**ISLAMIC FINANCE AND ENTREPRENEURAL SUCCESS**

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**ABSTRACT**

This project seeks to demonstrate that with the right application of Islamic Finance in entrepreneurial activities, success can be achieved given the array of opportunities in this genre of financing. It was mindful of the need to synergise this with the other managerial functions of marketing, sales, human resource management, operations and industrial relations to achieve the needed result. The Research was conducted, using qualitative techniques on fifty companies/entrepreneurs and seven Islamic and Conventional Banks. Primary data was collected with the use of standard questionnaire, followed by verbal explanations and discussions with the Respondents. It was discovered that, on the part of the financiers, there were varying degrees of adherence to the principles of Islamic Financing in the different climes andentrepreneurs were not aware of the Shariah concepts and its financing principles and hence could not avail of its benefits which are over and above that offered by the conventional banks. One would have loved to have a more representative population as respondents, a wish constrained by the unavailability of funds for the researcher; the sample selected from Sudan, Nigeria, Pakistan and Bangladesh could be a fair representation of the population excluding the Middle East and North African nations .Sudan was selected to fill the gap in respect of the latter. The studyhighlighted the need to create awareness of

Islamic Finance, its salutary merits over conventional banking and for the Islamic financial institutions to practise it, as it should be for the benefit of the entrepreneurs and the economies.One can safely conclude that entrepreneurs, by not availing the opportunities in Shariah financing cannot attain businessoptimality and will continue to be bogged down by the imperfections in conventional banking.Both types rely on verifiable cashflows in assessing the viability of projects(among other considerations), for which loans (facilities) areto beapplied to, but in Islamic finance, greater emphasis is placed onentrepreneurshipand supervision, as credit worthy criteria in advancing facilities ,as opposed to collateral security demanded by the conventional banks.

**KEY WORDS: Sharia, Amanah, Maqasid-Al Sharia, Muamalat**

**1.Introduction**

Business Finance providers, including banks, financial intermediaries and other non-banking financial institutions and venture capitalists are in business to make money.

So also are entrepreneurs who create wealth and employment through business activities be it in commerce, agriculture, manufacturing, finance, among others. They possess the spirit and drive of turning ideas into business models, they are risk takers and possess the needed courage and business acumen to achieve success, if well managed.

Entrepreneurs may lack the optimal capital, wholly or partially to finance their operations to achieve wealth maximisation for their shareholders; by way of dividends pay-outs and appreciation in value of shares and stocks and their business.

In order not to erode their asset base by losses arising from non-performing loans, banks seek from its customers adequate Collateral Security, which are securities taken by Banks and other financiers in support of its lending to customers. It includes impersonal securities such as life assurance policies or stocks and shares, differing from personal securities such as guarantees. These, including immovable assets can be liquidated in case of default to cover facilities advanced.

This is the practice for conventional financial institutions.

Islamic financial institutions on the other hand, has as one of its seven unique characteristics, the preference for entrepreneurship over credit worthiness, the latter being imbedded in the request for collaterals before advancing loans to finance business operations by the conventional financial Institutions.

Islamic financial institutions conduct their business and commercial affairs, based on the moral fibres of Islamic Economics and Finance.

Other unique characteristics of this alternative mode of finance are1) Prohibition of Usury (Riba), Gambling (Maysir) and excessive Speculations (Gharar), 2) Asset backed financing,3) Profit and loss sharing, 4)Non-financing of products prohibited by the Shariah,5) Project monitoring and 6) Establishment of Sharia Supervisory Board as a further layer of control of the management of these companies.

Islamic finance attempts to observe the principle of *Maqasid Al-Shariah* (for the common good) by encouraging trading and commerce ,an important part of the Muslim faith and of its practitioners mindful of the fact that they are holding public money as an *Amanah*(trust) for which they will be accountable to the public and most importantly to God.

A further safeguard to the financial institutions and the entrepreneurs is Bancassurance, one of the many instruments of *Takaful* (Islamic Insurance) for the loan Facility and to safeguard the interest of the entrepreneur.

Conventional financial institutions, it could be argued, also advance loans based on “negative pledge”, by which collaterals, either personal or impersonal are not requested for, but it does not have the inbuilt safeguards offered by the holistic application of the seven (7) unique characteristics of Islamic finance.

To further set the tone for discussions on this topic, one of the respondents, an Islamic Bank, pointed out that in granting facilities as opposed to loans in conventional banks, the asset must be real, that it has the same documentation as its conventional counterpart and must have collateral(the Islamic finance option),depending on the amount of the facility. In addition, credit checks are carried out and unlike the other type, once the product has been identified in Islamic banking; contracts are executed between bank and customer, depending on the type of facility being availed. Once the contract has been entered into, the rate cannot change in Islamic Banking, while with conventional banks, market forces can determine the interest rate different from the prevailing rate at the time of consummation of the contract.

The constancy in rate of Islamic banking facility is that it is based on profit/loss sharing ratio which is usually agreed to at the onset of the transaction.

**1.1 Statement of Problems**

Implicit in this study is the need to examine the application of Islamic Finance, in practise, to the components of the entrepreneurial process, in spite of the laudable objective of the former.

**1.2 Objectives of the Study**

The aim of the study is to demonstrate the potential contribution of Islamic Finance to entrepreneurial success.

It also sought to determine the level of awareness of Islamic Finance products and the use of same by both the Financial Institutions and the Entrepreneurs.

**1.3 Significance of the Study**

Finance plays a crucial role in business, to finance the other functions of marketing and sales, operations, human capital and provisions of infrastructures.

All too often, sub-optimality in the financial mix by way of high interest rates, knowledge of the quantum of needed finance and timing of when to avail external finance and the absence of collateral security, among other factors, hinder the attainment of the corporate objective of profit maximisation and wealth creation.

This research effort seeks to provide an alternative platform for a genre of financing, which is divinely ordained and provides a solution at lower cost and commendable opportunities for entrepreneurial development and success.

This alternative is Islamic Finance.

**2. Literature Review**

The twin components of this study are Entrepreneurship and Islamic Finance.

If an analogue is made of Trading as being equivalent to Entrepreneurship and the ban on Usury as the bedrock of Islamic Finance, one can appreciate the divine nature of the subject matter of this research.

For Allah’s admonition in Surat Al-Baqara verse 275 that “…………whereas Allah has permitted Trading and forbidden Riba (usury)………” and in Verse 278 of the same Chapter two of the Holy Quran, in which he warned that “ O you who believe! Be afraid of Allah and give up what remains of Riba, if you are real believers” and in its Verse 279 of “And if you do not, then take a notice of war from Allah and His Messenger…..” one can appreciate the need to practise what Allah loves(Trading)and abstain from what He forbids(Usury).

Entrepreneurship has been defined as the process by which individuals pursue opportunities without regard to resources they currently control. They are a step higher than Inventors who creates something new. The former assembles and then integrates all the resources needed, including finance, human capital, the business model, business and marketing strategy and ability to bear risks to transform the invention into a viable business enterprise.

Joseph Schumpeter, in “The Theory of Economic Development”, while articulating the importance of Entrepreneurship postulated that in developing new products and technologies that over time make current products and technologies obsolete,they stimulate economic development. He described it as the process of creative destruction, by which new products and technologies which are better than existing ones increases consumer demand and stimulates greater economic activities, in the country and hence economic growth and development in the nation.

In addition to the positive impact of Entrepreneurship on the economy, its innovative, job and market creation potentials that have equally impacted positively on the society and on larger firms had also been identified. That on society is dramatic. New products and services have been developed to make life easier, which have made the citizenry more productive, has improved healthcare, entertainment and leisure. Many had built their business models around producing products and services that help larger firms to be more efficient and effective.

Existing literature had also bifurcated between individual entrepreneurs (which operate at the micro-level) and corporateentrepreneurs, the latter are in the practise of entrepreneurship at the level of organisations.

In all cases, entrepreneurial firms are pro-active, innovative and are risk takers in contrast with conservative firms, who adopt a cautious approach to business, are less innovative and are risk averse.

It had also been identified that the primary purpose to become entrepreneurs by individuals, range from the choice to be one’s own boss, to pursue own ideas and realise financial rewards

To these could be added the passion for the business, the product which should be consumer focussed, tenacity despite failures and the possession of executional intelligence.

The myth that entrepreneurs are born and not made, that they are gamblers because of being risk takers, are motivated primarily by money, should be young and energetic and love the spotlight had been debunked by the fact that Entrepreneurial firms bring new products and services into the market by recognising and seeking opportunities regardless of the resources they currently control and the fact that they focus on innovation.

It is apposite at this juncture to discountenance the media hype of young start-ups who obtain venture capital to fund a business that grow into a multi- billion Rupees enterprise, rarely stating that executing an appropriate business plan to commercialise what is inherently a solid business idea is the core.

As will be discussed fully in a latter part of this paper, developing a business plan, feasibility and industry analysis to raise money to start and to run the business and to attract high quality business partners and investors, might well be outside the core competence of the entrepreneur.

Adequate finance at minimum cost, at the right time and which is customer friendly will greatly assist the entrepreneur in this regard.

Islamic Finance offers this and many more. Islamic financing offers more than Islamic banking, its products include, Musharakah, Mudarabah, Murabahah, Salam, Istisna, Ijarah, Sukuk and Takaful.

It prohibits usury, gambling and speculations; it is based on profit and loss sharing arrangement; has a Shariah Supervisory Board as another level of control of management functions; allows for constant monitoring of project by the financier; prohibits the financing of good and services the consumption of which is against the Shariah and ethics; facilities are assets backed and the preference for business ideas and entrepreneurship as a welcome alternative to collateral security demanded by conventional banks.

Majority of its financing options is executed outside the banking sector and an attraction of venture capital at lower cost.

The bedrock of Islamic Finance is Islamic Economic theory and it is better

appreciatedby comparison with the Capitalist Economic thoughts.

Capitalist economics evolved to a stage where it placed emphasis on man’s ability to manage his situation to achieve its own wellbeing, placing emphasis on human ability to get the best from the market place, through the interplay of the forces of demand and supply.

The free market economic postulates do not have compassion for the weak and less endowed. Wealth maximization is the key of this economic system, manifesting in the holders of capital and entrepreneurs maximizing their returns from the market place. It is agreed that this economic system tends to continually encourage consumption of basic and ostentatious goods thereby greedily increasing human wants beyond available resources of the world.

On the other hand, Islamic economics is based on a strong ethical and moral fibre, because it is based on the Divine rules of Almighty Allah (SWT), as enshrined in the Quran and amplified by the Sunnah of Prophet Muhammad (PBUH).

Social and economic justice is its primary objective.

Muslims are enjoined to see wealth as the property of Allah, a trust from Him to whoever He bestows it to, to perform acts of Ibaddah for Him, for the upliftment of the poor and the less endowed, from poverty and for growth and development of humanity. The realization that the wealthy will account for the “Amanah” of wealth forbids believers from engaging in usury, gambling and excessive speculations, which are discouraged by Allah.

In most sections of the Holy Quran, Allah always appeal to us to refrain from sins, it is only with respect to *Riba*(usury)that He talks of war from Him.

Interest in conventional Economics/Finance is predetermined, irrespective of the outcome of the business transaction of the beneficiary debtor. It serves as a compensation for parting with liquidity. Its main justification for financial intermediation is based on the concept of time value of money, discounting future values to make them comparable to current value, that money today is worth more than an equivalent unit in the future. That money is treated like any other commodity because it is considered as a subject matter of trade.

Islam recognises the time value of money and while prohibiting the use of interest, it considers the former as an investment phenomenon and it is valued at the end of the investment when its outcome is known. It recognises that money does not have an intrinsic value and only used as a medium of exchange. Eachunit being exactly equal to a similar unit of the same denomination, thereby obviating the need for making profit through the exchange of these units. It views the profit earned through dealing in money of the same currency or its paper equivalents as interest and hence disallowed.

In an Islamic economic system, the lender does not earn a fixed rate of interest but participates in the risk and earns a share of the profit.

Cost of capital in Islamic system is expressed as a ratio of profit in contrast in the conventional interest recognising system where it is a predetermined rate which could move upwards,(but sticky downwards ),due to market forces.

The profit sharing ratios in Islamic economic systems can perform the same function as interest in the conventional system as an allocative, discounting factor as well as a regulatory variable.

**3.Methodology**

The study adoptedthe qualitative research methodology. Questionnaires which sought to determine the degree of awareness of Islamic Finance ,the financing practices of both groups and suggested preferences) were administered on fifty (50) companies/entrepreneurs and seven (7) Islamic and conventional Banks in Pakistan, Nigeria, Bangladesh and Sudan. The Primary data so collected, was followed up by verbal explanations and discussions with the Respondents.

The respondent companies/ entrepreneurs were stratified into small scale, medium sized and large conglomerates. All the banks had national presence.

The major limitation was the size and spread of the respondent population, financial and time constraints were the others. One would have hoped to bench mark the findings with the applicable practice in the Middle-East, including Saudi Arabia. In the circumstance reliance was placed on the practise in Sudan, which is a member of the Middle East and North African (MENA) Arabian Countries which it is hoped will provide a replica of the operations of the Middle East countries subject to individual national legislations.

It makes no distinction among the four Sunni Schools of Islamic Jurisprudence (Fiqh) of Hanafi, Hanbali, Maliki and Shafi’i, nor with the Fiqh of the Wahhabis and that of the Shia, in as far as they all agree with the texts of the Quran and the Hadith, on the subject matter of the paper.

An individual study of its application to these various schools is beyond the thrust of this research effort.

Where applicable reliance was placed on consensus (Ijma) of the companions of the prophet and analogue (qiyas) from historical mercantile practices, but none on the individual opinion (Itjihad) of any of the companions, as is the case of the Shafi’i School

**4. Entrepreneurship**

As a prelude to an in-depth discussion of Islamic Finance and the commendable role it plays in entrepreneurial financing, we need to appreciate the entrepreneurial process which needs to be applied to achieve business success.Barringer and Ireland identified the following;

First in the process is the decision to become an entrepreneur. People decide to become entrepreneurs for various reasons, to be their own boss, to pursue their own ideas and to realise financial rewards.

Another in the process is to develop successful business ideas, which includes opportunity recognition, feasibility analysis, writing a business plan, industry analysis and the development of an effective business model.

A scientific look at how the opportunity recognition unfolds is also suggested. Feasibility analysis determines whether an idea represents a viable business opportunity.

There is also the need to write a Business Plan to raise money and attract high quality business partners.

Writing a business plan forces the entrepreneur to think carefully through all the aspects of the business venture. It assists the new business venture set some milestones that can be used as a guide through the early phases of the business roll out.

Industry and competitor analysis is also important because by knowing the industry in which the firm will choose to compete is crucial to entrepreneurial success.

This should be followed by developing an effective business model is its plan for how to compete, use its resources, structures its relationship, interfaces with customers and create a value chain for itself on the basis of the profit it generates.

Next in the continuum of the process, is the need to move from an idea to an entrepreneurial firm.

An initial step in this process of turning an idea into reality is to prepare a proper ethical and legal foundation for a firm, inclusive of selecting an appropriate form of business ownership. There is also the need to assess a new business venture’s *financial strength* and viability .It is equally important to complete and analyse *projected financial statements* and on building a new venture team.

*An important milestone of this process is the need to address the important issue of getting financing or funding and identifying the options that a firm has for raising money.*

The final stage of the entrepreneurial process is awareness of the fact in this highly competitive world; all firms should be managed and grown to success. The marketing mix of product, price, promotion and place (distribution) among other growth factors, ranging from new product development to mergers and acquisitions, franchising, protection of business ideas through intellectual property statutes of patents, trademarks, copyrights, trade secrets, among others should be employed.

In summary, the entrepreneur will need to make rational decisions, financing inclusive, from the start up to harvest, be engaged in the actual process of getting a new venture started, growing the venture and successfully harvesting it

**5.Islamic Finance**

We had identified the seven unique characteristics of Islamic Finance as, Prohibition of Usury (Riba), Gambling (Maysir) and excessive speculations (Gharar);

Asset backed financing; Profit and Loss Sharing;Recognition of Entrepreneurship as opposed to Credit worthiness in its financing activities;

Moral and ethical emphasis in banning the financing of products prohibited by Sharia;Projects are monitored which in addition to supervision and mentoringcreates more employment and theestablishment of Shariah Supervisory Board to ensure that products and services are Shariah Compliant.

**5.1 Islamic Financial Instruments**

In practise Islamic Finance isthrough the instrumentalities of the following:-

5.1.2 Musharakah. It is defined by AAOIFI as an agreement or contract between two or more persons to combine their assets, labour or liabilities for the purpose of making profits.

5.1.3 Mudarabah.This is a special type of partnership whereby the investor (Rab-ul-mal) entrusts his capital to an agent (Mudarib) for investment with a pre-agreed profit sharing ratio between the business parties.

5.1.4 Murabahah or Cost plus profit Sales. It is a sale transaction on a cost plus profit basis. Profit can either be specified as a percentage of cost or in money terms. There should be transparency requiring the seller to state his cost of acquisition of the commodity before the pre agreed mark-up is added

5.1.5 Ijarah **(**Lease**).**Like in the conventional system it could be operating or finance lease

5.1.6(Differed delivery, mostly on agricultural financing, with instant payment to supplier by financier)

5.1.7 Istisna(Differed delivery on manufacturing or construction contract, instalment payment by the financier is the norm)

5.1.8 Takaful (Islamic Insurance)

5.1.9 Sukuk. It is an Islamic participatory Bond and it is a process through which the ownership of assets is transferred to a large number of investors in the form of instruments known as Sukuk

5.1.10 Its Investment Funds are mainly in:-

a). Equity Funds

b). Commodity Funds

c). Ijarah Funds

d). Murabahah Funds

e). Mixed Funds

Islamic Financial Institutions (IFI),exclusively offer services in relation to some of the above listed Islamic Financial Instruments; many others are not exclusive to it.

Mudarabah, Mudarabah, Salam, Ijarah can be financed by eitherof the two groups.

The Islamic Banks are best positioned to exclusively offer liquidity management facilities, working capital management facilities and syndication, Corporate Finance including Istisna and Investment funds management.

Asset Finance, Trade Finance, Project Finance, Retail Finance can as well be performed by non-banking intermediaries as are banks.

Capital Market operations are not normally in the area of core competence of Islamic Banks and are mainly carried out by the non-banking intermediaries and so also are Sukuk and Musharakah.

Takaful (Islamic Insurance) are offered by Insurance Companies, though some banks offer Bancassurance services to protect their lending.

Equity capital (Ordinary shares) is the cheapest form of capital, and loans are the most expensive. Islamic Finance tills more towards the former on the scale of costs of capital, allowing the entrepreneur to focus more on sales and revenue generation for profit maximization and wealth creation.

Relying on cheaper form of capital, among other factors can lead to entrepreneurial success and we present below some of these low cost options of Islamic Financing.

**Musharakah.** It is defined by Accounting and Auditing Organisations of Islamic Financial Institutions (AAOIFI) as an agreement or contract between two or more persons to combine their assets, labour or liabilities for the purpose of making profits.

Sudan was placed on sanctions by the international financial organisations and yet its economy continued to boom, its international trade in commodities and gold is being carried out on Musharakah basis because its banks were barred from international business.

Examples abound of yarn spinners in Bangladesh, textile traders and cattle merchants in Nigeria who pool resources together and have been conducting their businesses successfully under Musharakah arrangements.

Some do not even welcome the idea of putting their monies in the banks, including the textile traders who import their products.

**Ijarah (**Lease**).**Like in the conventional system it could be operating or finance lease.

Many car dealers explore this option in selling their products even in the developed economies of the United Kingdom and the United States of America.

Introducing the Islamic Finance elements outside the banking sector will increase financial inclusion and hence increase in wealth creation.

**Murabahah or Cost plus profit Sales.** It is a sale transaction on a cost plus profit basis. Profit can either be specified as a percentage of cost or in money terms. There should be transparency requiring the seller to state his cost of acquisition of the commodity before the pre agreed mark-up is added.

Like in the above case for Ijarah, this can be used for asset sales and acquisition outside the Islamic Banking corridor for increased profitability by the seller and ease of asset acquisition by the buyer. It creates a win –win situation.

**Salam** As anagricultural financing scheme, the farmers obtains finance during the start of the rainy season for cultivation of their crops and delivery of produce is at a later date after harvesting.

Farmers can form themselves into cooperatives and either the local communal mosque or Zakat charities can be used for the financing. The former could serve as the repository of savings by the farmers towards the scheme.

**Sukuk**is an Islamic participatory Bond which operates through a process by which the ownership of assets is transferred to a large number of investors in the form of instruments known as Sukuk. It is mostly effected outside the banking system, Islamic or conventional.

The Sukuk could either be Government or Corporate Sukuk depending on the Issuer. A variant could be having an Issue on a Musharakah basis.

**Takaful** (**Islamic Insurance**) is divided loosely into Family Takaful and General Takaful corresponding to Life assurance and Non-Life Insurance policies offered by the conventional insurance companies.

 One major area of its difference from conventional insurance is that the policy holders are the owners of the participants fund and depending on whether the model adopted is “Wakalah” or “Mudarabah”, the operator as an agent is entitled to agency fee for the former and a fixed percentage of any investment profits or any surplus for the latter.

The other major area of difference from that of conventional insurance, is that the Takaful Company acting as the “fund manager”, must only invest the policy holders’ funds in Shariah compliant products as enumerated above.

The beauty of a well-managed insurance whether conventional or Takaful is that they have long term loanable funds which can be invested to attract better yields.

**Permissible investments for Islamic Insurance Companies include:-**

* Musharakah (Sharing profit and loss on a productive investment).
* Mudarabah Bond (project finance for a fixed time) with profit being shared.
* Real Estate
* Investing in ethical products on the Stock market.
* Ethical Unit Funds
* Deposits with Islamic Banks
* Co-operatives and Mutual Enterprises
* Commerce

Entrepreneurs are therefore encouraged to tap into this long term and cheap loanable funds, the summary of whose operation is presented below.

The General Takaful is a short term agreement to cover commercial and private risks and aim to financially compensate for losses such as theft or damage and Family Takaful is a long term arrangement in which Takaful Insurance Operators indemnifies the policyholder with financial relief from death (the heirs), critical illness or debilitating illness. Other plans offered under family takaful include Marriage, Education, Mortgage, Pilgrimage and Retirement Schemes.

**6.Data Analysis,Discussions and Findings**

**6.1 Data Analysis**

Data obtained from the respondents were in six broad areas of (i) ascertaining if they were aware of the unique characteristics of Islamic Finance, listing the components,(ii) to test the degree of understanding of Islamic Finance products suitably classified(iii)to indicate their preference of obtaining facilities from either of Banks, Financial Intermediaries, Cooperatives or Government Agencies with bias for Islamic financing,(iv) requesting their preference for named Islamic products(v)Unwillingness of the application of some of the characteristics to their loan applications and (vi) general comments. The comments were as varied as it was interesting by the fifty (50) companies/entrepreneurs. Seven (7) Islamic Banks in Pakistan, Nigeria, Bangladeshand Sudan were selected for the survey.

One Conventional Bank from each of Pakistan, Nigeria and Bangladeshwere selected as independent variable to test the hypotheses, that availing of Islamic Finance products will bring financial succour to entrepreneurs, using the financing activities of the Islamic financial institutions as a dependent variable.

**6.2 Discussions**

Finance plays a crucial role in business, to finance the other functions of marketing and sales, operations, human capital and infrastructural developments.

All too often, sub-optimality in the financial mix by way of high interest rates, knowledge of the quantum of needed finance and timing of when to avail external finance and the absence of collateral security, among other factors,hinder the attainment of the corporate objectivesof profit maximisation and wealth creation.

If we proceed from the platform of assessing a new venture’s financial strength in order to allow it access financing and managing it in a way that can achieve the highest rate of return, the entrepreneur will need to familiarise itself with the following:-

i) Ascertaining the profitability, liquidity, efficiency and stability of the firm which are its four main financial objectives.

ii) That historic financial statements which reflects the past provide the basis for future projected financial statements (pro-forma).

iii) Awareness of the fact that an Income Statement reflects the result of a firm’s operation over a period of time, recording all the revenue and expenses for the period under review and shows whether the firm is making a profit or a loss.

iv) That the Balance Sheet is the snapshot of a company’s assets, liabilities and owners’ equity including reserves.

v) A statement of cash flow summarises changes in a firm’s cash position for specified period of time.

vi) Financial ratios depict relationships between items in a company’s financialstatementand are used to discern if it is meeting its financial obligations and howit compares with its competitors.

vii) New firms base their forecasts on estimates of sales and on an industry average (based on a percentage of sales) and the expenses of a similar start-up for cost of goods sold and other expenses.

viii) Next to forecasting its Sales, the firm has to forecast its cost of sales and Income Statement items of expenses .It could use a percentage of sales method of budgeting these cost items.

In general start-up companies have difficulty in raising finance and founders usually rely on their savings, try to secure grants ,borrow from friends and relations and some are forced to patronise financial institutions if they have the collateral security to pledge for required loans. The liberal minded ones approach venture capitalists in exchange for shareholdings, but they might lose control with this option. Saving on cost (by sharing facilities through virtual offices, hiring of part-time staff, leasing of equipment and ploughing back of profit) are some of the creative options new investors explore to fund their operations.

It is a truism that most new investors need to raise money to meet cash flow challenges, capital investment and to finance lengthy product development cycle.

The fundamental steps in raising funds either through equity or debt financing are 1) determining how much money is needed in the product life cycle 2)determining the type of funding that is most appropriate and 3) developing a strategy for engaging potential investors.

Fundamental to the above is the need for the entrepreneur to prepare a brief, concise and carefully constructed statement outlining the merits of the business opportunity.

Equity funding involves ceding part ownership of the company, through stocks and shares for funding (with no interest payment). Debt financing is a loan, with interest payment but with no exchange of ownership, unless in default of repayment of principal and interest during bankruptcy proceedings.

An initial public offer (IPO) of shares (equities) has four main advantages namely:-

i) To raise capital

ii) It raises public profile-cheap promotion and publicity

iii) It is a liquidity raising event

iv) It creates another form of currency (company stock) that can be used to grow the firm.

Venture capital can be availed from the Islamic Development Bank, and its Subsidiary companies viz, Islamic Corporation for the Development of the private sector; Islamic Solidarity Fund for Development; Islamic Corporation for the Insurance of Investment and Export Credit and Islamic research and Training Institute.

The Venture Capital can either be equity and non-interest bearing Islamic finance products

**6.3 Findings**

Our studies revealed that by using Islamic Funding, for the entrepreneurs who had knowledge of it, they were able to reduce their cost of funds thereby improving profitability, that these entrepreneurs appreciate the supervisory role of the Islamic Bank Staff who brought their wealth of exposure and experience in mentoring the incubator ventures, in turning their ideas and innovations into commercial success. The Corporate firms with entrepreneurial mind-sets equally benefited from this mentoring activity.

Both welcome the establishment of Shariah Supervisory Boards as an extra layer of control in management and believe it will curb managerial exploitation by the Islamic Financial Institutions (IFI).

The IFIs believe the Shariah Scholars slow down the approval process of their products and debars them from competing in the real time business world, against its competitor conventional banks.

The three Pakistani Islamic Banks do not wholly follow the Shariah principles in its financing functions and seems to charge interest by creative banking and demands for collaterals as security for loans and advances. In each of the Sudanese and Nigerian Banks, the Islamic finance principles are followed, a factor attributed to the presence of Islamic Development Bank’s representatives as Directors of the Bank and the inclusion of non-natives as Shariah Board members. Collateral securities are pledged in addition to the personal guarantees of loan seekers for large transactions. Interest is not charged but it was reported by some management staff that customers complain of the high profit sharing ratio which tills in favour of the banks especially in Nigeria. The Bangladeshi Islamic Bank was a study in religious piety and faith. It follows Sharia principles in its financing operations in spite of the absence of external shareholders/directors.

Many entrepreneurs are not aware of the Shariah concepts and its principles of finance and are hence deprived of its benefits. This ignorance also precludes them from availing from the array of Islamic Financial products of, *Musharakah, Mudarabah, Murabahah, Istisna, Ijarah, Salam, Sukuk and Takaful*.

Almost all the respondent entrepreneurs are unaware of the fact Islamic Financing goes beyond Islamic banking and products like *Musharakah,Mudarabah,Murabahah, Ijarah and Sukuk* can be offered outside the Islamic Banking system by willing investors or as cooperatives as in Salam for Agriculture.

The Islamic Financial Institutions and Entrepreneurs of Nigeria, Sudan and Bangladesh are aware of the activities of the Islamic Development Bank and its subsidiaries and have availed of its facilities. There is no credible evidence that the same can be said of their Pakistani counterparts, even though Pakistan along with Sudan, Egypt and Malaysia conceptualised the Islamic Development Bank in Lahore, Pakistan in 1974.

**7.Summary,Recommendations and Conclusion**

**7.1Summary**

It is agreed that Entrepreneurs especially start-ups are gifted with the power of tuning business ideas and innovations into business models that are expected to produce long term profitability and sustainability to create wealth for its shareholders, they may lack the experience and exposure to manage the whole spectrum of the organisation ,chief among which is marketing and sales,

human resource and capacity management and do not possess financial management skills.

Keeping cost of funds low and availing same at the right time and the right amount is one of the key functions of financial management.

Islamic finance offers this and many more, it also offers financial and managerial mentoring through its staff monitoring process and through which it places less emphasis on collateral security before granting facilities, because it is based on a profit sharing arrangement, a joint venture business with emphasis commendably on entrepreneurship.

**7.2 Recommendations**

More public awareness need to be embarked upon by the respective governments ,regulatory bodies, the business communities, the academia and the Muslim Scholars and leaders in Mosques and localities, about the advantages of this genre of financing over and above the conventional one.

Where none exists as in Pakistan, legislations guiding Islamic finance operations should be enacted, it is not sufficient to have State Bank of Pakistan (Pakistan’s Central Bank) and Securities and Exchange Commission regulations not backed by the force of law.

Governments must set examples in its financing activities by being Shariah compliant .It is thus commendable that Saudi Arabia has offered to part finance the China-Pakistan Economic Corridor Project hopefully doing away withRiba and substituting same with Sukuk for wealth creation and the blessings of Allah

Training and development as well as academic activities at undergraduate and postgraduate levels in Islamic Finance, Banking, Takaful and Retakaful, including Islamic Capital market operations should be vigorously pursued.

**7.3 Conclusion**

The burden of conventional financing has crippled a lot of entrepreneurial ideas from becoming business successes, even at sovereign levels.

China gave billions in loans to Djibouti; they were unable to pay back. Now China has confiscated their harbour as a collateral damage. For being unable to repay its loans, more than 38% of Maldives’ state owned resorts have been taken over by China, the lands of Madagascar has suffered the same fate for the same reason. Zambia’s airport and airspace including military jets, Ethiopia’s railway system, and 70% of Kenya’s mineral resources all belong to China.

By taking over these national assets, employment is created for its citizens at home and in the debtor nations

The collapse of the Lehman Brothers Bank in September, 2008,(mainly due to sub-prime mortgage lending) set off a chain of global recession, the scale of which the world is yet to recover from.

Talk of war from Allah.

Islamic economies and entrepreneurs who operated under Shariah principles survived it, hence the clarion call for all entrepreneurs to embrace Islamic Finance, for Allah’s blessing in this world and the hereafter.

Bancassurance is an option worth exploring for business succour, as an assurance option.

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