EDU REKHA INTERNATIONAL JOURNAL OF ARTS, LAW AND SOCIAL SCIENCE

Journal Homepage: https://edurekhapublisher.com/erijalss/

Volume- 2 Issue – 4 (July-August) 2026

ISSN: 3107-5169 (Online)

Frequency: Bimonthly

PAGES: 117-122

ARTICLE TITLE:

Mudarabah (A Profit Sharing Partnership) as a *Shari'ah* Compliant Financial Institution: Wisdom and Socio-Economic Implications

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ARTICLE HISTORY

RECEIVED
23-07-2026

ACCEPTED
28-07-2026

PUBLISHED
01-08-2026

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Abstract

In Islamic Financial institutions Mudarabah is one of the fundamental profit-and-loss sharing instruments recognized under Islamic commercial law and widely regarded as a Shari'ah-compliant alternative to conventional interest-based financing system. This paper examines Mudarabah as a Shari'ah-compliant financial institution, with particular emphasis on its underlying wisdom and socio-economic implications. The study explores the concept, historical evolution, legal foundations, essential elements, and operational structure of Mudarabah within the framework of Islamic jurisprudence. It further highlights the objectives and rationale behind the institution of Mudarabah, especially its role in promoting justice, risk-sharing, mutual cooperation, and equitable distribution of wealth. The paper also analyses the socio-economic significance of Mudarabah in fostering entrepreneurship, reducing poverty, encouraging productive investment, and enhancing economic development within society. In addition, the study discusses the responsibilities of the contracting parties, the need for transparency and accountability, and the importance of ensuring Shari'ah compliance in all Mudarabah transactions. The research adopts quantitative, doctrinal, and analytical methods through the examination of relevant Qur'anic verses, ahadith, classical juristic opinions, and contemporary scholarly writings. The paper concludes that the proper implementation of Mudarabah can significantly contribute to sustainable economic growth and social welfare by creating a financial system founded on ethical values, fairness, and shared responsibility. It therefore recommends greater awareness, effective regulation, proper documentation of contracts, and adherence to Shari'ah principles in order to maximize the benefits of Mudarabah for individuals and society at large.

Keywords: Mudarabah, Shari'ah, Financial, Institution, Wisdom, Socio-Economic.

Introduction

Mudarabah, which commonly known in Maliki Jurisprudence as *Qirad*, literally means assigning somebody to undertake a land journey for a trading purpose. But from Islamic point of view, it refers to a business contract between two parties; the capital provider (financer) and the capital investor (entrepreneur). stipulating an equitable criterion for sharing the accrued profit between them. But if the business sustains a loss; the financer alone bears it, while the entrepreneur gets nothing for his labour. (Abubakar, 2011)

Mudarabah (a profit-sharing partnership) is a financial arrangement that can promote love, harmony, cohesion, and trust within the Muslim *Ummah* when implemented in accordance with *Shari'ah* principles and regulations. It is a contractual agreement between two parties: the capital provider (financier), who possesses the financial resources but lacks the expertise to undertake a business venture, and the capital investor (entrepreneur), who has the necessary skills and experience but lacks the financial means to initiate the business. According to Sani et al (2023) Mudarabah is an Islamic finance arrangement in which one party, the capital owner, contributes funds and the other, the agent running the business, contributes the managerial skills necessary to carry out the desired transaction. Mudarabah refers to venture capital financing when the bank (financer) provide the money and the entrepreneur is responsible for the labor management and skills component. Both parties agree to share earnings and risks according to a prior arrangement.

Islamic finance is built upon principles that promote justice, transparency, and fairness in economic transactions. As already mentioned, among its foundational instruments is *Mudarabah* (a profit-sharing partnership) between a capital provider (*Rabb al-mal*) and an entrepreneur (*Mudarib*). *Mudarabah* (a profit-sharing partnership) emphasizes risk-sharing and ethical investment. The *Mudarib* must invest the funds on a *Sharia*-compliant basis (for example, the funds cannot be invested in prohibited (*haram*) products or activities such as tobacco, alcohol, or gambling. The *Mudarib* earns a fee that is deducted from any profits for managing the funds or business, and the parties share in any profits according to a pre-agreed ratio. (El-Gamal, (2006)

Islamic finance is grounded in divine guidance derived from the Qur'an and the *Sunnah* of the Prophet Muhammad (S, W, A). Unlike conventional financial systems that rely heavily on interest (*Riba*),

> The prohibition of interest (*riba*) is clearly established in the Qur'an:
>
> Allah has permitted trade and forbidden riba. (Qur'an 2:275)

This prohibition necessitates alternative financial structures like *Mudarabah*, (a profit-sharing partnership) which emphasize shared risk and ethical investment.

Salman (2011) maintained that Muslim scholars are in unanimous agreement that *Mudarabah* (a profit-sharing partnership) is permissible in Islam due to its vital role in fostering interpersonal cooperation and promoting the economic empowerment of financially disadvantaged segments of Muslim society. It is widely regarded as one of the most effective mechanisms for poverty alleviation and job creation. Moreover, it serves as a practical and grassroots-oriented strategy adopted within the Muslim *Ummah* to mitigate the rising incidence of social vices and socioeconomic crimes associated with poverty and unemployment.
This paper seeks to analyze *Mudarabah* as an institutional framework within Islamic finance by exploring its underlying wisdom and socioeconomic role. It highlights how Mudarabah contributes to financial inclusion, entrepreneurship, and equitable wealth distribution.

Conceptual clarifications

Oxford Advanced Learner's Dictionary defined profit sharing to means the system of dividing all or some of the company's profits among its employee. The same Dictionary defined partnership to means the state of being a partner in business. Profit sharing is a comprehensive strategy where a business distributes a portion of its profits to employees, partners, or shareholders based on agreed rules.Financial institution is connected with money and financer, it is an organization that manages money and provides financial services to individual, business, and governance. In the context of this write up financial institution refer to role being played by *Mudarabah* as one of the financial institutions that bring two people together to form a business. Wisdom the ability to make sensible decision and give good advice because of the experience and knowledge that you have or the knowledge that a society or culture has gained over a long period of time. Wisdom is the ability to use knowledge, experience, and good judgement to make sound decision and handle situation well. *Shari'ah* is a complete universal code of conduct drawn from our creator (Allah S.W.T) through His Messenger Muhammad (s.a.w) to mankind detailing the religious, political, social, economic, intellectual, and legal system. It is mean for universal application covering the entire spectrum of life. (Lawal & Abdullahi, 2024)

Historical Background of *Mudarabah* (a Profit Sharing Partnership)

The history of *Mudarabah* (a profit-sharing partnership) is a fascinating bridge between ancient Arabian trade culture and modern ethical finance. Its journey from the caravan of the desert to digital banking reveal how Islam refined existing social customs into a structured system of justice.

The historical records available indicates that the history of *Mudarabah* (a profit-sharing partnership) can be traced to the pre-Islamic roots (*al- Jahilliyah*). Before the birth of the Prophet of Islam, the Arabian Peninsula was a hub for international trade. Because many wealthy Makkans (the *Rabb- ul-Maal*) did not want to travel through the desert routes themselves, they look for honest, skilled traders (the *Mudarib*) to manage their goods.

Moreover, Khadijah bnt khuwaylid, a wealthy and highly respected widow as well as a prominent business woman in Makkah, entered into *Mudarabah* (a profit-sharing partnership) with the Prophet Muhammad (s.a.w.) in this arrangement, he travelled to Syria on a trade mission under her employment, accompanied by her servant Maysarah. Upon return, he delivered exceptionally profitable results. His conduct during this enterprise marked by trustworthiness, integrity, accountability, transparency, and honesty greatly impressed Khadijah. In recognition of these qualities, she did not hesitate to express her desire to marry him, despite the fact that she was fifteen years older than him. (Rahim, 1981)

Another historical account of *Mudarabah* (a profit-sharing partnership) occurred during the period of the second *Khalifah* Umar bn Khattab (r.a) as reported by Zaid bn Aslam:

Abdullahi bn Umar and Ubaidullah bn Umar the two sons of the *Khalifah*, went to Iraq for *Jihad* with the Muslim armies. Upon their return, they stopped over at Basrah, where Abu Musa al Ash'ari, the then Governor, welcomed them and said:'' I wish to offer you a favour, I have some funds from *Bait al Mal* which I intend to send Umar, I propose that I give this money to as loan, you purchase

DOI: 10.5281/zenodo.21738159

goods with it from Iraq, sell them in Madina, return the capital to Umar, and retain the profit for yourselves. They agreed to this proposal and received the money from Abu Musa, who wrote to Umar to receive it from them, upon arriving in Madina, they sold the goods and generated a profit. They then presented the capital to Umar who inquired: Did he offer such a loan to every soldier in the army they replied in the negative. Umar said, "The money was given to you due to your status as the *Khaliah's* sons. Surrender both the capital and the profit! Abdullahi remain silent, but Ubaidullahi said O! Amir Muminni you should not do this to us. Had the venture incurred a loss, we should have borne the capital, Umar insisted: you must surrender both the capital and the profit. Then Abdurrahman bn Awf suggested that it would be more appropriate if this transaction is considered as *Mudarabah* arrangement. Umar agreed, took the capital, and accepted half of the profit, while the other half was given to them'' (Muwatta, Book of Qirad, Hadith. No 1391)

Characteristics of A *Mudarib*

For a *Mudarabah* contract to be in line with *shari'ah* principles, the *Mudarib* must possess certain essentials characteristics and qualities, which include the following:

Akilu, et al, (2018) maintained that one of the major characteristics of a *Mudarib* is *tawhid* (Belief in the Oneness of Allah), this will have resulted in the acceptance of the good results of the business and be thankful to Allah (S.W.T) and defective results with the highest patience and fidelity. This will save him from the wrath of Allah and hell fire, this is supported by a verse where Allah (s.w.t) says: "O you who believe! Shall I guide you to a trade that will save you from a painful tournament? That you believe in Allah and His messenger---" Q 61:10-11.

Another important characteristic of a Muslim *Mudarib* is *at-taqwa* (Allah's consciousness) in his/her transaction. Allah (S.W.T.) said: '' O you who believe! Fear Allah and be with those who are truthful'' Q 9: 119

A *Mudarib* must possess a sound knowledge of selling, buying, business skills(expertise), and be conversant in all forms of financial and economic transactions. Islam despises ignorance, making it incumbent on every Muslim to search for knowledge. Furthermore, the *Mudarib* should possess adequate knowledge of profit-and-loss sharing principles, particularly those relating to *Musharikah* (joint ventures or partnership businesses).

The Prophet (s.a.w) says, "Whoever follows a path in pursuit of knowledge, Allah will make easy for him a path to paradise.'' (Sahih Muslim, Kitab al-dhikr, hadith no. 2699)

A *Mudarib* should avoid wastefulness and extravagance while demonstrating a comprehensive understanding of the effective management and utilization of entrepreneurial resources and facilities. To this end, Allah (s.w.t) says "O children of Adam, take your adornment at every masjid, and eat and drink, but be not excessive. Indeed, He likes not those who commit excess." (Q 7:31)

Entrepreneurial ethics must be upheld by the *Mudarib* through the avoidance of *Riba* (interest) and the embodiment of values such as *sidq* (truthfulness), *amanah* (trustworthiness), *Ikhlāṣ* (sincerity), and *Akhlaq* (morality). Allah (s.w.t.) says

> Those who consume interest (on the Day of resurrection) except as one stands who is being beaten by *Satan* into insanity. That is because they say, trade is just like interest; But Allah has permitted trade and forbidden interest. So whoever has received an admonition from his lord and desist may have what is past, and his affairs rests with Allah. But whoever returns (to dealing in interest) those are the companions of fire; they will abide therein eternally. Q 2:275.

Any *Mudarib* who lacks the aforementioned qualities and characteristics may not be able to conduct business activities in a manner that is fully compliant with *shari'ah* principles. Therefore, it is essential for every *Mudarib* to keep these principles in mind in order to ensure a smooth, valid, and hitch-free contractual relationship.

Types of *Mudarabah*

There are two types of *Mudarabah*: unrestricted (unlimited) and restricted (limited).

Unrestricted *Mudarabah*

Al Mudarabah al Mutlaqah (Unrestricted *Mudarabah*) is a type of *Mudarabah* where the capital *Rabb al Maal* (provider releases) the entrepreneur (*Muḏārib*) without imposing any restrictive conditions on the commercial activities. In other words, *Rabb al Maal* gives full freedom to the freedom to the *Mudarib* to under takes whatever business he deems fit. However, the *Mudarib* cannot, without the consent of the *Rabb al Maal*, lend money to anyone. (Ayub, 2007) The *Mudarib* is authorized to do anything which is normally done in the course of business. However, if they want to have extraordinary work which is beyond the normal routine of the traders, he cannot do so without the express permission of the *Rabb al Maal.* He also not authorized to: 1. Keep another *Mudarib* or a partner 2. Mix his own investment in that particular *Mudarabah* without the consent of the *Rabb al Maal.* In this type of *Mudarabah* contract, only the profit-sharing ratio is specified. The *Mudarib* is authorized to engage in any commercial transaction, adhering to the principles and standards of participation finance, while acting prudently within the established framework of commercial practices. (Usman,2002))

Restricted Mudarabah

Al *Mudarabah al Muqayyadah* (Restricted *Mudarabah*) is a type of *Mudarabah* in which The *Rabb al Maal* (capital provider) imposes restrictions on the entrepreneur with regard to aspects such as time, place, sector, type of trade, persons and similar factors related to the entrepreneur's activities. The entrepreneur is obliged to conduct his business activities within the limits set out in the agreement. (Iqbal, & Mirakhor,2011)

Wisdom Behind the Institution of *Mudarabah* (Profit-Sharing Partner)

It has been observed that many government policies aimed at addressing unemployment and poverty in Nigeria have proven ineffective and have not yielded meaningful results. Therefore, if the institution of *Mudarabah* is properly adopted and implemented in accordance with the tenets of *Shari'ah*, it could significantly reduce the rates of unemployment and poverty. (Ubaidullah, 2005)

When Islam came, it approved the practice of *Mudarabah*. Because, it fulfills the needs of different types of people. On one hand, there are people who have capital, but they lack in entrepreneurial and management skills. On the other hand, there are people who have entrepreneurial and business management skills, but they don't have capital to do that. The contract of *Mudarabah* enables both parties to enter into a partnership and make profit. The capital provider benefits from the expertise and skills of the manager. Likewise, the manager gets benefits from capital to invest in profitable venture and earn money. Its wisdom (*Hikmah*) lies in its ability to bridge the gap between social justice and economic. In other words, the institution of *Mudarabah* is designed to assist individuals who possess entrepreneurial skills and expertise but lack the necessary capital to

DOI: 10.5281/zenodo.21738159

establish or expand their businesses. As such, it serves as an effective mechanism for reducing unemployment and alleviating poverty across the globe. (Yakubu,2005)

Unlike conventional debt-based systems, *Mudarabah* is built on the principle of Equity, not exploitation.

Ishaq (2019) & Ibn Qudamah (1997), outlined the socio-economic wisdom/benefits of *Mudarabah* as follows:

1. **Reduces Unemployment Rate**

Using the *Mudarabah* instrument in a country like Nigeria will definitely minimize the level of job scarcity in the country. This can be realized if an entrepreneur comes out and develops a particular project or design which is convincing enough to obtain money from the *Raab al Maal*. The entrepreneur shall display talents and skills to the masses with the hope that the provider/financer will fund such an idea. In fact, the deals will be binding between entrepreneurs and sponsor in the presence of talents and funding. Thereupon, poor people with different skills will be getting the attention of rich persons through bank's involvement.

2. **Advances Resource Distribution and Productivity**

Excessive possession of properties by possessor often results to poor maintenance. Weak management commences when someone is unable to recognize the quality of an object. Belongings become useless in the absence of active users. Meanwhile, if an entrepreneur who is otherwise moneyless can create a project describing the value, relevancy and potentiality of that resource, belongings will not only be wasting again, but helpless people will as well be catering for their essential needs concurrently. Besides, sponsors lack ample time to invest these properties, hence, *Mudarabah* will render the service by exploring for suitable avenue to allocate these properties.

3. **Elevate Skills**

Without any shadow of doubt, after some period of time, the availability of fund and constant commitments will have widened entrepreneur's experience and exposure to the extent that beggary ideology would have disappeared in their mind at that moment.

4. **Enhance Wealth Circulation**

Apart from the fact that entrepreneurs will be sufficiently funded, labourers and suppliers executing the project will also benefit from it. Wealth distribution begins when every member associated with the project started receiving their respective entitlement.

> ''And in their wealth there is a known right for the needy and the deprived." (Qur'an 70:24–25)

5. **Establishes Integration**

Along the line, integration process arose whereby ideas that emanates from entrepreneurs will be combined together with financial institutions which will assuredly leads to economic perfection. Country's economy shall witness massive growth with the combination of different sectors and various human powers. The Prophet (s.a.w.) emphasized easing financial hardship:

> Whoever relieves a believer of a hardship from the hardships of this world, Allah will relieve him of a hardship from the hardships of the Day of resurrection. Whoever eases the difficulty of one in hardship, Allah will make it easy for him in this world and the hereafter--- (Sahih Muslim, Book 48, Hadith no. 2699)

6. **Encourages People to Work**

Individuals are not willing to work mainly because they are lacking financial assistance to set-up a business. The ideas are there, except that the capital that will transform such idea into material is scanty. Nonetheless, in the presence of fund, their motivation become stronger. One of the beneficial outcomes in introducing *Mudarabah* into the existing program in respect of poverty alleviation is that many people will be eager to become an entrepreneur. Thereupon, needy beings will be vanishing gradually.

7. **Poverty Alleviation**

Reducing poverty in any given community heavenly depends on the stability of the economy and the welfare of the inhabitants. As a matter of fact, economy will definitely experience positive growth if every individual dwelling in a society is engaged with different occupations and business. In this regard, Islamic approaches in mitigating poverty and ways of using *Mudarabah* instrument as a means of reducing poverty. (UNDP,2001). Given that conventional economics and the economic systems derived from it have failed to provide satisfactory solutions to the problem of poverty, the search for an Islamic alternative has become imperative. Islam's attitude toward poverty alleviation is clearly expressed in various verses of the Qur'an and the ahadith of the Prophet Muhammad (s.a.w.). (Binta et al, 2012). Allah (s.w.t.) emphasizes the care and support of the poor in the following verses of the Qur'an: So let them worship the Lord of this House, who has fed them, (saving them) from hunger and made them safe from fear. 106:3-4 for the poor. and further designates a specific portion of the wealth of the rich as a rightful share. Q 107:1-2 Based on the above, Mudarabah serves as a tool for empowering the poor and reducing inequality.

> The Qur'an emphasizes social responsibility:
>
> "And establish prayer and give *Zakah*…" (Qur'an 2:110)

The foregoing highlights the socio-economic implications of Mudarabah. A careful review of these implications supports the researchers' view that Mudarabah is aimed at reducing, if not alleviating, the suffering of the Muslim Ummah. This is achieved through the creation of employment opportunities for the unemployed, the promotion of wealth circulation, and the enhancement of entrepreneurial skills. Furthermore, Mudarabah encourages the inclusion of members of the community in businesses that are *Shari'ah*-oriented and fully compliant with *Shari'ah* principles.

8. **Economic Development**

Islam encourages circulation of wealth and investment in productive ventures:

> "And when the prayer has been concluded, disperse within the land and seek from the bounty of Allah." (Qur'an 62:10)

Guidelines for Sharing *Mudarabah* Profit

It is necessary in Mudarabah that both parties agree on profit sharing ratio at the time the contract is concluded. The distribution of the profit must be on the basis of the agreed percentage of profit. It is not allowed to decide the profit on the basis of a lump sum or percentage of capital. However, the parties are at liberty to agree on equal profit sharing or allocate different proportions. For example, 50: 50 or 40: 60 or 30: 70 etc. (Riyannah, et al, 2020).

Before sharing the profit, the following conditions must be satisfied.as maintained by Abubakar (2011, Usmani, 2002, Ayub, 2007, Ubaidullah, 2005), the profit accrued or loss incurred in a *Mudarabah* business may be determined by considering the following factors:

1. The winding up of all related investments.
2. The deduction of any agreed expenses for the sustenance of the entrepreneur, where applicable. However, the

entrepreneur may choose to withdraw such expenses during the course of the transaction, in which case no further deductions shall be made thereafter. The entrepreneur is entitled to maintenance from the *Mudarabah* capital throughout the investment period, subject to the following two conditions.

a. The business transactions must not be conducted within the vicinity of the entrepreneur's home town or place of residence.
b. The distance between the entrepreneur's place of residence and the location of the business must be sufficiently far such that, if he departs at sunrise, he would be unable to return home before sunset on the same day.

3. The conversion of all remaining stock and assets into liquid cash

4. reference should be made to the mutually signed agreement, particularly with regard to the respective rights and entitlements of the contracting parties.

5. The original capital should be separated from the total existing wealth of the Mudarabah venture. Thereafter, any excess remaining shall constitute the accrued profit, to be distributed between the two contracting parties according to the agreed-sharing formula.

In addition to the above, In the event of any loss to the initial capital followed by the subsequent realization of profits during the course of the investment, no dividend shall be distributed until the original capital has been fully restored.

If the financier withdraws his capital after incurring a loss at the initial stage of the investment and subsequently re-invest the remaining capital with the *Mudarib*, any profit realized thereafter shall not be used to offset the deficit incurred in the earlier capital. This is because the two separate submissions of capital constitute two independent *Mudarabah* contracts; therefore, one shall not complement or compensate for the other. (Ibn Qudamah,1997)

From the foregoing, it can be discerned that the guidelines established for the sharing of Mudarabah profits are in line with Shari'ah principles. These guidelines are designed to promote peace, progress, and harmony between the contracting parties. Where such guidelines are not clearly understood and properly observed, disputes and challenges may arise within the *Mudarabah* arrangement. Therefore, both the financier and the entrepreneur must give due consideration to these guidelines in order to ensure a smooth and mutually beneficial partnership.

Challenges facing *Mudarabah* Implementation / Actualization

Some of the major challenges facing the implementation and actualization of *Mudarabah* as maintained by Iqbal & Mirakhor (2001) include the following:

1. Lack of Trust Between the Parties

Mudarabah is primarily based on mutual trust between the financier (*Rabb al-mal*) and the entrepreneur (*Mudarib*). In many cases, mistrust arises due to fear of dishonesty, mismanagement, or concealment of profits by the entrepreneur.

2. Information Imbalance

The *Mudarib* usually has more knowledge about the business operations than the financier. This imbalance of information may lead to manipulation of records, inaccurate reporting of profits, or misuse of invested funds.

3. Risk of Financial Loss

Under Mudarabah, the financier bears the financial loss if the business fails, provided the entrepreneur was not negligent. This high level of risk discourages many investors from engaging in Mudarabah contracts.

4. Lack of Proper Documentation

Inadequate contractual documentation and poor record-keeping often result in misunderstandings and disputes between the parties involved. Must especially if the one or both of the contracting parties are illiterate.

5. Weak Legal and Regulatory frameworks

In some jurisdictions, there is an absence of comprehensive legal structures governing Islamic financial transactions, including Mudarabah. This makes enforcement and dispute resolution difficult.

6. Limited Awareness and Understanding

Many Muslims and financial practitioners lack adequate knowledge of the principles and operational mechanisms of *Mudarabah*, which limits its acceptance and implementation. In other words, the acceptability of the Mudarabah may face hitches since some of the parties involved are lacking knowledge of the as enshrined by the *shari'ah* legal system

7. Difficulty in Monitoring Business Activities

Financiers may find it difficult to effectively supervise or monitor the activities of the entrepreneur, especially in large or complex businesses.

8. Fear of Moral Hazard

Entrepreneurs may engage in reckless business decisions since they do not bear the financial loss directly. This can negatively affect the success of the venture.

9. Preference for Conventional Financing

Many individuals and institutions prefer conventional interest-based financing because it is more familiar, structured, and predictable compared to profit-and-loss sharing arrangements.

10. Inadequate Skilled Personnel

There is a shortage of professionals who possess both Islamic finance knowledge and practical business expertise necessary for the effective management of Mudarabah contracts.

11. Profit-Sharing Disputes

Disagreements may arise regarding the calculation, distribution, and timing of profit sharing, especially when the agreed ratios are not clearly defined from the outset.

12. Economic Instability

Inflation, market fluctuations, political instability, and economic uncertainty can negatively affect businesses operating under *Mudarabah* arrangements. This point concur with Akilu, et al (2018) view that maintained that instability of the exchange rates is also a concern, particularly for foreign investors or entrepreneurs.

13. *Shari'ah* Compliance Challenges

Ensuring that all business activities remain fully compliant with *Shari'ah* principles can be difficult, particularly in mixed or modern commercial environments. In another instance, if the financer and the entrepreneur are unwilling or unable to comply with the demands of *shari'ah* in the course of the business, the contract may encounter several challenges. Therefore, in order to avoid such challenges, the contract must be fully compliant with *shari'ah* principles. (IFSB,2005)

14. Lack of Institutional Support

In some countries, Islamic financial institutions and government policies that support *Mudarabah* are still underdeveloped, thereby limiting its practical application. Also there is no support from the government to the entrepreneurs.

15. Short-Term Investment Mentality

Many investors seek quick and guaranteed returns, whereas *Mudarabah* requires patience and acceptance of business risks, which may discourage participation and some investors may be primarily concerned with the safety of their capital and may also expect profits to be generated within a short period of time.

Conclusion

The paper revealed that Mudarabah is a powerful Islamic financial mechanism that promotes efficient resource distribution and enhanced productivity through partnership, entrepreneurship, and risk-sharing also advancing Islamic financial technologies and institutional innovations have expanded its potential in the modern economy. *Mudarabah* direct resources toward productive sectors and encourage ethical investment, *Mudarabah* contributes to economic growth, societal reform, justice, and sustainable development.

The paper discovered that achieving maximum productivity requires strong governance, transparency, skilled management, supportive regulations, and technological advancement. When effectively implemented, *Mudarabah* can serve as a transformative model for inclusive and sustainable economic progress in both Islamic and global financial systems.

The paper also traced the historical development of *Mudarabah* from the early period of Islam to the present day. Furthermore, the rationale behind the institution of Mudarabah was clearly explained in the study.

Recommendations

The following recommendations are preferred in the belief that, if properly considered, implemented, and adhered to, *Mudarabah* will effectively contribute to the socioeconomic development of the contracting parties in particular and society at large.

1. The contracting parties should uphold the fear of Allah (s.w.t.) in the conduct and discharge of their duties.
2. Vet the *Mudarib* carefully by tracking his records of reputation, expertise in the business, transparency, previous profit performance, and *shari'ah* compliance.
3. Defining profit sharing clearly, the formula or percentage for sharing the profit, payment schedules, among others.
4. Documentation of the financial transactions and agreements. This is in line with the Qur'anic verse that reads: O you who believe! When you contract a debt for a fixed period, write it down. Let a scribe write it down in justice between you. (Q 2:282). This verse is commonly cited in discussion on Islamic law, including Mudarabah, because it highlights transparency, accountability, and proper documentation in financial dealings.
5. The *Rabb al- Maal* (owner of the capital) should regularly monitor the performance and activities of the Mudarib to ensure accountability and effective management of the business.
6. The parties should ensure that the Mudarabah arrangement is fully compliant with the principles and provision of *shari'ah.*

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