

# WAQF, SHARIA VENTURE CAPITAL, AND INSTITUTIONAL PROBLEMS: SOCIO-LEGAL CASES IN INDONESIA

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## Abstract

The purpose of this article is to indicate that the development of venture waqf so far in Indonesia is still not optimal. It is due to several obstacles, mainly socio-legal and managerial problems. Hence efforts are needed to continue to develop the concept of sharia venture waqf to more accelerate and overcome those obstacles. One of the efforts is by integrating and collaborating with commercial financial institutions, including through Sharia venture financing which is one of the tools in the Islamic economic concept to solve investment problems. In turn, the paper that uses a qualitative approach method with type of descriptive analysis will provides and prescribes a reconstruction and innovation of a comprehensive understanding and workable frame of agenda to be implemented in order to revitalize sharia venture waqf as a feasible financial instrument. The result of this research is sharia venture capital company is a form of financial institution that can act as a legal entity that adopt the concept of cash waqf. So the implications of this research can be optimized of the development of venture waqf can be easily realized. Likewise, several obstacles such as legal protection of cash waqf, issues of socialization, human resources, management systems, and accountability will also be easier to solve with the concept of integration.

**Keywords:** Sharia Venture Capital, Cash Waqf, Legal Problems, Managerial Problems, Financial Instrument.

## A. Introduction

Regulations in Indonesia have allowed the establishment of Sharia Venture Capital Companies or commonly abbreviated as PMVS. However, so far PMVS in Indonesia has not developed well. In fact, from business opportunities, PMVS has a promising future along with increasing public awareness in Indonesia in obeying religious orders, including in the field of Islamic economics. The development of PMVS

currently still has several problems faced in Indonesia. And one of the key problems is the lack of capital. In fact, if PMVS has a large enough capital, this can increase their performance strength and flexibility in making investments, especially for the many Small and Medium Enterprises (SMEs) in Indonesia. Especially if the investment is in the form of equity, which will certainly require a large amount of capital. To overcome this, it is necessary to develop innovative concepts from Islamic economics experts in Indonesia to think about how to get large sources of capital. So this study will also examine one of the potential sources of large capital to be utilized by PMVS, namely Cash Waqf. And then these two concepts, PMVS and Cash Waqf, can be integrated into a reliable and best social entrepreneurship business model.

Cash waqf as a framework in the entrepreneurial model must be encouraged as a form of waqf financing innovation and can be transformed into an institutional form so that it will become a breakthrough model in national waqf (Iman and Mohammad 2017). The return of the cash waqf investment can be allocated for improving social welfare, developing education, developing health, empowering the economy, improving religious and social infrastructure, as well as community welfare (Aldeen, Ratih, and Herianingrum, 2020) (Sukmana, 2020) (Khan, 2019). Cash Waqf can be integrated as an investment model for Small Medium Enterprises (SMEs) so that it is expected to contribute to their business development (Mohd Thas Thaker et al., 2021). The use of cash waqf can be divided into two, namely the procurement of private goods and social goods (El Awagy, 2016). The income obtained from the management of cash waqf can be spent for various purposes, for example for the maintenance of assets and other social welfare (Khairil Faizal Khairi et al., 2014). The implementation of productive cash waqf can also encourage mosques to have good financial management so that it will have an impact on the community (Suhairi, 2019).

The Indonesian Waqf Agency (BWI) said that the potential for cash waqf receipts in Indonesia could reach IDR 180 trillion per year but in 2020 BWI noted that the collected cash waqf was only IDR 391 billion. So with this note, cash waqf still has great potential to be developed. As stated in Law Number 41 of 2004 that the practice of Cash Waqf can be carried out within a certain period of time. And if at that time the period has expired, then Nazhir is obliged to return the principal amount of cash waqf to Waqif or his heirs or successors. And to optimize opportunities in developing the practice of temporary waqf, it requires financial model innovation, both in the form of investment products and in the form of institutions (Jalil, Yahya, and Pitchay 2016). In financial product innovation, Indonesia has been quite successful in developing an integrated instrument between Sukuk and Cash Waqf known as Cash Waqf Linked Sukuk (CWLS). However, in institutional innovation, so far no financial institution has been successful in integrating the concept of cash waqf with its investment instruments. Even though there is one financial institution that is very suitable in managing cash waqf with a certain period of time, namely PMVS. PMVS has been running its investment model using the *mudarabah* and *musharakah* systems (Amalia and Atiqah, 2015). PMVS also allows for relatively long-term investment in the form of equity participation. So that the synergy between the Cash Waqf Product and the PMVS concept can enable a mutually beneficial potential between the two concepts

In general, the definition of Venture Capital according to Tony Lorenz is a form of long-term investment business with the main goal of obtaining profits as part of compensation for the high risk in the investment, as well as expecting dividend and interest income from the investment (Lorenz, 1985). While Sakouili et al explained that venture capital is a form of company capital injection with the aim of providing

financing for companies that are just born or are still very young that have high growth potential, can develop rapidly, and will operate in activities that require significant capital in early years of their existence (Sakouli et al., 2018).

Zaheer Anwer et al explained that the investment model in Islamic Venture Capital (IVC) can be made from three formats. The first format is a direct investor scheme to invest in capital-seeking companies. Capital from many investors is pooled to buy controlling shares of the target company. An example of a company that uses this format is Qatar Venture Capital. The second format is investment through IVC Fund. Through this format, the fund structure will be managed professionally and will reduce business risk through diversification. Many companies in the Gulf States use this format, including Bahrain Bank. Then the third format is crowdfunding by connecting investors with capital seekers through information technology tools. An example of a company implementing this format model is Beehive from the United Arab Emirates, which is the first online marketplace company for peer to peer financing in the Middle East (Anwer et al., 2019).

Venture capital is usually needed by new companies and SMEs (Small and Medium Enterprises) which do have a higher risk and uncertainty. However, that is a challenge as well as a distinct advantage for Venture Capital companies where as a result of the high risk, they hope that they will also get a high rate of return. Therefore, in the definitions given by various scholars, it is stated that the requirements for a Venture Capital Company must be managed professionally and must involve itself actively in various phases of the growth of the company being invested in to monitor the development of its investment, including the Venture Capital Company must be observant in choosing a business proposal submitted to them (Herciu, 2017). A researcher named Mohamed Fawzy Omran said that Sharia Venture Capital is the right solution in bridging as well as being an institution that becomes a collaborator between new entrepreneurs and investors who have more funds to invest (Omran, 2015). On a broader scale, it can be concluded that the concept of Sharia Venture Capital is needed in helping a country to overcome various economic problems, both micro and macro so that the goal of achieving community welfare can be realized.

As explained above, the form of contract in a PMVS can be done through two contracts, namely musharakah (Abdul Rahman, Mohd Nor, and Salmat, 2020) and mudharabah. And these two concepts are still very relevant to be applied in various modern financial products so far. Al-Aifari and Kahf explained that in placing capital to start-up companies, PMVS can use various models, namely preference shares, convertible bonds, stock options, and conventional financing (Al-aifari and Kahf, 2021).

Elsayed Elsify explained that there is some urgency so that Islamic countries need a good development of the Sharia Venture Capital industry. First, there are still very few companies in Islamic countries that have not focused on innovating new ideas and focusing on high technology. Second, there is still no adequate legal infrastructure for newly established companies and SMEs in order to attract investment from abroad. Third, there is a lack of support from already strong financial institutions such as conventional banks which tend to be unwilling to fund new companies and SMEs. Fourth, youth unemployment rates in Islamic countries are still high according to the International Labor Organization (ILO) and one of the reasons is the small number of SMEs (Small and Medium Enterprises). And fifth is the level of literacy and knowledge regarding Venture Capital is still low (Elsiefy, 2014).

However, the development of Sharia Venture Capital still has many obstacles and challenges in Indonesia. The Venture Capital Association once explained that there

are at least three main problems that are still obstacles to the development of Sharia Venture Capital Companies (PMVS) in Indonesia. The first problem is the limitations and difficulties of PMVS in getting access to capital. Whereas capital is the main strength and factor in the PMVS business. With regard to this problem, PMVS stakeholders in Indonesia must think of various alternatives to obtain substantial sources of capital, including considering one of the potential sources of large capital that can be utilized by PMVS, namely Cash Waqf. The second problem is the limited Human Resources (HR) owned by PMVS who have the ability in the field of real sector business development. And the third problem is that the PMVS concept is not widely known in the midst of Indonesian society (Habibi, 2017).

The MUI Fatwa in 2002 defines Cash Waqf as waqf carried out by a person, group of people, institutions, or legal entities in the form of cash which is also included in the form of securities and may only be used and distributed in cases permitted by Islamic law and the principal value of the cash waqf must be guaranteed for its sustainability, it may not be sold, donated, and/or inherited.

Murat Cizacka defines cash waqf as a certain type of waqf that has differences from ordinary building waqf where the original capital is purely as waqf. Meanwhile, Abdul Mannan defines cash waqf as a waqf that functions as a means of transferring wealth from rich people to managers and community members in order to finance various programs aimed at religion, social and education. So that cash waqf will have a function as a strategic investment to eliminate poverty and overcome backwardness in the fields of economy, health, research, and Sustainable Development Goals (SDGs) (Dwi Pusparini, 2016) (Hudaefi, 2020). The concept of waqf itself will have a very good influence on the fulfillment of public rights such as to build the public interest, together with the state to build various public interests, and also to overcome various poverty problems (Ibrahim, 2005).

Various mazhab have different views regarding cash waqf, even among ulema within a mazhab can also have different views. Because it has been explained that waqf comes from the results of the opening of the door of *ijtihad*. And indeed there is no text in the Qur'an and Hadith that prohibits cash waqf. So that some ulema on the basis of *maslahah* then allow cash waqf in order to bring even greater benefits to the people (Romadhoni, 2015).

Another important explanation of the different definitions of various mazhab is that there is a discussion about whether temporary waqf is permitted or not, where only Imam Malik and some ulema from the Hanafi school allow temporary waqf (Qahaf, 2008). Imam Malik as explained by Al-Hathab confirmed Al-Umry both throughout the age of the person who uses the goods or only in a relatively short period of time and has been mutually agreed upon. This temporary waqf practice has been practiced in the State of Kuwait and even a positive legal instrument has been made in that country (Ab Rahman and Amanullah, 2016). In fact, one of the reasons why Kuwait is developing its cash waqf practice is because of the support of the temporary waqf concept that is enforced in the country. While in Malaysia, almost all states do not allow temporary waqf except for the Selangor region (Firdaus, Rahman, and Muhammad, 2017). And in Indonesia, temporary waqf is allowed in accordance with Law Number 41 of 2004 with a minimum nominal value of IDR 10,000,000.- and a minimum period of five years.

## **B. Method**

A policy research should be based on the review of current situation. This writing is based on a policy research. It is done through descriptive as well as analytical approach. Displaying data of legal problems, managerial capacity shortage and critical review of current situation will be first elaborated. Furthermore, the paper provides and prescribes a workable model of reconstruction and innovation of a comprehensive understanding and a realistic frame of agenda to be implemented in order to revitalize sharia venture waqf as a feasible financial instrument.

This research uses qualitative approach with type of descriptive analysis. Where this research will describe and provide an overview to the object of research through the data collected and then analyzed. This research will describe the Shariah Ventura Waqf model by analyzing the concept, legal basis, and also the integration model between cash waqf and venture capital in Indonesia. This research method is also operated with a multidisciplinary study approach, that is Islamic philanthropic discipline related to waqf, Islamic legal discipline related to waqf and venture capital, and then economic disciplines including management, business and finance related to waqf and venture capital.

## **C. Findings and Discussion.**

### **1. Findings**

#### **a. The Concept of Integrating Cash Waqf with Sharia Venture Capital: Why should it be a venture capital company?**

Venture capital is a form of financing provided by companies for Small and Medium Enterprises and also for companies that are still in the early stages and are emerging that have high growth potential or already have high growth either from revenue growth or number of employees or both. The form of investment made by venture capital companies can be divided into three forms. The first is venture capital company participation in the form of equity or the purchase of company shares, the second is the purchase of convertible bonds, and the third is financing or loans with a profit sharing system (Tanjung, 2018).

Venture capital companies have slightly different characteristics from banking institutions, although they both have products for raising and channeling funds. However, venture capital companies do not seek funds and channel funds massively like banks. Venture capital companies are more selective, both in raising funds and distributing funds. Usually venture capital companies only look for investors who do have large funds and then distribute them in the three forms above, namely purchasing company shares, purchasing convertible bonds, or distributing loans using a profit sharing system.

Indonesia is one of the countries that has supported the practice of venture capital for a long time. Many companies both in the capital market and not in fact have been given capital injection by the venture capital company. Even start-up companies such as e-commerce, financial technology, and others are currently mostly given capital by venture capital companies, both for business development purposes and for business establishment purposes.

#### **b. Waqf Integration Model: Sharia Venture Capital**

Several researchers have made research proposing a ventura capital business model that is integrated with waqf, including Hamber & Haneef and Tanjung.

Regarding funding sources, Hamber and Haneef explained that the sources for this business model were from baitul mal companies, and communities Apart from these three entities, the author also adds that there are other potential sources of funding, namely individuals from upper economic circles such as businessmen and high state officials (Hamber and Haneef, 2017). Then Hendri Tanjung completed the research in terms of placing the source of the waqf funds into the company's investment tool. Hendri proposed three alternatives for the placement of the waqf funds, namely being placed together with the company's capital, being placed together with the company's third party funds. and is also placed into one into the two investment tools both into company capital and company third party funds. If there are profits in the three schemes, then the profits must be divided proportionally to each of these investment tools. And after getting a profit, Hendri proposed that the net profit that came from the waqf funds be divided into three parts, namely the 10% profit for management services, 45% for the purpose of mauquf 'alaih, and 45% to be reinvested. However, if there is a loss in the business, the waqf funds are not allowed to share the loss, but other investment tools will be responsible and if the waqf funds are the two investment tools that will replace (Tanjung, 2018).

In carrying out the three waqf fund placement schemes above, Hendri suggested that investments be made in the real sector on the basis of minimizing the potential for riba and for the benefit of employment. The author believes that this is a valid reason, but the authors also recommends that Sharia Venture Waqf companies should also be able to invest in the financial sector primarily through shares in the Indonesian capital market or the Indonesia Stock Exchange (IDX). Moreover, under Islamic law, share waqf is allowed through the MUI Fatwa dated May 11, 2002 concerning Money Waqf, where share waqf is a form of securities waqf which legally allows the equivalent of cash waqf.

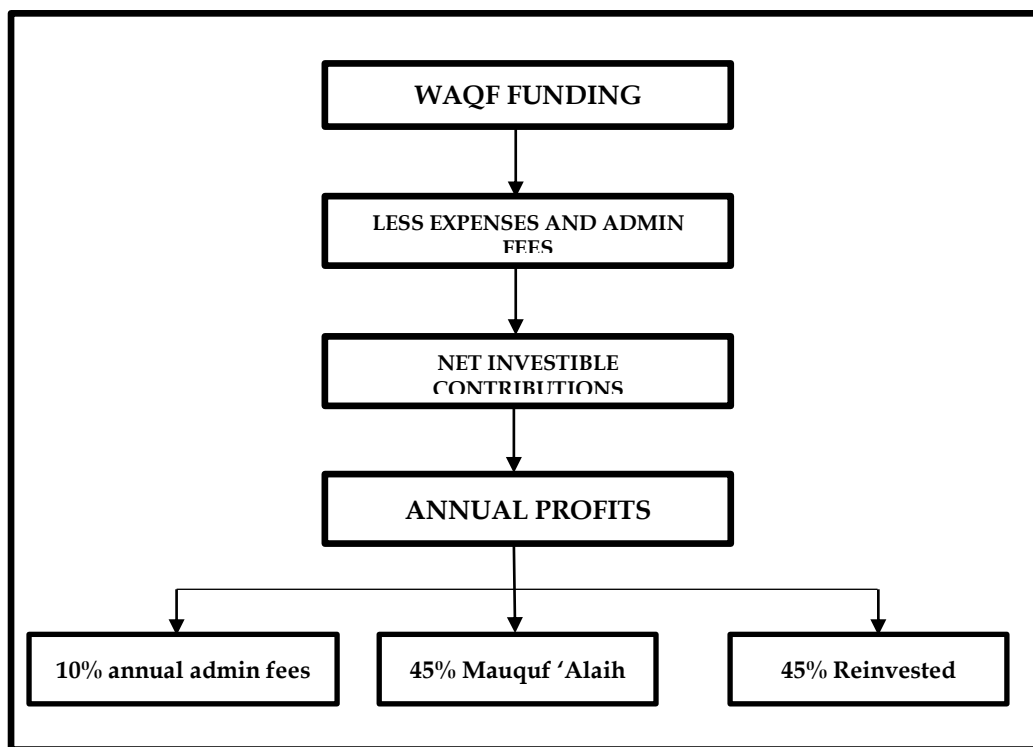


Figure 1. The Modus Operandi of Sharia Venture Capital Waqf Fund

Source: Author

**c. Examples of Sharia Venture Waqf Companies: Lessons to be learned**

In 2017, the Indonesian Muslim Intellectuals Association (Ikatan Cendekiawan Muslim Indonesia/ICMI) had actually made the idea of establishing a Venture Capital Company based on the planned Waqf Money called PT Wakaf Ventura Indonesia, even ICMI has formed an Organizing Committee to make this happen. The initial capital formula for the establishment of this company was derived from nadzir which could be in the form of institutions such as foundations, community organizations, educational institutions, and other types. Where the nadzir will later become shareholders in the company. The company will also be formulated to receive waqf funds from the community, sharia banking, sharia cooperatives, and government revolving funds. So that these funds will be used for investment, especially for capital for MSMEs that need them. The contracts used with third party funds are also formulated through the mudharabah, musyarakah, and ijarah muntahiyah bittamlik contracts. But unfortunately the Indonesian Ventura Waqf business model ran aground in the middle of its realization process. The authors once confirmed to one of the formulating committee members and the committee said that the process of forming this company was not continuing.

In different terms and times, Indonesian Council of Waqf (Badan Wakaf Indonesia/BWI) itself has also applied for a permit to the Financial Services Authority to establish a Sharia Venture Endowment Company from 2018. Where the complete management of the company has been made and has also been submitted. However, one of the BWI administrators who the author asked about it also explained that so far there has been no approval and regulation from the the Authority of Financial Services (Otoritas Jasa Keuangan/OJK) which specifically deals with a ventura waqf company. Although the management also gave information that in fact the OJK has made an approval of the Board of Directors. So that if you want to continue to establish a venture waqf company at this time, the legal umbrella used is through the Regulation regarding Venture Companies in general which also regulates Sharia Venture Companies such as Financial Services Authority Regulation Number 34 / POJK.05 / 2015 concerning Business Licensing and Venture Capital Company Institutions and Financial Services Authority Regulation Number 35 / POJK.05 / 2015 concerning Business Operation of Venture Capital Companies. Therefore, until now in Indonesia, we have never found the implementation and realization of a Sharia Venture Endowment/Waqf Company that is already operating. Although we can see the realization of these efforts together with the various kinds of business models and modes of operation that have also been made by waqf actors and waqf researchers in Indonesia. This condition will be a challenge for waqf stakeholders and PMVS to make it happen for the development of cash waqf in Indonesia.

Even in countries that are not inhabited by a majority of Muslims, the concept of Venture Waqf has also been implemented, such as Islamic Relief Worldwide in the UK and the Chicago Islamic Microfinance Project in the United States (Hamber and Haneef, 2017). Islamic Relief Worldwide raises a stock waqf-based waqf fund called the World Waqf Fund. Then after deducting the costs in running the waqf program, the waqf funds will be invested in lower risk stock instruments and in accordance with sharia so that they can produce a return rate of 5% to 10%. And the return after deducting administrative costs and capital returns will be channeled into the eight sectors of the waqf project chosen by the waqf. Likewise with the Chicago Islamic Microfinance Project which began to be developed in 2011 with the aim of helping Small Businesses through the mudharabah concept. The results of this project are

aimed at social interests such as improving public education, health, the welfare of women and children.

## **2. Discussion**

### **a. Sources of Fund**

Venture Capitals also have sources of funding with different characteristics and conditions of capital from donors of waqf. Venture capital will receive from any party any source of funding without being bound by shari'ah principles. One of the challenges of PMVS at this time is still in the issue of funding even though they have many networks of investors. And by collaborating with Cash Waqf, their potential for PMVS to get funds will be even greater so that they can be more flexible in combining funding sources with other sources. However in terms of cash waqf, it is necessary to note that the investment of waqf must comply with the requirements in Islamic law. Waqf institutions also have difficulty finding third party sources of funding from general investors. Meanwhile, venture capital is commonplace and has a network of general investors that waqf institutions have been difficult to reach. So that the benefits of the Syari'ah Ventura Waqf collaboration will have an impact on the potential for additional waqf funds that come from investors and also networks owned by venture capital companies. Whether it is to be placed in company equity, placed into third party funds, or placed in a combination of both. But with a note that the source of waqf funding must come from lawful assets and also pay attention to the waqf requirements as described above.

### **b. Management and Operation**

Louisa Alemany and Mariarosa Scarlata suggest that there are three important elements in philanthropic management, namely operating capacity, good relations between donors and recipients, and clear performance expectations (Louisa and Scarlata, 2010). Many studies on waqf in Financial state that the management and operations of waqf institutions are still the problems and obstacles faced in developing cash waqf (Suhairi, 2015).

In many studies, the competence and professionalism of Nadzir in Financial are still low, especially in terms of investment management, risk management and good governance (Kamaruddin and Hanefah, 2021). Meanwhile, if Nadzir can collaborate with Venture Capital Companies, this problem can be resolved quickly because Financial in the Venture Capital Industry usually has competence and experience in the fields of investment management, risk management, and good governance, so that by himself Nadzir collaborates with the Waqf Company. The Shari'ah venture will change to become more professional because the process of transferring knowledge will flow to Nadzir. Regarding the financial dan operation system, that in general Venture Capital Companies are already accustomed to an orderly and neat financial and operation system because the regulations from the OJK regulate this. So that the next benefit from the integration of waqf and venture capital is the increased capacity of the cash waqf institution system so that management can run its business more effectively and efficiently.

### **c. Investment**

Investment is fundamental requirement for Sharia Venture Waqf. There are some terms and conditions for this investment. The benefits of investment may be classified



into three categories:

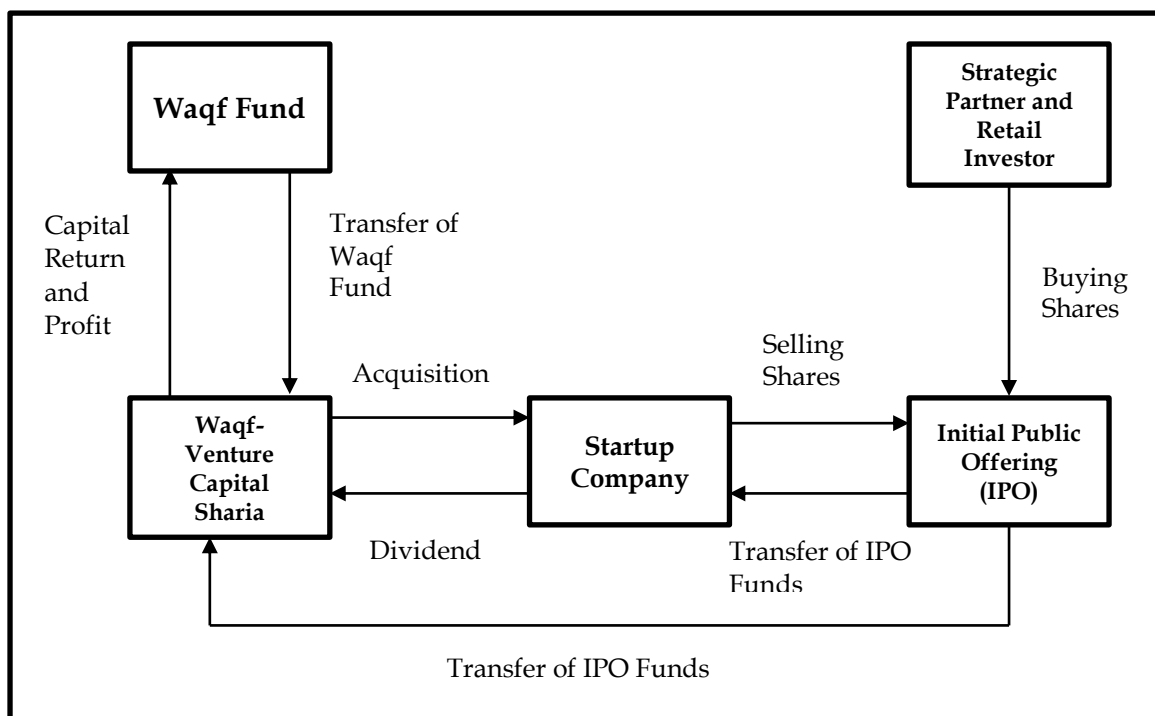
1. Investment Products; If it is not integrated with Venture Capital, the investment that can be made by waqf funds will be limited to only the real sector business or perhaps only to certain financial products such as deposits in banks. However, through Venture Capital, with all kinds of experience in the investment sector, waqf funds can also be invested in a wider range of other financial products.
2. Investment Period; Generally, venture capital companies have a limited period of time to invest, which can be between 5 and 10 years. This is in accordance with one of the types of waqf allowed in Indonesia, namely Temporary Waqf. This similarity will certainly make it easier to attract waqf funds from donors who do wish to do waqf temporarily.
3. Investment Risk; Risk is something that must be taken into account in the management of waqf funds. Because the value of waqf must not decrease, let alone lose or run out of value. Therefore risk mitigation must be a concern for every Sharia Venture Waqf Company. However, there is a fatwa that permits the provision of waqf assets if they are forced, for example if the value of the invested share waqf continues to decline, then the cut loss is permitted and the shares are exchanged for shares of other companies that have better and safer prospects.

#### **d. Exit Strategies**

After carrying out several stages from fundraising to investing, a venture capital company will carry out the last stage, namely ending its investment with the hope of obtaining capital gains. This last process is usually known as exit strategies. Any venture capital company, whether in general or sharia form, should have various strategies and alternatives in order to end its investment, including already having a plan to anticipate changes in economic conditions and changes in conditions in an industry. Likewise with the Sharia Ventura Waqf Company, this exit strategy is one form of implementing the temporary waqf concept besides of course it also aims to take advantage of the time. The cash waqf from the waqifs will be returned to each of them. While the profit from the capital gain upon the end of this investment, part of it will become a productive waqf instrument again, in addition to that part of it will be distributed to mauquf 'alaih, and part of it will also be used for waqf management fees. At least Anwer et al. explained that there are six ways or forms of a PMVS to end its investment, namely by means of an Initial Public Offering (IPO), Leveraged Buyouts (LBO), Management Buyouts (MBO), Merger and Acquisition (M&A), systematic liquidation, and also by means of the Musyarakah Mutanaqisah or diminishing partnership (Anwer et al., 2019).

Initial Public Offering (IPO) is a form of termination of investment that is most often made by Venture Capital Companies. IPO opens opportunities for a company to get many alternative investors, not only from that country but also from various countries in the world. However, IPO is less suitable for investment in the short term, but it is more suitable for the long term. Of course, building a start-up company from a financial, market and industrial perspective also takes a long time. And it must be noted that the IPO process also requires quite expensive costs. IPO also has the risk of failure, such as the stock price at the time of the IPO that did not match expectations because many investors did not want it, so the preparation for the IPO process is indeed a heavier and more serious process compared to how to end other investments.

In the context of Waqf Ventura Syari'ah, the IPO process is a good opportunity to get high returns but must still take into account the risks that will arise and also take into account the costs that are large enough above so that the maximum rate of return can be obtained.



**Figure 2. The Modus Operandi of Initial Public Offering**

Source: Author

Leveraged Buyouts (LBO) is the purchase of shares of a company by investors to owners of these shares using capital obtained from debt and with the hope that later the company will grow so that investors can return to sell their shares at a higher value. In the context of integration between Waqf and Venture Capital, this form uses capital cooperation with third parties. Management Buyouts (MBO) are when a shareholder sells his majority stake to another company. The MBO format also saves more time, cost and effort than the IPO process. However, the system of MBO has a consequence of limited company alternatives that will have the opportunity to buy. In the context of Wakaf Ventura Syari'ah, the MBO model is something that has a lower risk even though the rate of return may not be as big as the IPO model. Merger and Acquisition (M&A) is a safer form of ending investment, but it is not impossible to hope for a higher rate of return than other methods because the share portion is shared with partners and or even smaller if using acquisitions. In the context of Wakaf Ventura Syari'ah, the M&A model may take a very long time if it is to get optimal returns. So that if you use the temporary waqf method, it is necessary to look for waqif whose funds will be managed in a longer term. The next method is by systematic liquidation. This method of ending this investment is perhaps the least attractive way because it can be said that the investment made has the potential to fail. In the context of Shari'ah Venture Waqf, then this form is an implementation of the enactment of istibdal law, where in an emergency it is permissible to do istibdal in order to save the decrease in the value of the waqf, provided that the exchange also enters a potential business and has a future. the good one. So that this exchange, is not only to save the waqaf value but also to re-make investment likely to get the optimal rate of return.

*Musyarakah Mutanaqisah* or reduced partnership (MM) is a form of partnership between entrepreneurs who need capital and venture capital companies with a sharing agreement in terms of profits and losses and the venture capital company will gradually exit the partnership by gradually selling back its shares to entrepreneurs who need that capital. The share valuation will continue to be assessed as long as the partnership lasts. With this MM model, the risk for venture capital companies is smaller because shares are still owned. Entrepreneurs who need capital still have to deposit their capital at the beginning of their investment, even though it may not be large. And in the context of Waqf Ventura Syari'ah, besides being a lower risk and safer one, the rate of return can also be large if the company develops and grows.

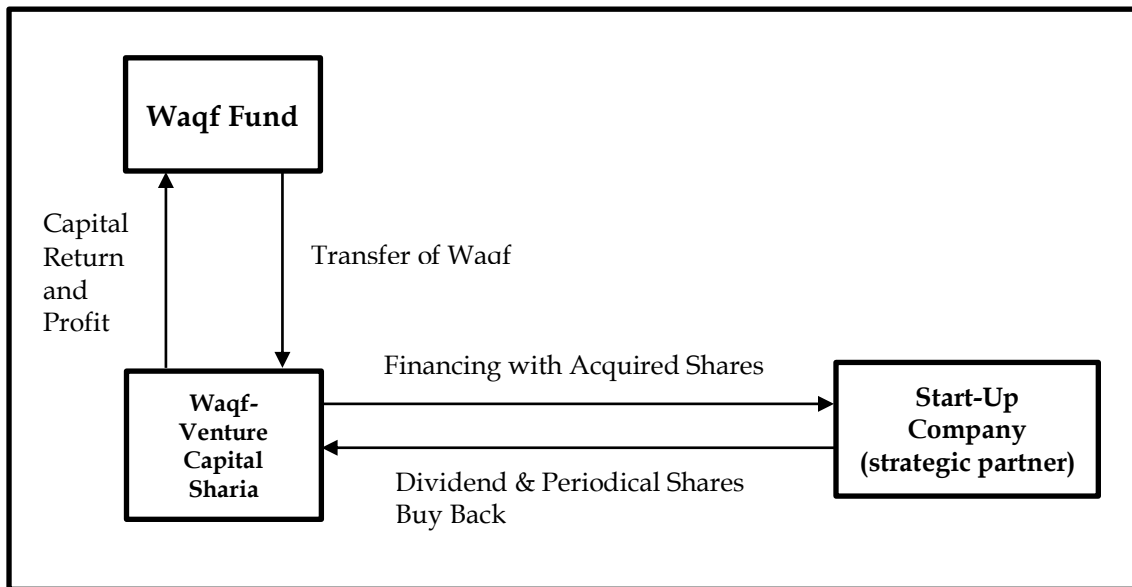


Figure 3. The Modus Operandi of *Musyarakah Mutanaqisah*

Source: Author

**e. Business Risk**

Every business model has risks, both small risks that can be controlled and also big risks that cannot be controlled. Venture capital companies are companies that have a greater risk than other types of investment companies. However, they also have a better ability to control business risk on average. Mainly because venture capital companies are required to leave at the right time, as it has been explained that there are several ways to exit or divest that venture capital companies can do. If venture capital companies can better manage and manage risk, it is expected that the rate of return will be even higher. Conversely, if they cannot manage risk well, the rate of return will be lower (Bamford and Douthett, 2012).

In the context of Islamic venture waqf, where venture capital companies will be faced with the principle that the value of waqf cannot be reduced, the venture capital company faces a more challenging risk here. What is clear is that risk management here is not to overcome gharar because in fact it has been regulated in the waqf contract regarding the certainty of the transaction object, both quality and quantity, price and including the time of delivery. And also not to overcome the practice of maisir because venture capital is not based on complaints of fate or stakes because all investment sizes and projections are made with many factors of consideration that can approach reality and expectations. However, risk management is more about creating a structured and

systemic process for identifying, measuring, mapping, developing alternative risk management, and monitoring and controlling the implementation of risk management associated with the development of productive waqf. And most importantly, the purpose of risk management is here to diversify investment risk into various investment portfolios. At least to control risk in terms of waqf which is integrated with venture capital, it must go through stages such as risk identification, risk analysis and measurement, risk management and control, as well as monitoring and evaluation. And one way to reduce the level of risk as well as to overcome the risk that occurs is to transfer the risk to insurance institutions such as insurance as long as the transfer is in accordance with the principles of sharia (Rozalinda, 2014). In the end, the productivity and sustainability of cash waqf is largely determined by the skill of the management of the syari'ah venture waqf company. And keep in mind also that the concept of integration is a transaction with a social purpose, not a business objective alone. Therefore the precautionary principle must be considered before making investment decisions.

#### **D. Conclusion**

The integration model of cash waqf and Sharia Venture Capital which is manifested in the form of a Sharia Venture Capital Company basically has a social and commercial scope, function and purpose. Therefore, this model will be a strong solution in order to answer legal challenges and overcome various economic and social problems in a country. The concept of waqf which requires its value to develop continuously will be able to provide social benefits in a sustainable manner and in a longer term (Tahiri Jouti, 2019). And besides social benefits, this model can also provide economic benefits both on a micro and macro scale. So that the urgency of this model is certainly in order to fulfill the principles of maqoshid syari'ah, namely realizing the benefit of humans both in religious and world matters.

For practitioner as well as regulator, it is time to realize that the practice of cash waqf as innovative trend gradually should be accepted as a financial instrument for social philanthropy in Indonesia. In turn it can be integrated to sharia venture waqf fund. Creating more legal infrastructure as well as empowering socio-cultural capacity for waqf stakeholders and shareholders are not yet solved systematically. However, developing waqf as means for public philanthropy financing has some problems relate to human resource, legal infrastructure and managerial updating.

For those who have concern to research, further study on the socio-legal problems of venture waqf, model of a feasible financial management of venture waqf to be a financial instrument are current topics need more comprehensive research. The research should be done based on interdisciplinary study and approach in order to have a multidimensional research finding.

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## F. Author Contributions Statement

All of authors worked together on the idea and the problem related to the topic. Joko Mirwan Muslimin and Bahrul Qamar developed the theory. Furthermore, Bahrul Qamar and Hasbi Sen verified the analytical methods. Then Joko Mirwan Muslimin investigated and supervised the findings of this work. All of authors discussed the results and contributed to the final manuscript.

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