shows the data collected for the analysis.

Table 3.1

Muḍārabah, Mushārakah and *Murābahah* Data by Country from 2013Q4 – 2017Q2

		2013Q4	2014Q2	2014Q4	2015Q2	2015Q4	2016Q2	2016Q4	2017Q2
Bangladesh	Total financing	13,422.2	14,989.8	16,354.4	17,570.3	18,683.1	20,078.0	21,368.5	22,423.2
	Muḍārabah	255.6	277.0	355.8	373.2	436.9	460.4	206.4	559.3
	Mushārakah	275.0	256.4	280.8	229.5	313.2	305.9	330.1	332.4
	Murābahah	8,538.4	9,141.7	9,915.9	10,744.3	11,744.8	12,809.7	12,762.6	15,059.6
Indonesia	Total financing	11,261.60	11,973.90	11,892.60	11,304.30	11,161.10	11,998.70	13,067.40	13,932.70
	Muḍārabah	741.4	765.8	677.1	642.5	578.4	639	557.9	582.3
	Mushārakah	2,761.80	3,140.20	3,199.80	3,237.10	3,343.30	3,614.50	3,775.40	3,979.90
	Murābahah	6,966.9	7,354.8	7,384.8	6,917.4	6,788.1	7,233.8	8,103.6	8,515.9
Malaysia	Total financing	85,471.9	93,844.9	95,463.9	95,746.9	90,257.5	100,721.6	96,226.3	105,273.9
	Muḍārabah	44.5	24.0	22.1	20.3	18.1	17.9	15.9	15.4
	Mushārakah	4,891.7	5,918.5	6,424.7	6,626.7	6,643.9	8,113.4	8,965.7	10,276.7
	Murābahah	17,347.0	20,208.6	24,033.9	27,220.9	27,499.5	34,714.1	35,343.5	39,971.7
Pakistan	Total financing	2,030.8	2,283.4	2,763.3	3,530.4	4,421.1	4,705.7	5,556.2	6,254.1
	Muḍārabah	4.8	5.4	2.3	2.3	2.1	2.1	0.8	0.0
	Mushārakah	93.8	183.3	294.8	321.1	681.2	525.4	867.8	1,155.2
	Murābahah	620.1	552.0	614.5	609.3	792.3	806.8	645.4	913.0
Sudan	Total financing	7812.42	8428.97	8875.21	9993.67	10521.93	11768.22	11166.77	13143.14
	Muḍārabah	286.23	464.71	425.73	475.37	456.01	473.41	479.20	516.98
	Mushārakah	489.37	515.22	469.28	579.52	453.22	523.80	483.75	448.75
	Murābahah	2948.79	3238.05	3530.71	4743.31	4324.20	4808.77	5109.72	6004.19

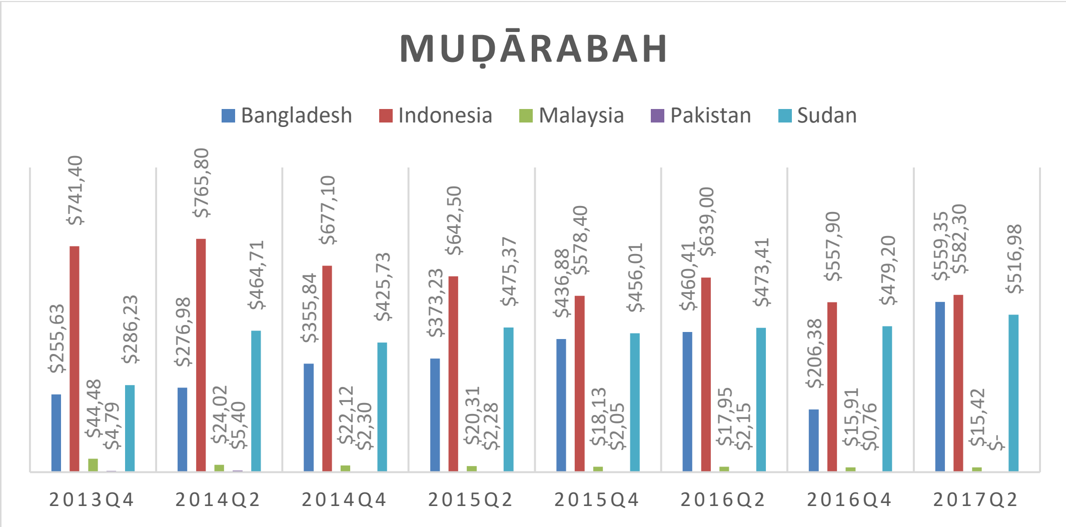
Source: PSIFIs, IFSB

IV. ANALYSIS

4.1 *Mudarabah* Financing

Mudarabah financing is presented in Chart-1below. It can be seen that in general, Indonesia recorded the highest value in terms of *mudarabah* financing. This result is not surprising as *mudarabah* financing is the common mode of financing in rural areas of Indonesia (Amelia and Hardini, 2017). Thus, this is most probably the reason for the high *mudarabah* financing in Indonesia as compared to the rest of the countries under the study. The result of Indonesia is followed by Sudan and then Bangladesh, while Malaysia and Pakistan registered the lowest *mudarabah* financing during the period. Specifically, Indonesia recorded an increase from about $741,400 in 2013Q4 to about $765,800 in 2014Q2. There was however a continuous decline from about $765,800 in 2014Q2 to about $578,400 in 2015Q4 before a slight increase to about $639,000in 2016Q2. This fluctuation ended up with about $582,300 in 2017Q2. Sudan also demonstrated similar fluctuations throughout the period, starting with about $286,230 in 2013Q4 and increased slightly, to about $464,710 in 2014Q2 before declining again in 2014Q4.*Mudarabah* financing in Sudan continued to fluctuate and finally recorded about $516,980 in 2017Q2. Bangladesh registered about $255,630 in 2013Q4 but increased, even though not consistently, to about $559,350 in 2017Q2. Despite the fact that Malaysia is a key player in the Islamic banking industry, its *mudarabah* financing demonstrated a continuous decline throughout the period from about $44,480 in 2013Q4 to about $15,420 in 2017Q2. Therefore, in general, the countries with the highest *mudarabah* financing in this study are Indonesia, Sudan and Bangladesh.

Chart 4.1
Mudarabah Financing by Country

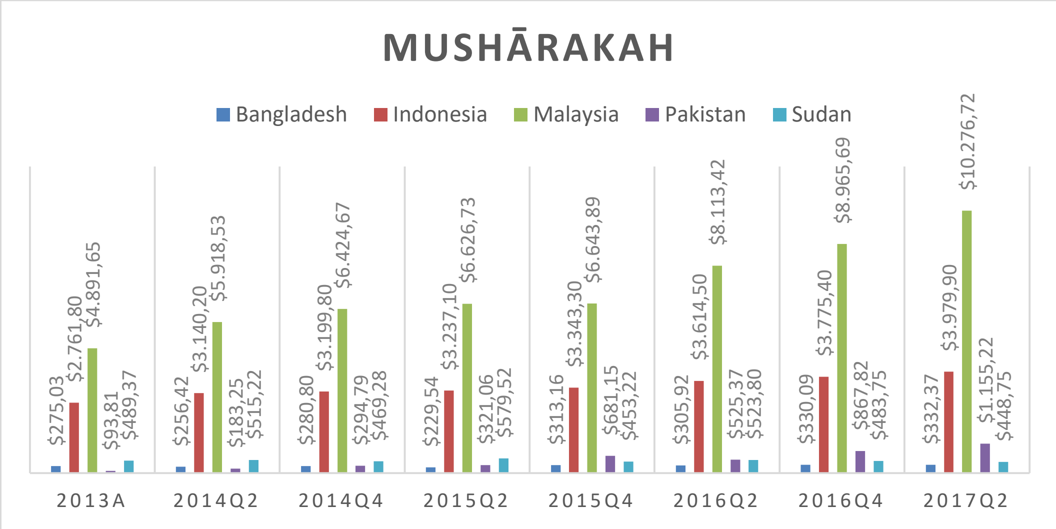


4.2 *Musharakah* Financing

The analysis of data on *musharakah* are presented in chart 2below.Among all the countries under consideration, Malaysia has registered a steady improvement in *musharakah* financing throughout the duration of the study in terms of value of financing, which grows from about $4,891,650 in 2013Q4 to about $10,276,720 in 2017Q2. Similarly, Indonesia recorded a continuous increase in *musharakah* financing from about $275.03 in 2013Q4 to about $3,979.90 in 2017Q2. This is followed by Pakistan which also recorded a growth in *musharakah* financing of about $93.81 in 2013Q4 to about $1,155.22 in 2017Q2. Based above, the country with the largest *musharakah* financing in the Islamic banking sector is Malaysia. Thus, overall, Malaysia, Indonesia and Pakistan recorded the highest amounts in terms of *musharakah* financing.

Notwithstanding the fact that Malaysia, Indonesia and Pakistan showed some improvement in *musharakah* financing, when compared to *murabahah* financing, *musharakah* financing is still very small in all the countries under the study as we shall see in the next section in chart 2.

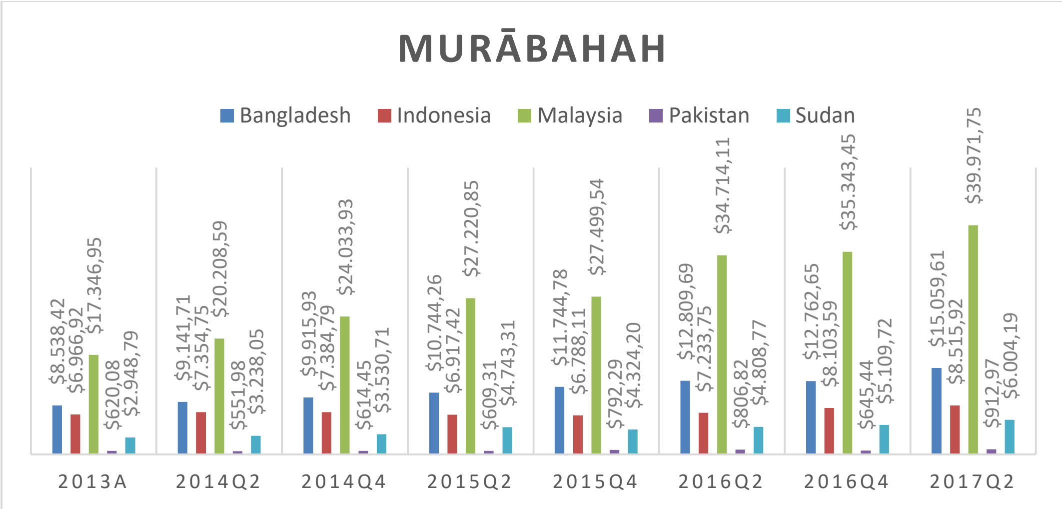
Chart 4.1
Musharakah Financing by Country



4.3 *Murabahah* Financing

Murabahah financing is claimed to be one of the widely used financing instruments among Islamic banks around the globe. This is clearly confirmed in this study as shown in chart-3below. All the countries under the study have demonstrated a continuous upsurge in *murabahah* financing with Malaysia being the highest in terms of value of *murabahah* financing, followed by Bangladesh and then Indonesia. In the case of Malaysia for instance, there was an increase in *murabahah* financing from about $17,346,950 in 2013Q4 to about $39,971,750 in 2017Q2.In Bangladesh, *murabahah* financing increased from about $8,538,420 in 2013Q4 to about $15,059,610 in 2017Q2. Indonesia recorded about $6,966,920 in 2013Q4 which increased to about $8,515,920 in 2017Q2. Sudan and Pakistan on the other hand, recorded less *murabahah* financing though in an increasing fashion with the lowest being Pakistan. Thus, among all the countries considered in this study, *murabahah* financing constitutes the largest portion in Malaysia, Bangladesh, Indonesia and Sudan. This outcome is not surprising as several studies demonstrated a similar outcome. For instance, the Standing Committee for Economic and Commercial Cooperation (COMCEC) (2017) shared the same opinion that, *murabahah* based financing products are dominant in the Islamic banking industry in many jurisdictions including Malaysia, Indonesia, Pakistan and Sudan. These findings are also consistent with the arguments of Dixon (1992) and Kayed (2012) who both claimed that *murabahah* is the most widely used instrument in the Islamic banking industry. Islamic banks in general, just like the conventional banks, prefer instruments with less risk such as *murabaha* financing.

Chart 4.2
Murabahah Financing by Country



V. DISCUSSION

Bangladesh is a country with predominant Muslim population of 160 million where Islamic Finance has been growing faster attributed to its intrinsic value, uniqueness of distinctive banking, and sustainability. In this study amongst the five countries Bangladesh showed the second highest in *Mudarabah* financing after Sudan. However, this is not significant against the prospect of huge market of Bangladesh where the economy is based on agriculture. Possible reasons could be almost no governmental support to implement Islamic financing policies, annual report of most Islamic banks does not define or explain the products and how it works. Moreover. because of insignificant marketing efforts, customers are unaware of the equity-based financing products. However, like other countries *Murabahah* is still the dominant financing product in Bangladesh. This is because of the consumer preferences to commodity *Murabahah* which is similar in practice generating consumer loan of conventional banks (Md. Sarker, 2013).

Indonesia plays a minor role in the global Islamic banking industry despite having the world's largest Muslim population and forming a dynamic emerging economy. The study revealed Indonesia showed high in terms of both *Musharakah* and *Murabahah* financing. It has been realized that the equity financing modes like *Mudarabah* and *Musharakah* can replace the debt financing such as *Murabahah* and Tawarruq. People are still utilizing the later modes of financing in Indonesia due to its similarity with conventional financing. Although. Indonesia is having highest Muslim population the growth of Islamic banking industry of five percent (www.indonesia-investments.com) was very slow compared to other Muslim counties. One of the major issues in Indonesia's banking sector is the low financial literacy of the Indonesian population causing poor level of penetration. Based on data obtained from the World Bank, only 36.1 percent of Indonesia's adult population owned a bank account in 2014. Another obstacle is that Islamic banks or banking units are unevenly distributed across Indonesia. Islamic banking in Indonesia has also had difficulty to expand due to weak government support(www.indonesia-investments.com).

Malaysia shows a continuous decline in Mudarabah financing during the period of study despite the fact that it is the key player in Islamic Banking and Finance. In Malaysia, the *Bai Bithaman Ajil (BBA), Tawarruq* and Commodity *Murabahah* concepts are the most popular financing concepts practiced by the Islamic banks. Hence, *Murabahah* which reflects the debt nature of BBA is the second most popular financing mode in Malaysia. *Mudarabah* and *Musharakah* indicated insignificant market share. This could be due to the lack of knowledge of banking officials to adopt equity financing. In addition, there is also lack marketing and promotion for products like *Mudarabah* and *Musharakah* which has higher risks compared to debt based *Murabahah.*

Islamic banking industry in Pakistan has achieved tremendous growth after its establishment in the decade of 2000 parallel to the conventional banks. The study demonstrates Pakistan as high in both *Musharakah* and *Murabahah* financing whereas low in *Mudarabah* financing compared to other countries. Data showed that the Islamic banking sector in Pakistan is also heavily dependent upon *Murabahah* as a mode of financing. This is because its operations are similar to conventional financing and bankers are familiar with various types of *Murabahah* financing structures. In Pakistan investors do not get a tax concession for investing in Shariah compliant investments. Absence of tax incentive could be another reason for the low performance in *Mudarabah* financing mode. In addition, insignificant use of media in creating awareness in Islamic equity products has affected its usage in the agricultural sectors and Small and Medium Enterprises (SMEs) which have a large potential in Pakistan (M., Ashraf, 2013).

In Sudan there is more extensive use of *Mudarabah* due to the agriculture background of the country. The study showed, Sudan has the highest amount of financing in terms of Mudarabah with an increasing trend over the past years. However, the use of *Murabahah* is also widely use in the retail sector due to its application has made it easier to market the product.

VI. CONCLUSION

The purpose of this study is to investigate the application of *mudarbah* and *musharakah* concepts which facilitate a sharing economy where profit and loss is shared between the bank and customer compared to debt financing that utilizes *murabahah* concept. Based on the findings, it is evident that Indonesia, Sudan and Bangladesh utilize more *mudarabah* financing among the five countries under the study. Malaysia and Pakistan registered the lowest in terms of *mudarabah* financing. In Indonesia, Sudan and Bangladesh, rural microfinance by means of *mudarabah* financing is very common and this is could be the reason for these countries recording the highest in *mudarabah financing* structure. In terms of *musharakah* financing, Malaysia, Indonesia and Pakistan recorded the highest amounts while Bangladesh the lowest. On the other hand, among all the five countries considered in this study, *murabahah* financing constitutes the largest portion in almost all the countries with the highest being in Malaysia, Bangladesh, Indonesia and Sudan. Pakistan recorded the lowest in terms of *murabahah* financing.

This study also revealed that musharakah and *mudarabah financing* concepts were the lowest in the Islamic banking sector of all five countries under the study compared to *murabahah* financing which constitute a larger portion. Therefore, considering the low level of equity-based financing (*musharakah* and *mudarabah*) as compared to the high level of debt-based financing (*murabahah*)in the Islamic banking sector of all the countries under the study, revealed that the current Islamic banking system is still far from achieving its real objective of promoting a sharing economy. Steps should be taken by the government to address the issues mentioned and take the remedial steps by introducing policies and incentives for the effective usage of the equity concept to ensure a fairer distribution of profit in the economy.

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