

ISLAMIC VENTURE CAPITAL IN PAKISTAN

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**University of Management
and Technology**



**Institute of
Islamic Banking**

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



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**A thesis submitted in partial fulfilment of the requirements for the
MS degree in Islamic Banking and Finance**



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CERTIFICATE OF APPROVAL

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The thesis entitled "*Islamic Venture Capital Financing in Pakistan*" by *Arfan Shahzad* (ID # **12002130-003**) has been examined by the undersigned panel of examiners and has been accepted in partial fulfillment for the degree of **MS Islamic Banking and Finance**.



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DECLARATION

I hereby declare that no portion of the work that appears in this study has been used in support of an application for another degree in qualification to this or any other university or institution of higher learning.

This thesis is a presentation of my original research work. Wherever contributions of others are involved, every effort has been made to indicate this clearly, with due reference to the literature and acknowledgement of collaborative research and discussions.

The work was done under the guidance of Muhammad Mahmood Shah Khan, Director, Institute of Islamic Banking, University of Management and Technology, Lahore, Pakistan.

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Date: _____

In my capacity as supervisor of the candidate's thesis, I certify that the above statements are true to the best of my knowledge.

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DEDICATION

I dedicate this piece of writing to my whole family for their support and I pay special thanks to my supervisor Mr. Mahmood Shah Khan who guided me at every door step.

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With the name of Allah, who is the most Merciful, the most Beneficent. I am very grateful to Allah *Subhana wa tala* for his countless blessings on me and thirst of knowledge is one of them. Allah gave us courage to know the things explore the phenomena's and derive the solutions for the benefits of other humans. I acknowledge the contribution of our Holy prophet in our lives, having unmatched wisdom, the widest scope of knowledge in all sphere of life and the humble attitude to win the hearts of others.

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ABSTRACT

One very important type of medium to long term financing is Venture Capital Financing that primarily involves long term equity financing for setting up new and high growth business ventures. Given the ever increasing unemployment numbers, the need for encouragement of entrepreneurs having excellent business ideas and skills, and investment in new business ventures cannot be over emphasised for sustainable economic growth. While the traditional Venture Capital Finance practiced worldwide has inherent similarities to Islamic Finance principles which are sharing the risks and rewards of businesses rather than financing on fixed interest, it also has oppressive and un-Islamic capitalistic hostility in it. Islamic Banking is evolving at a fast pace and a hot topic in today's financial industry. However, it is subject to the criticism that Islamic Financial Institutions do not have out of box products to offer their customers. It is perceived that Islamic Financial Institutions will not only eradicate Fixed Interest (*Riba*) rather invest on profit and loss sharing basis. To understand why this practice is adopted by Islamic Banks on limited scale, it is also very important to study the brief reasons or risks due to which Islamic Financial Intermediaries are reluctant in long term equity financing and therefore, assuming business risks of the ventures to which they provide finance. To enable investment in long term equity modes of Islamic finance (e.g. Islamic Venture Capital) there is a need to critically analyse the short and long term needs of Islamic Financial Intermediaries and its investors. Moreover, at the same to boost investment on the basis of P&L sharing there has to be strict rules ensuring transparency in the conduct of businesses which seek long term finance by practicing high level of integrity and following best operating practices and timely reporting. This research study discusses the above issues by examining the importance of venture capital financing, un-Islamic practices of prevalent conventional venture capital financing, augmenting that investment based on profit and loss is preferred Islamic equity mode of financing, capital structure, investment cycle and risks faced by Islamic Banks. To conduct this survey based research and to get results for different variables, a comprehensive questionnaire has been prepared and circulated to concerned circles to get feedback which duly supports the matters emphasised in this research work. This research emphasizes the immediate need of equity based Islamic finance for new business ventures and will lead to development and growth of Islamic venture capital funds or dedicated Islamic venture capital windows in all Islamic Banks.

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