INNOVATION AND MODERN ECONOMY

- In a modern economy ENTREPRENEURS AND INNOVATORS are the drivers of ECONOMIC GROWTH and JOB CREATION.

- The scope and scale of innovation in any society are determined by SCIENCE AND TECHNOLOGY, EDUCATION, CAPACITY, AND CULTURE.

- Some countries/societies are better/stronger in DISCOVERY/INVENTION, with strong foundation of basic research and then applied research, from which emerges technology.

- Some countries/societies are better/stronger in taking the cutting edge discoveries and adding innovation to come up with use of new technologies to come up with innovative products and services.

- Consider: USA (a discovery leader) vs. Japan (an innovation leader)
INNOVATION

• A NEW IDEA, DEVICE OR METHOD.
• ALSO VIEWED AS THE APPLICATION OF BETTER SOLUTIONS THAT MEET NEW REQUIREMENTS, UNARTICULATED NEEDS, OR EXISTING MARKET NEEDS.
• ITS IMPACT IS REALIZED THROUGH MORE EFFECTIVE:
  • PRODUCTS  
  • PROCESSES  
  • SERVICES  
  • TECHNOLOGIES, OR  
  • BUSINESS MODELS  
  • INSTITUTIONS  
• THE OUTCOMES OF INNOVATION ARE TO BE READILY AVAILABLE TO MARKETS, GOVERNMENTS AND SOCIETY.

INNOVATION, BUT BEFORE THAT?

TECHNOLOGY + CREATIVITY = INNOVATION
**COMMERCIAL SUCCESSFUL INNOVATION**

- Scientific Discovery
- Engineering Development
- Entrepreneurship
- Management

- Socially recognized needs
- Resources and supporting Environment
- Commercially successful innovation

**FINANCING INNOVATION**

- MANY MAJOR BUSINESS FIRMS HAVE THEIR OWN MAJOR, ROBUST R&D PROGRAMS FOR INNOVATION.
- BEYOND INSTITUTIONAL AND INFRASTRUCTURAL RESOURCE CONSTRAINTS, ONE KEY CHALLENGE IS ACCESS TO FINANCE TO START OR GROW A BUSINESS. THERE ARE SEVERAL REASONS/FACTORS.
- FINANCIAL INSTITUTIONS AS WELL AS TRADITIONAL INVESTORS VIEW FINANCING INNOVATION HIGHLY RISKY
- FINANCIAL INSTITUTIONS REQUIRE:
  - GUARANTEES OR CONSIDERABLE COLLATERAL
  - AN ESTABLISHED TRACK RECORD OF PROFITABILITY
  - HISTORICAL FINANCIAL STATEMENTS
  - PRIOR RECORD OF ENTREPRENEURIAL SUCCESS AND EXPERIENCES
  - SIGNIFICANT INVOLVEMENT IN THE BUSINESS
- VERY EXPENSIVE IN TERMS OF THE INVESTORS' REQUIRED RATE OF RETURN
- FOR ALL THESE REASONS BANKS OR SIMILAR FINANCIAL INSTITUTIONS DO NOT TAKE INTEREST IN ENTREPRENEURS AND INNOVATORS.
MODES OF FINANCE

- DEBT:
  - LINE OF CREDIT
  - TERM/INSTALLMENT LOANS
- EQUITY
  - OWN EQUITY
  - RETAINED EARNINGS
  - PARTNERS/SHAREHOLDERS
- QUASI EQUITY
  - CONVERTIBLE DEBT
- GRANTS

SOURCES OF FINANCE

- PERSONAL:
  - SELF
  - FAMILY
  - FRIENDS
- PRIVATE DONORS/FOUNDATIONS
- GOVERNMENT AGENCIES
- BANKS/COMMERCIAL FINANCE
- ANGEL INVESTORS, PRIVATE EQUITY INVESTORS, VENTURE CAPITALIST
- SUPPLIERS/CUSTOMERS/PARTNERS
USE OF FINANCE

- INPUTS, RAW MATERIALS, SUPPLIES
- PERSONNEL
- PACKAGING & GRAPHICS
- EQUIPMENT & COMPONENTS/PARTS
- TESTING & INSPECTION, SHIPPING COSTS
- SPACE, UTILITIES, INSURANCE
- SUBCONTRACTORS
- PROFESSIONAL SERVICES:
  - LEGAL, ACCOUNTING, ADVERTISING/PR

USE OF FINANCE

- WORKING CAPITAL
- FIXED ASSETS
- BANK ACCOUNTS
- PROMISSORY NOTES
- PURCHASE ORDERS/CONTRACTS
- BILLS OF EXCHANGE/LETTERS OF CREDIT/BANK GUARANTEES
- INSURANCE
- SECURITIES (SHARES AND OTHER SECURITIES)
PREPARATION AND DECISIONS

• DECISION: PRODUCT OR SERVICE?
• RESEARCH: SECTOR, MARKET AND CUSTOMERS
• CONCEPT BRIEF/TEASER
• BUSINESS PLAN
  • FINANCIAL PROJECTIONS (MONTHLY)
  • FINANCING
    • AMOUNT, TYPE, TENOR, COLLATERAL SECURITY
    • USE OF FUNDS
    • RESULTS OF FINANCING (PROTOTYPE, CERTIFICATION, NEW CONTRACTS, INCREASED PROFITS)
    • PROPOSED REPAYMENT; PROPOSED EXIT/RETURN FOR INVESTMENTS

KNOWLEDGE AND INFORMATION

• STUDY AND KNOW:
  • THE MARKET, CUSTOMERS AND COMPETITION
  • COSTS AND BREAK-EVEN
  • PLAN TO USE THE MONEY FROM FINANCING
  • SPECIFIC BENEFIT FOR BUSINESS FROM THE FINANCING
  • REPAYMENT ARRANGEMENT/STRATEGY/PLAN (OR INVESTOR EXIT PLAN)
SOME IMPORTANT MATTERS - 1

• BE TRANSPARENT. DISCLOSE EVERYTHING.
• BE PREPARED FOR ACTIVE INVOLVEMENT OF FINANCIERS
• SOME PERSONAL INVESTMENT IS A GOOD IDEA
• EXPECT FINANCING TO BE EXPENSIVE (REQUIRED RATE OF RETURN OR OTHER BENEFITS FOR THE INVESTORS)

WHAT CAN ISLAMIC FINANCE DO FOR INNOVATION?

• THAT’S A CHALLENGING ISSUE
• ISLAMIC FINANCE IS A NICHE EMERGING MARKET
• IT IS STILL UNDER DEVELOPMENT TO SERVE COMPREHENSIVELY
• THERE IS GREAT POTENTIAL AND RELEVANCE OF ISLAMIC FINANCE FOR INNOVATION
• HOWEVER, THERE ARE SOME MAJOR CONSTRAINTS AND LIMITATIONS BASED ON ITS CURRENT CONDITIONS AND PRACTICES OF THE INDUSTRY
WHAT IS ISLAMIC FINANCE?

- BROADLY SPEAKING, ISLAMIC FINANCE SHOULD BE UNDERSTOOD AS FINANCE BASED ON OR GUIDED BY ISLAMIC PRINCIPLES, VALUES AND NORMS.
- IN ITS CURRENT STATE, ISLAMIC FINANCE IS PRIMARILY IDENTIFIED AND FRAMED AS SHARIAH-COMPLIANT.
- SHARIAH-COMPLIANT MEANS THAT THE INDUSTRY IS FOCUSED ON KEY PROHIBITIONS:
  - RIBA (COMMONLY EQUATED WITH INTEREST)
  - GHARAR (AVOIDABLE, CONSEQUENTIAL UNCERTAINTIES)
  - MAYSIR (GAMBLING; EXCESSIVE SPECULATION)
- THE INDUSTRY HAS ROBUST RANGE OF PRODUCTS TO MEET THE NEEDS SERVED BY ITS CONVENTIONAL COUNTERPARTS.

SHARIAH-COMPLIANCE AND POSITIVE INJUNCTIONS

- EQUATING RIBA WITH INTEREST, CONVENTIONAL INTEREST-BASED BANKING AND FINANCE IS SHUNNED.
- AS AN ALTERNATIVE, SHARIAH-COMPLIANT PRODUCTS AND MODES ARE PRESENTED THAT MEET THE NEED OF MUSLIMS. IT IS BASICALLY REPPLICATION OF CONVENTIONAL PRODUCTS AND SERVICES, BUT ARE STRUCTURED AS SHARIAH-COMPLIANT.
- SHARIAH-COMPLIANT BASICALLY MEANS AVOIDANCE OF CERTAIN KEY PROHIBITIONS.
- HOWEVER, ISLAM INVOLVES MORE THAN JUST THE PROHIBITIONS. THERE ARE ALSO POSITIVE INJUNCTIONS TO ACHIEVE CERTAIN UNIVERSALLY SHARED ECONOMIC GOALS.
POSITIVE ISLAMIC ECONOMIC IMPERATIVES

- Elimination or alleviation of poverty and destitution
- Full employment
- Economic growth
- Stability
- Sustainability
- Fair distribution of wealth (to avoid concentration)

POSITIVE IMPERATIVES AND THE REAL ECONOMY

- Islamic finance does invoke real economy
- However, there is a fundamental conceptualization problem.
- Real economy is the nexus of production (including construction), consumption, trade, technology and institution.
- It is in that context the role of innovation is important.
- However, Islamic finance is currently focused on primarily: construction, trade and consumption
ISLAMIC FINANCE: CURRENT PRACTICE

- **MUDARABA AND MUSHARAKA** (profit-loss sharing modes), especially in the forms of venture capital, can be highly relevant.

- However, while criticizing the interest-based conventional banking system for not having fair risk-sharing, Islamic finance, ignoring its great potential, is in risk-avoidance and risk-shifting mode.

- There are some development, as Islamic finance is also making its way into venture capital type modes that are key to support innovation.

VC-RELATED DEVELOPMENT

- First dedication Islamic venture capital in GCC and MENA regions in the form of an investment bank.

- Real estate, construction, equipment rentals, shipping, oil & gas, agriculture/food, healthcare.

- However, the innovation connection is really weak.

- But that can change dramatically as soon as the need for innovation and development of the relevant framework and infrastructure is recognized and pursued.
THANKS.
QUESTIONS?