

Islamic Banking and Finance Review



The Role of *Musharakah* in the Economic Development of Tehsil Dargai, District Malakand, Khyber Pakhtunkhwa, Pakistan

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Research Paper Information

To cite this article

Ahmad, S., Aslam, E., Haq, S. G., & Billah, M. M. (2019). The role of *Musharakah* in the economic development of Tehsil Dargai, district Malakand, Khyber Pakhtunkhwa, Pakistan. *Islamic Banking and Finance Review*, 6, 80–97.

[Crossref](#)



Access this article online



<https://iib.umt.edu.pk/IBFR/Home.aspx>



<https://doi.org/10.32350/ibfr.2019.06.05>

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Volume 6:1440-41H/ 2019

ISSN (E): 2413-2977

ISSN (P): 2221-5239

Journal



This is an Open Access Journal

Published By

Institute of Islamic Banking (IIB)

University of Management and Technology (UMT)



<https://iib.umt.edu.pk/ibfr/home.aspx>



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The Role of *Musharakah* in the Economic Development of Tehsil Dargai, District Malakand, Khyber Pakhtunkhwa, Pakistan

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Abstract

Islamic finance industry has been growing for the last twenty years, both in Muslim and non-Muslim countries around the world. There are different modes of Islamic finance which provide job opportunities across the globe. In Pakistan, the contemporaneous growth of Islamic banking and finance is not different from other countries. Islamic banking and finance does not only provide employment for individuals, indeed it also offers various products and services to customers across the country. *Musharakah* is a form of business in Islamic finance that is being adopted rapidly by most of the customers in Islamic banking and finance institutions. Therefore, the purpose of this study is to examine the role of Islamic finance, mainly how *Musharakah* is playing its due role in creating employment and maintaining sustainable development projects which in turn are causes of the development of the economy, particularly of Tehsil Dargai. For this purpose, this study collected data through a questionnaire that was randomly distributed among 100 respondents in Tehsil Dargai, District Malakand, Khyber Pakhtunkhwa (KP), Pakistan and the response rate was 60%. We found that Islamic finance is rapidly growing in Dargai; indeed, people are practicing different modes of Islamic finance and *Musharakah* is the most popular form of Islamic finance in this area. This study utilizes limited data because it was only conducted in Dargai.

Keywords: economic development, Islamic banking and finance, *Musharakah*

Introduction

Islamic banking and finance has been rapidly growing for the last two decades (Rashid, [2017](#)). It is practiced by both Muslim and non-Muslim countries across

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the world (Mersch, [2010](#)). It is unique because it is free from interest and uncertainty (Ayub, [2016](#); Dahir, Osman, & Ali, [2015](#)). It plays a vital role in socioeconomic development due to its exponential growth (Ayub, [2017](#)). State Bank Pakistan (SBP) has encouraged the Islamic finance industry due to its exclusive contribution in economic development (Ahmad, [2017](#)). There are different modes of Islamic finance and *Musharakah* is one of the most prominent modes of Islamic finance practiced in Pakistan. It is defined as “when two or more than two persons combine their funds and skills to form a business firm in which mutual risks are to be shared” (Bhatti, [2008](#)). Khan ([1990](#)) defined it as a contract between two individuals who jointly form a financial business firm to earn profit. In this contract, partners agree on a predetermined profit sharing ratio with each other and the loss is borne according to their capital contribution in the business (Hussain, Shahmoradi, & Turk, [2015](#); Ismail, [2010](#)).

In addition, a partner has the right to dissolve the *Musharakah* enterprise by giving prior notice to the other partner(s) (Usmani, [2002](#)). Insanity, post-contract incompetency and the death of a partner trigger the termination of a *Musharakah* enterprise, automatically. Although, conventional finance plays a significant role in the economic development of a country, one cannot ignore the role played by Islamic finance (Aslam, Ijaz, & Iqbal, [2016](#)). This is a new concept of financing and some people in Khyber Pakhtunkhwa (KP) are not seemingly aware of Islamic finance, even of the concept and theme of the Islamic mode of finance, although it significantly contributes to the economic development of a country. Among the various Islamic modes of finance, *Musharakah* and *Mudarabah* play an eminent role in the economic development of a society. Besides, Islamic microfinance has been eminently used to eradicate poverty by providing small loans to the poor based on profit and loss (Ahmad, Amjad & Aslam, [2018](#); Khan & Aslam, [2018](#)). Hence, the participants of these modes of Islamic finance can happily and willingly join these modes, which in turn result in the economic development of the country (Saleem, [2007](#)).

District Malakand of KP is a rural area and the people of this area depend upon agriculture, shop keeping and other trivial businesses such as transportation, gardening, and mining. Most of the people of this area are Muslims and have a religious mind-set. So, they have the will to opt for some alternative of conventional financing. Therefore, Islamic finance can be an alternative to traditional finance in District Malakand. In this study, the researcher strives to know how Islamic finance, especially the *Musharakah* mode of Islamic finance, can play its role in the economic development of Tehsil Dargai, Malakand District, KP. This paper elaborates how the people of Malakand may come to know and practice the



Musharakah mode of Islamic finance, how they may benefit from this mode and their role in the economic development of this area.

1.1 Objectives of the Study

The study has the following specific objectives.

- i. To determine how the people of Tehsil Dargai, District Malakand, KP are inclined towards Islamic finance.
- ii. To examine the role played by Islamic finance generally and *Musharakah* particularly in the socioeconomic development of Tehsil Dargai, District Malakand, KP.

1.2 Limitation of the Study

This study is limited in its scope because it focuses only on Tehsil Dargai, District Malakand, KP and does not account for any other areas of Malakand. The study is based on Islamic banks operating in Dargai and excludes all other conventional banks operating in this area. Moreover, this research also excludes the employees of Islamic banks above the rank of branch manager and below the level of a bank officer.

2. Literature Review

The role of Islamic finance in the promotion of social, financial, and economic well-being of the individuals in a society cannot be ignored and one can't deny the fast-growing trend of different modes of Islamic finance (Mahmood, Khan, Ijaz, & Aslam, [2014](#)). *Musharakah* is one of the modes of Islamic finance which impart their share in the promotion of social well-being, not only in economic terms but also in social terms based on Islamic values and teachings of the *Shari'ah*.

A study conducted in Malaysia described the role of Islamic financial institutions in inducing socioeconomic development in Malaysia. In this study, the authors argued that the Islamic modes of finance could enhance the socioeconomic development of the country. Malaysia is a hub of Islamic finance and practices different modes of Islamic finance; especially the role of *Musharakah* in the socioeconomic development of Malaysia can be traced in (Anwar & Haque, [1991](#)).

In a study conducted in Indonesia which elaborated the contribution of Islamic banking in sustainable socioeconomic development of the country, the researcher used the epistemological approach. The study revealed that Islamic banking can focus on two modes of Islamic finance in Indonesia namely *Mudarabah* and *Musharakah* (partnership), due to which their GDP will be enhanced leading to the socioeconomic development of the country (Pratiwi, [2016](#)). This study focused



only on these two modes of Islamic finance and ignored others such as *Ijarah* (leasing), *Murabahah* (cost-plus financing) and *Sukuk* (bonds). However, despite the significance of these two modes of Islamic finance, one cannot ignore the importance of its other modes.

Similarly, a study in Bahrain elaborated the role of Islamic finance in the economic development of Bahrain. The study concluded that the *Musharakah* form of Islamic finance played its role in the reduction of poverty and strengthened the partnership mode of business that is in line with *Shari'ah* principles. It generated many employment opportunities for the individuals of the country and resultantly economic development was attained. It also provided a platform to business communities who may join this mode of Islamic financing and get the maximum benefit (El-Ghattis, [2011](#)).

A study showed that the clients of Islamic banking and financial institutions do not use *Musharakah* as often as compared to other modes of Islamic finance, such as *Murabahah* and *Ijarah*. Survey method was adopted and data was collected through questionnaire from the professionals working in Islamic banks and financial institutions, *Shari'ah* scholars, economists and the faculty which delivered lectures and taught the subject of Islamic banking and finance at university level in KP. The study found some reasons due to which the *Musharakah* mode of Islamic finance cannot grow to the maximum in Pakistan. These reasons included the lack of bankers' interest in this mode and also the lack of honest and skillful persons who may impart their role in the promotion of this type of business, as well as the growing ignorance and lack of support for the development of the *Musharakah* mode of Islamic finance in Pakistan (Farooq & Ahmed, [2013](#)). This study provided the background and motivated the researchers to study in-depth the issues and subject domain and devise policies and recommendations for the improvement of the *Musharakah* mode of Islamic finance because it is an excellent alternative to the conventional type of partnership business. The researcher strived to find the reasons of weak growth in the *Musharakah* mode of Islamic finance; however, this study did not pay any attention to the role of the State Bank of Pakistan (SBP) in the promotion and growth of this mode and the overall Islamic finance industry.

Musharakah mode of Islamic finance is one of the best alternatives to conventional finance. A study was conducted in Malaysia which described that *Musharakah* is an excellent solution to the economic problems of any country because it shares the profit and loss ratio among the partners. This mode of Islamic finance can be used by Islamic banking and financial industry in their lending



activities to harmonize crises in the economic and financial situation faced by a country (Muhammad, [2014](#)). This study focused only on macro-level factors and did not consider micro-level factors, such as small-scale farmers, shopkeepers and other entrepreneurs doing business at a small scale.

The *Musharakah* mode of Islamic finance is a tool for the economic development of a country. This type of financing was adopted by SMEs (small and medium enterprises) in the Malaysian economy due to the non-availability of conventional financing. The result was promising due to the enhancement of SMEs' business in Malaysia. It was proved that through the *Musharakah* mode of Islamic finance SMEs' financing became a viable project for their promotion and improvement, which resulted in the development of the Malaysian economy (Rahman, [2017](#)). There are several studies undertaken across different regions of the world which show that the *Musharakah* mode of Islamic finance is a suitable option for the financial and economic development of these regions, if they are operated in their real sense and through committed, skillful, and enthusiastic staff and entrepreneurs who have the will to work for the socioeconomic development of a nation.

3. Research Methodology

3.1 Population and Sample of the Study

The population of the study comprised all Islamic banks working in Tehsil Dargai, Malakand District, KP. The current research distributed 100 questionnaires randomly. 60 questionnaires were returned and 52 were filled adequately by the respondents. 08 questionnaires were unacceptable which means that these questionnaires were biased marked, all the choices for each question showed that the responses were biased. Therefore, these questionnaires were not deemed suitable for analysis and the results may be affected because of these 08 questionnaires. Moreover, the response rate was 60% that truly represented the population.

3.2 Data Collection Process

The current study used primary data collected through a personally administered questionnaire organized into seventeen subsections to judge the scope of Islamic finance, especially *Musharakah*, in Tehsil Dargai, Malakand District, KP. The study used five-point Likert scale (1= strongly disagree, 5= strongly agree) for rating the responses of the respondents. The first and second subsections of the questionnaire discussed age group and gender. The third and fourth subsections discussed whether Islamic financial products are in line with the teachings of Islam



and *Shari'ah*. The fifth and sixth subsections explained that Islamic products promote Islamic values and serve the teachings of the Quran and *Sunnah*. The seventh and eighth subsections discuss customers' preferences about investing in a business where there is no *Gharar* / risk. The ninth and tenth subsections explicated that Islamic products comply with *Shari'ah* based legal activities while offering different products and services to customers and the maximization of profits due to *Musharakah*. The eleventh and twelfth subsection described that *Musharakah* helps in alleviating poverty and in promoting sustainable development projects. The thirteenth and fourteenth subsections talked about the minimizing cost of operations and the minimizing cost of the operations of *Musharakah*. The fifteenth, sixteenth, and seventeenth subsections described *Musharakah* enhancing product and service quality, *Musharakah* offering viable and competitive financial products, and *Musharakah* contributing to social welfare, respectively.

4. Results and Discussion

Table 1 shows the age groups of the respondents of the study. 27.5% of respondents belonged to the age group of 25-35 years. 23.5% of respondents belonged to the age group of 35-45 years. 25.5% of respondents belonged to the age group of 45-55 years and finally, 17.6% of respondents belonged to the age group of 55-60 years. Only 5.9% of respondents were above the age of 60 years.

Table 1
Age Groups

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	25-35 Years	14	27.5	27.5	27.5
	35-45 Years	12	23.5	23.5	51.0
	45-55 Years	13	25.5	25.5	76.5
	55-60 Years	9	17.6	17.6	94.1
	Above 60 Years	4	5.9	5.9	100.0
	Total	52	100.0	100.0	

Table 2 presents the gender based grouping of the respondents in the survey. It shows that 78.4% of respondents in the study were male and 21.6% were female.



Table 2
Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	41	78.4	78.4	78.4
	Female	11	21.6	21.6	100.0
	Total	52	100.0	100.0	

Table 3 indicates the support for the statement that *Musharakah* and Islamic financial services provided by Islamic banks are the right forms of business based on *Shari'ah* principles. 28.8% of respondents strongly agreed with the statement, while 21.2% agreed and 17% chose to remain neutral. The result shows that more than 60% of respondents agreed that Islamic financial products are in line with the teachings of Islam. However, 15% of respondents disagreed and 17% strongly disagreed with this statement. It can be concluded from Table 4.3 that most of the respondents in the survey consider that the *Musharakah* mode of financing is according to the Islamic principles.

Table 3
True to the Teachings of Islam

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	15	28.8	28.8	28.8
	Agree	11	21.2	21.2	50.0
	Neutral	9	17.3	17.3	67.3
	Disagree	8	15.4	15.4	82.7
	Strongly Disagree	9	17.3	17.3	100.0
	Total	52	100.0	100.0	

Table 4 shows that 38.5% of respondents strongly agreed with the statement that *Musharakah* and Islamic financial services in the banks are *Shari'ah* based. Similarly, 26.9% of respondents agreed with the statement. Another 15.4% gave a neutral answer, while 11.5% disagreed and 7.7% strongly disagreed and were of the view that these financial products are not *Shari'ah* based. All in all, 50% of respondents considered that Islamic banking products are according to the teachings of the *Shari'ah* and they know that this type of business is *Shari'ah* based.



Table 4
Shari'ah Based

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	20	38.5	38.5	38.5
	Agree	14	26.9	26.9	65.4
	Neutral	8	15.4	15.4	80.8
	Disagree	6	11.5	11.5	92.3
	Strongly Disagree	4	7.7	7.7	100.0
	Total	52	100.0	100.0	

Table 5 shows that 25% of respondents strongly agreed in response to the question 'Is *Musharakah* a vehicle to promote Islamic values?' and 28.8% agreed with it. However, 17.3% remained neutral, while 7.7% and 21.2% of respondents disagreed and strongly disagreed, respectively. Hence, the result shows that most of the respondents agreed that *Musharakah* is an excellent source to promote Islamic values and norms.

Table 5
A Good Vehicle to Promote Islamic Values

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	13	25.0	25.0	25.0
	Agree	15	28.8	28.8	53.8
	Neutral	9	17.3	17.3	71.2
	Disagree	4	7.7	7.7	78.8
	Strongly Disagree	11	21.2	21.2	100.0
	Total	52	100.0	100.0	

Table 6 shows that in the opinion of the respondents *Musharakah* is working according to the principles laid down by the *Shari'ah*. As the table shows, 65% of respondents agreed with the statement. It is clear that most of the respondents know about *Musharakah*, that it works according to the teachings of the Quran and *Sunnah*.



Table 6
Serving the Teachings of the Quran and Sunnah

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Agree	19	36.5	36.5	36.5
Agree	15	28.8	28.8	65.4
Neutral	6	11.5	11.5	76.9
Disagree	6	11.5	11.5	88.5
Strongly Disagree	6	11.5	11.5	100.0
Total	52	100.0	100.0	

Table 7 shows that 57% of respondents agreed that *Musharakah* is according to the norms of the *Shari'ah* and is preferred by customers in the Malakand district of KP. Only a small numbers of respondents negated the statement. It concluded that *Musharakah* business mode is conforming to the norms of Islam, which are preferred by the customers in the area of the district.

Table 7
Conformity with the Norms of Islam Following Customers' Preferences

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Agree	15	28.8	28.8	28.8
Agree	15	28.8	28.8	57.7
Neutral	10	19.2	19.2	76.9
Disagree	5	9.6	9.6	86.5
Strongly Disagree	7	13.5	13.5	100.0
Total	52	100.0	100.0	

Table 8 shows that *Musharakah* is the business form in which there is no speculation and uncertainty. The results indicate that the *Musharakah* mode of business is not based on speculation and *Gharar*, similar to the other conventional types of business. Thus, 65% of respondents agreed with the above statement and 19% disagreed with it. Overall, the results showed that *Musharakah* mode of business is genuinely according to the *Shari'ah* and is free from any risks borne by other (conventional) modes of financing.



Table 8
Investing in Business Where there is no Gharar / Risk

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	18	34.6	34.6	34.6
	Agree	16	30.8	30.8	65.4
	Neutral	8	15.4	15.4	80.8
	Disagree	5	9.6	9.6	90.4
	Strongly Disagree	5	9.6	9.6	100.0
	Total	52	100.0	100.0	

Table 9 shows that 28.8% of respondents are of the view and strongly agreed with the statement. Similarly, 32.7% of respondents agreed, while 15.4% chose to remain neutral. 11.5% of respondents negated the statement. It can be concluded that most of the individuals hold the view that this type of business is fully compliant with the *Shari'ah* and the teachings of Islam, which other conventional businesses usually do not comply with when they are offering products and services to their customers.

Table 9
Complying with Shari'ah Based Legal Activities while Offering Different Products and Services to Customers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	15	28.8	28.8	28.8
	Agree	17	32.7	32.7	61.5
	Neutral	8	15.4	15.4	76.9
	Disagree	6	11.5	11.5	88.5
	Strongly Disagree	6	11.5	11.5	100.0
	Total	52	100.0	100.0	

Table 10 shows that 32.7% and 28.8% of respondents strongly agreed and agreed respectively with the statement. 11.5% of respondents gave neutral responses, while 9.6% and 17.3% of respondents negated the statement. Overall, the results indicate that the respondents agree that *Musharakah* is a tool of profit maximization because it shares profit and loss. Also, there are no risks, uncertainty,



and unlawful activities involved. Both parties act reasonably and free from interest and unlawful activities prohibited by the *Shari'ah*.

Table 10
Maximization of Profit Due to Musharakah

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	17	32.7	32.7	32.7
	Agree	15	28.8	28.8	61.5
	Neutral	6	11.5	11.5	73.1
	Disagree	5	9.6	9.6	82.7
	Strongly Disagree	9	17.3	17.3	100.0
	Total	52	100.0	100.0	

Table 11 shows that 23.1% and 42.3% of respondents strongly agreed and agreed respectively with the statement. 19.2% of respondents chose to remain neutral and 7.7% negated the statement. The results indicate that most of the individuals agreed that the *Musharakah* mode of financing helps to eradicate poverty in Tehsil Dargai. Moreover, it is an excellent tool which is playing its role in poverty alleviation.

Table 11
Musharakah Helps in Alleviating Poverty

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	12	23.1	23.1	23.1
	Agree	22	42.3	42.3	65.4
	Neutral	10	19.2	19.2	84.6
	Disagree	4	7.7	7.7	92.3
	Strongly Disagree	4	7.7	7.7	100.0
	Total	52	100.0	100.0	

Table 12 indicates that 13.5% of respondents strongly agreed and 55.8% agreed with the statement, respectively. 11.5% of respondents chose to remain neutral, while 19% disagreed with the statement. Thus, the results show that *Musharakah* in the Dargai Tehsil of Malakand plays a vital role in the promotion of



developmental projects in the district. Most of the individuals are of the above view and only a few of the respondents in the survey disagreed with the statement.

Table 12

Musharakah is Promoting Sustainable Development Projects

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	7	13.5	13.5	13.5
	Agree	29	55.8	55.8	69.2
	Neutral	6	11.5	11.5	80.8
	Disagree	4	7.7	7.7	88.5
	Strongly Disagree	6	11.5	11.5	100.0
	Total	52	100.0	100.0	

Table 13 stated that 42.3% of respondents strongly agreed and 23.1% agreed with the statement. 17.3% of respondents chose to remain neutral. While 7.7% and 9.6% of respondents disagreed and strongly disagreed with the statement, respectively. It concludes that this type of business provides job opportunity in the Dargai Tehsil of Malakand District of KP. It promotes the developmental projects in the tehsil specifically and generally across the district. Hence, the people are encouraged and become interested in Islamic finance as compared to conventional modes of financing. Due to the interest of the people in Islamic finance, they join willingly in new ventures, businesses, and entrepreneurial activities which create job opportunities and employment in the study area.

Table 13

Musharakah is Providing Employment Opportunities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	22	42.3	42.3	42.3
	Agree	12	23.1	23.1	65.4
	Neutral	9	17.3	17.3	82.7
	Disagree	4	7.7	7.7	90.4
	Strongly Disagree	5	9.6	9.6	100.0
	Total	52	100.0	100.0	

Table 14 indicates that 7.7% of respondents strongly agreed and 36.5% agreed with the statement, respectively. 26.9% of respondents chose to remain neutral,



while 28% disagreed with the statement. The results show that most of the respondents in the survey agreed that the *Musharakah* mode of financing minimizes the cost of operations of the business. It shares losses and risks as well as the operating expenses of business dealings and transactions as compared to the conventional forms of financing.

Table 14
Minimizing Cost of Operations

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	4	7.7	7.7	7.7
	Agree	19	36.5	36.5	44.2
	Neutral	14	26.9	26.9	71.2
	Disagree	6	11.5	11.5	82.7
	Strongly Disagree	9	17.3	17.3	100.0
	Total	52	100.0	100.0	

Table 15 indicates that 26.9% and 28.8% of respondents strongly agreed and agreed with the statement, respectively. 9.6% of respondents chose to remain neutral, while 17.3% disagreed and negated the statement. It shows that most of the respondents are of the view that this business enhances the quality of products and services offered to the stakeholders in one way or another in Dargai Tehsil of District Malakand, KP.

Table 15
Musharakah is Enhancing Product and Service Quality

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	14	26.9	26.9	26.9
	Agree	15	28.8	28.8	55.8
	Neutral	5	9.6	9.6	65.4
	Disagree	9	17.3	17.3	82.7
	Strongly Disagree	9	17.3	17.3	100.0
	Total	52	100.0	100.0	

Table 16 shows that 19.2% and 46.2% of respondents strongly agreed and agreed with the statement, respectively. 23.1% of respondents chose to remain neutral. While 9.6% and 1.9% of respondents disagreed and strongly disagreed with



the statement, respectively. The results indicate that *Musharakah* introduces viable and competitive financial products in the market. The parties in this type of business are interested in offering and introducing products according to the customer demand and market competition. Indeed, they try to facilitate their customers by providing products and services according to their needs, satisfaction, and affordability.

Table 16

Musharakah is Offering Viable and Competitive Financial Products

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Agree	10	19.2	19.2	19.2
Agree	24	46.2	46.2	65.4
Neutral	12	23.1	23.1	88.5
Disagree	5	9.6	9.6	98.1
Strongly Disagree	1	1.9	1.9	100.0
Total	52	100.0	100.0	

Table 17

Musharakah is Contributing to Social Welfare

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Agree	13	25.0	25.0	25.0
Agree	23	44.2	44.2	69.2
Neutral	6	11.5	11.5	80.8
Disagree	5	9.6	9.6	90.4
Strongly Disagree	5	9.6	9.6	100.0
Total	52	100.0	100.0	

Table 17 shows that 25% and 44.2% of respondents in the survey strongly agreed and agreed with the statement, respectively. 11.5% of respondents chose to remain neutral, while 9.6% negated the statement. In a nutshell, it is concluded from the results that most of respondents in the study believe that *Musharakah* is contributing to the social welfare of the individuals of the Dargai Tehsil of District Malakand, KP. As the parties enter into and initiate *Musharakah* type of businesses, their sole aim is not the earning of maximum profit by all means but they also have



the will to contribute in the social welfare and economic development of the society because it is the teaching of Islam that ‘do good with others’.

5. Conclusion

This study hypothesized how the people inclined towards Islamic finance, particularly *Musharakah*, play their role in the socioeconomic development of Tehsil Dargai, District Malakand, KP. We found that Islamic banking and finance is growing in the Dargai Tehsil of District Malakand, KP. Moreover, Islamic banking and financial institutions play their due role in the promotion of this sector of finance in the tehsil. The people are interested in investing and conducting their commercial activities through Islamic banking and finance. Islamic finance provides different products and services to their customers; therefore, the people are satisfied with the role of Islamic modes of finance, particularly that of *Musharakah*.

It is *Musharakah* which not only provides different customer oriented products and services to the customers but also plays a vital role in social development in terms of motivating and encouraging them towards the way and methods of financing and business that are taught by the *Shari‘ah* and Islamic principles. The people of the Tehsil Dargai of Malakand are religious minded and willingly agree to join and invest in Islamic finance. The people of the tehsil prefer Islamic finance because of the religious factor and based on the teachings of Islam and *Shari‘ah*. Therefore, *Musharakah* is a useful tool for their investment and they can get a good return in terms of profit in addition to religious satisfaction and generating employment opportunities which result in economic development of individuals, particularly across the Dargai Tehsil of Malakand District, KP, Pakistan.

This research is based on primary data collection; it is suggested here to future researchers to elaborate and analyze the topic using both primary and secondary data. They can also make a comparison of Islamic and conventional banks and may extend the scope of the research to other tehsils of District Malakand. Due to the differences in conventional and Islamic finance, they may observe that which mode of finance can play a better role in the economic and social development of the district specifically and generally across KP.

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