

ISLAMIC FINANCE AND FINANCE OF INNOVATION

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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)

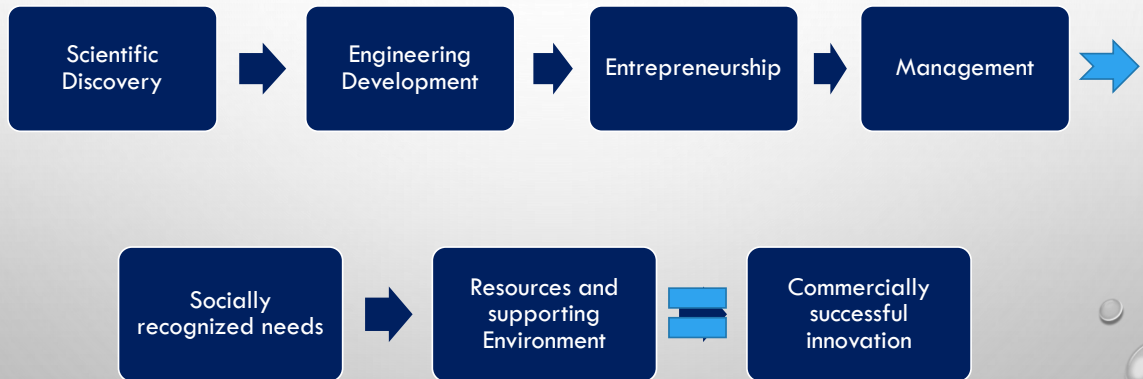
INNOVATION

- 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?



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 REPLICATION 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?