Ekonomi, İşletme ve Yönetim Dergisi
Journal of Economy Business and Management
Cilt/Vol:6, Sayı/Issue:1, 2022, Sayfa/Pages: 23-42
DOI: 10.7596/jebm.30062022.002

Sharia Venture Capital Information System in Indonesia

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Abstract

The purpose of this study is to explain the ins and outs of sharia venture capital business in Indonesia as a form of financing institution business in a systematic and complete manner. This research is included in the type of library research. The findings of this study explained that literally venture capital means capital invested in a risky business. It is said to contain risk because this investment does not emphasize the collateral aspect, but rather on the prospects and feasibility of the business being financed. Venture capital was a financing that has high risk. Venture capital financing is different from banks that provide financing in the form of loans or credit, while venture capital provides costs by making direct investments into the company it finances. Meanwhile, sharia venture capital is an investment made by a Sharia financial institution for a certain period of time, and after that the financial institution divests or sells part of its shares to the company's shareholders. A very prominent characteristic in the venture capital business is related to risk. The magnitude of the risk that may be faced in the venture capital business causes the high expected return expected by venture capitalists in Indonesia.

Keywords: Sharia venture capital, financing, and information system.

Introduction

The existence of venture capital businesses in Indonesia in an institutional and formal sense is a relatively new legal and business institution (Fathonih et al., 2019). This effort was only introduced through the Deregulation Package Policy dated December 20, 1988 which was followed by the issuance of Presidential Decree No. 61 of 1988. However, this venture capital business in the future has good prospects considering its existence has a very important role for business development, especially for small businesses in Indonesia (Nizaruddin Wajdi et al., 2017). The general constraints faced by small businesses, such as limited capital, management capabilities and technology (Ma'shum et al., 2021), will be eliminated with the existence of venture capital financing institutions (Nikolic et al., 2015).

The term venture capital is a translation from English, venture capital which means something that contains risk or can also mean as a business (Vanderhoven et al., 2020). Islam prohibits risk shifting and encourages risk sharing (Çizakça, 2014). So, literally venture capital means capital invested in a risky business (Karpa & Grginović, 2020). Therefore, venture capital is also called risk capital (Sandhy Widyasthana et al., 2017). It is said to contain risk because this investment does not emphasize the collateral aspect, but rather on the prospects and feasibility of the business being financed.

Based on the above understanding, it can be concluded that venture capital is a financing that has a high risk (Kato & Tsoka, 2020). Venture capital financing is different from banks that provide financing in the form of loans or credit, while venture capital provides costs by making direct investments into the company it finances. Companies that obtain venture capital financing are called joint venture companies or invest companies (Wallmeroth et al., 2018). While the investment of Islamic venture capital is restricted to Shariah compliant funds and businesses only (Alwi et al., 2020a). Sharia venture capital is a financing in equity participation in a business partner company that wants to develop its business for a certain period of time or temporary (Hadi et al., 2021). Sharia venture capital is an investment made by a Sharia financial institution for a certain period of time (Kumalasari, 2016), and after that the financial institution divests or sells part of its shares to the company's shareholders (Sanrego, 2017).

A very prominent characteristic in the venture capital business is related to risk (Caliendo et al., 2020). The magnitude of the risk that may be faced in the venture capital business causes the high expected return expected by venture capitalists. The concept of venture capital basically cannot be equated with ordinary investments and not all equity investments in other companies can be classified as venture capital financing. The venture capital mechanism, in principle, is a process that describes the flow of investment starting from the entry of investors by forming a pool of funds, the process of financing in a business partner company to the process of withdrawing the participation (in investment). Investors provide funds and collect them in a venture capital fund. They usually come from large financial institutions such as pension funds, financial companies, insurance companies, and others. In addition, funds may also come from wealthy people with a high risk tolerance. The money is pooled together and managed under a venture capital firm, which will determine where the money will be invested. To allocate funds, venture capital firms form committees (Liang et al., 2019). They are tasked with making investment decisions, identifying and selecting potential companies to fund. Once identified, the capital injection flows to the target company and often requires substantial shareholding (Othman et al., 2017).

As mentioned above, venture capital has many benefits, while it also carries a high risk. It will be very helpful for companies, especially for companies that are just starting and are still small in scale (Alwi et al., 2020b). It is undeniable that companies and small-scale businesses often find it difficult to get loans, especially from banks (Bessière et al., 2020). However, in addition to ensuring capital to develop a business or business, the thing that needs to be considered in order to ensure the business continues to grow a stable profit is a business health diagnosis. All of course must be done professionally and with minimal errors and easy with good management of venture capital by using information technology (Fadillah et al., 2021).

This paper will explain systematically and completely about the ins and outs of venture capital business as a form of financing institution business. Through this paper, it is hoped that we will gain a complete understanding of the existence and activities of venture capital businesses.

1. Method

This type of research is library research (George, 2019). Through this approach, this research seeks to explain the ins and outs of sharia venture capital business as a form of financing institution business in a systematic and complete manner.

2. Findings

2. 1. Legal Basis for Sharia Venture Capital in Indonesia

The development of venture capital in terms of its legal basis in Indonesia can be ordered chronologically as follows (Sanrego, 2017):

a) Presidential Decree No. 61 of 1988 concerning Financing Institutions.

b) KMK No. 1251/KMK.013/1988 dated 20 December concerning Provisions and Procedures for the Implementation of Financial Institutions.

c) Government regulation no. 62 of 1992 concerning Business Sectors of Business Partner Companies of Venture Capital Companies.

d) KMK No. 227/KMK.01/1994 dated June 9, 1994 concerning Business Sectors of Business Partner Companies of Venture Capital Companies.

e) Government Regulation No. 4 of 1995 concerning Income Tax for Venture Capital Companies.

f) KMK No. 469/KMK.17/1995 dated October 3, 1995 concerning the Establishment and Development of Venture Capital Companies (Santoso, 2015).

2. 2. Operational Capital on Sharia Venture Capital

In the establishment of Venture Capital there are two important aspects of its aims and objectives. Venture capital is capital that is provided as an idea risk without a guarantee of return on investment or future success. There is only a profit-sharing system in the form of dividends. So that the aspect of the courage of the capital owner becomes an important thing in making decisions. That's why the main basis of the spirit of Venture Capital lies in the belief in its business partner, in accordance with the basic principles contained in the spirit of Venture Capital, there is an agreement made throughout the world that capital participation must be temporary. The period is between 5-10 years, until the business partners are able to stand on their own, then the shares are resold (Kossovsky, 2013).

Steps in Venture Capital Investment include: a) Preliminary assessment; b) External confirmation; c) Negotiations and offers; d) Legal documentation

e) Investment monitoring; and f) Divestment (Khan et al., 2021).

2. 3. Difference between Conventional and Sharia Venture Capital

Related to sharia venture capital companies are business entities that carry out sharia venture capital business activities, venture fund management, and other business activities with the approval of the financial services authority, all of which are carried out based on sharia principles. Based on this definition, it can be understood that the activities of sharia venture capital companies are in principle the same as conventional venture capital companies, namely carrying out investment activities and or services within a certain period of time for business development of business partners (Madanchian et al., 2019). However, what makes the difference is that in carrying out the activities of a sharia venture capital company, it is certainly based on sharia principles (Ismanto, 2021).

In addition, the business activities of sharia venture capital companies must comply with the principles of justice (*'adl*), balance (*tawazun*), benefit (*maslahah*), and universalism (*'alamiyah*) (Adinugraha, 2020), and then do not contain *gharar*, *maysir*, *usury*, *zhulm*, *risywah*, and illegal objects (Adinugraha & Muhtarom, 2021). The elements mentioned above must be met (Adinugraha & Ulama'i, 2020), if they are violated, the investment made by the sharia venture capital company becomes invalid.

2. 4. Sharia Venture Capital Electronic Products

a) Business Products

- Direct Share Participation

Direct equity participation in a Business Partner Company, where they will become a shareholder within a certain agreed period of time.

- Convertible Bonds

In accordance with equity financing, financing is in the form of buying bonds of a company and at a certain period will be converted as ownership shares of the Business Partner Company (Nila et al., 2019).

- Financing

1) Al-Mudharabah

Profit sharing financing from the owner of the fund (*Shahibul Maal*) with the owner of the business, where the capital is fully provided by the owner of the fund, and the pattern of financing can be done with the Channeling and Executing pattern (Adinugraha et al., 2017).

2) Al-Musyarakah

Profit sharing financing between fund owners (*Shahibul Maal*) and business owners, where capital is provided jointly by fund owners and business owners, and channeling and executing patterns (Sartika & Adinugraha, 2016).

3) Al-Murahabah

Financing with a buying and selling pattern between the owner of the funds (*Shahibul Maal*) and the business owner. The owner of the fund (*Shahibul Maal*) buys the goods needed by the business owner and then sells it to the owner of the business concerned at the acquisition price plus the agreed profit margin between the owner of the fund (*Shahibul Maal*) and the business owner (Hasan, 2019).

b) Financial Services

1) Arrangement Service

Intermediation activities, especially in terms of bringing together clients who need business capital with fund owners, both individual and institutional, as well as helping investors to be able to obtain good business financing (Hafidz, 2021).

2) Financial Management Consulting Services

Providing consulting services, especially in the field of finance and investigation for clients, as well as assisting clients in improving the quality of business management, especially for financial administration, product quality improvement, marketing and human resources (Rofiq et al., 2019).

2. 5. Electronic Transactions on Sharia Venture Capital

Venture capital is a company business entity that carries out venture capital business activities, venture fund management, fee-based service activities, and other business activities with the approval of the Financial Services Authority (Fadholi et al., 2020). In carrying out its business, venture capital companies can carry out activities in the form of: a. equity participation; b. participation through the purchase of convertible bonds (quasi equity participation); c. financing through the purchase of debt securities issued by Business Partners at the start-up and/or business development stages, d. productive business financing. Based on the explanation above, it can be understood that venture capital companies have a strategic role in improving the economy. The active participation of venture capital companies in the form of equity participation as well as managerial, operational and marketing support to business partners can help develop the company's business and motivate the emergence of new entrepreneurs (Adinugraha et al., 2021).

Venture capital is a process that describes the flow of investment starting from the entry of investors by forming a pool of funds, the process of financing in a business partner company, to the process of withdrawing the investment (divestment) (Nurhuda et al., 2020). Venture capital is professionally managed to invest in companies that need capital. Therefore, in venture capital there are at least three parties who are directly involved, namely: 1) Capital owners, as parties who want high profits from their invested capital. Capital from various sources or investors is collected in a special container or institution called capital funds; 2) Professional, as a party that includes expertise in managing investments and looking for potential investment types. This professional can be an institution called a management company or a management venture capital fund company; 3) Companies, namely companies that need capital to develop their business. This financed company is called an investee company or a joint venture company (Miftakhuddin et al., 2021).

The venture capital financing mechanism implemented in each country usually consists of two types (Rozaidin & Adinugraha, 2020), Sharia venture capital in Indonesia provide a viable alternative world economic system (ÇizakÇa, 2011), namely venture capital which is directly managed by the PMV Management who formed/founded the company or also called the single tier approach and venture capital whose management is handed over to a professional Investment Management Company, or also called model two tier approach.

Conclusion

Venture capital is a form of financing whose source of funds comes from the first party (banks, investors, and other financial institutions), which is channeled by a second party (venture capital companies) to third parties (partner companies) in order to finance their business development, with the hope of obtaining high profits from the business it finances (Rohayana & Stiawan, 2021). From this, it can also be concluded that several benefits of venture capital financing, among others: Increase Business Success, Efficiency in Goods Distribution, Increase Bankability of the company, Increase Utilization of Company Funds, Increase Liquidity. That's our explanation of venture capital. We can conclude that venture capital is one type of investment whose funding is in the form of equity participation in a private company within a certain period of time.

There are two types of venture capital, namely based on the method of providing funds and the method of raising funds based on ownership. The benefits of having venture capital are to increase business activities and potential, product marketing is more efficient, liquidity increases, and profitability improves. The way to get the attention of venture capitalists is to come to SME exhibitions, submit a business plan, conduct due diligence, and sign agreements. When funding has been obtained, don't forget to always record it in the business financial report. This becomes very important, even more so that later investors will also collect financial statements. But if we have difficulty in making financial reports, we just need to use accounting software from Accurate Online. This application will make it easier for us to make financial reports and troublesome accounting activities. What's more, the dashboard display in this application is also simple, so it will be very easy for anyone to make financial reports.

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