

ISLAMIC VENTURE CAPITAL AND PRIVATE EQUITY IN MALAYSIA: TOWARDS AN INTEGRATED JURISPRUDENTIAL FRAMEWORK

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Abstract: *The global Islamic financial services industry has grown to USD 3.88 trillion, yet remains structurally concentrated in debt-like instruments. Venture capital and private equity represent authentic equity-based financing aligned with the risk-sharing ethos of Islamic economic philosophy. However, existing Islamic finance scholarship analyses these structures through isolated contractual analogies rather than as integrated institutions. This paper proposes an integrated jurisprudential framework for the institutional analysis of Islamic venture capital and private equity within the Malaysian regulatory context. Adopting a qualitative doctrinal methodology, the study systematically examines ten core components of a modern VC/PE fund—including the General Partner, Limited Partner, Investment Committee, Advisory Committee, management fees, carried interest, board representation, protective rights, exit mechanisms, and fund termination—through the lenses of commercial reality, classical fiqh, uṣūl al-fiqh, and Malaysian regulation. The framework demonstrates that no single nominate contract adequately governs an Islamic VC fund; rather, the fund functions as an institutional synthesis of multiple Sharīʿah contracts requiring integrated jurisprudential analysis. The paper concludes with policy implications for the Securities Commission Malaysia, AAOIFI, and the IFSB, and proposes a future research agenda for the continued development of Islamic investment fund jurisprudence.*

Keywords: Islamic venture capital; private equity; jurisprudential framework; Malaysia; muḍārabah

1. Introduction

1.1 Global Growth of Islamic Finance

The global Islamic financial services industry has demonstrated remarkable resilience and sustained expansion over the past decade. According to the Islamic Financial Services Board (IFSB) Stability Report 2025, total Islamic financial assets reached USD 3.88 trillion, marking a significant 14.9% year-on-year growth [1]. Furthermore, the State of the Global Islamic Economy Report 2024/25 projects continued robust expansion across all sectors of the halal economy [2]. However, despite this impressive aggregate growth, the industry remains structurally imbalanced. A substantial part of Islamic finance is delivered through banking and sale- or lease-based financing modes, including murābahah and ijārah. Ahmed's analysis describes the adaptability of Islamic contract forms to contemporary financing needs; the

broader quantitative claim about the proportion of global assets and the functional equivalence of every such instrument requires separate industry evidence [3].

While these instruments have successfully provided Shari'ah-compliant liquidity, they do not fully capture the risk-sharing ethos central to Islamic economic philosophy. As the global economy increasingly pivots towards innovation, digitalization, and technology-driven enterprises, traditional debt financing may be inaccessible or inappropriate for early-stage startups and small-to-medium enterprises (SMEs) [4]. Because innovative start-ups typically possess few tangible assets and face substantial technological and market uncertainty, they may experience significant financing constraints. Early-stage venture capital can therefore provide equity finance for high-risk innovation projects and is associated in empirical studies with higher patenting, firm formation, employment, and growth [5]. These effects are context-dependent and do not establish that every VC or PE investment produces jobs. For Islamic finance to remain relevant in the modern innovation economy, it must transition from a debt-centric model to one that embraces authentic equity financing.

It is crucial to distinguish venture capital from ordinary public equity investment. While ordinary equity involves purchasing shares in mature, publicly traded companies for dividend yield or capital appreciation, venture capital involves injecting capital into highly illiquid, unproven startups [6]. This requires the VC fund to take an active, hands-on role in the company's governance, often demanding board seats and veto rights to protect their investment and guide the founders [7]. This active management and illiquidity fundamentally alter the risk profile and the necessary jurisprudential analysis compared to passive stock market investing.

1.2 Malaysia as a Global Leader

Malaysia occupies a unique and preeminent position within the global Islamic finance landscape. It has consistently been ranked as the world's leading Islamic economy by the State of the Global Islamic Economy Report [8]. This leadership is not accidental; it is the result of decades of deliberate government policy, comprehensive regulatory frameworks, and institutional capacity building. Malaysia is the world's largest issuer of *ṣukūk* (Islamic bonds) and possesses a highly developed Islamic fund management industry, which accounted for RM246.09 billion in assets under management in 2024 [9].

The jurisdiction benefits from a sophisticated regulatory architecture overseen by the Securities Commission Malaysia (SC) and Bank Negara Malaysia (BNM), supported by world-class academic and research institutions such as the International Centre for Education in Islamic Finance (INCEIF) and the International Shari'ah Research Academy for Islamic Finance (ISRA) [10]. Consequently, Malaysia serves as the ideal laboratory for developing and testing advanced Islamic financial structures, including venture capital and private equity.

1.3 Problem Statement

Despite Malaysia's leadership in Islamic capital markets, the jurisprudential analysis of Islamic venture capital remains underdeveloped. Current academic literature and regulatory guidelines have successfully answered foundational questions regarding the permissibility of individual equity contracts. It is well-established that *muḍārabah* (profit-sharing partnership) and *mushārah* (joint venture) are *halal* and form the classical basis for equity investment [11].

However, modern venture capital and private equity funds do not operate as simple bilateral contracts between an investor and an entrepreneur. They are complex institutional structures involving limited partnerships, delegated management, tiered governance,

performance-based compensation (carried interest), and sophisticated investor protection mechanisms [12]. The critical unresolved problem is not whether muḍārabah is permissible, but rather how an entire, multi-layered VC fund operates cohesively under Sharī‘ah principles. The existing literature lacks an integrated framework capable of analysing the fund as a complete institution.

1.4 Research Question

This paper addresses the following central research question: How can an integrated jurisprudential framework facilitate the analysis and governance of Islamic venture capital and private equity within Malaysia?

1.5 Objectives

To answer this question, the paper pursues four specific objectives:

1. To examine the commercial and legal structure of modern venture capital and private equity funds.
2. To critically evaluate the current Malaysian regulatory framework governing Islamic capital markets and fund management.
3. To synthesize classical fiqh principles and modern Islamic finance literature to construct an integrated jurisprudential framework.
4. To apply this framework to the specific institutional features of VC and PE funds operating within the Malaysian ecosystem.

1.6 Contribution

This paper builds upon previous conceptual research that identified the necessity of shifting from a contract-by-contract analysis to an institutional jurisprudential framework for Islamic investment funds. While earlier work established the theoretical need for such a framework, this paper provides the practical application. By deploying the framework within the specific regulatory and commercial context of Malaysia, this study demonstrates how integrated jurisprudential analysis can resolve practical governance and structuring challenges, thereby contributing directly to the operationalization of Islamic venture capital.

2. Modern Venture Capital and Private Equity

To develop a jurisprudential framework, it is first necessary to understand the commercial reality of the institutions being analysed. This section outlines the mechanics of modern venture capital and private equity without immediately imposing Islamic legal classifications.

2.1 Venture Capital

Venture capital is generally understood as a subset of private equity: professional equity investment co-invested with entrepreneurs to finance seed, start-up, or other early-stage ventures, and sometimes expansion-stage businesses. Such investments commonly target innovative, high-growth companies and carry substantial risk in exchange for the prospect of above-average returns [13]. Because these startups typically lack a track record or tangible

assets, they may face difficulty obtaining traditional bank loans. VC firms provide capital in exchange for equity stakes, actively managing their investments by taking board seats and providing strategic guidance [14].

Funding is typically deployed in sequential stages, contingent upon the startup achieving specific milestones. The 'Seed' stage provides initial capital for product development and market research. 'Series A' funding supports the optimization of the product and initial scaling. Subsequent rounds ('Series B', 'Series C', etc.) fuel rapid market expansion and operational scaling [15]. The ultimate objective of a VC fund is to achieve a lucrative 'Exit'—typically through an Initial Public Offering (IPO) or an acquisition by a larger corporation (trade sale)—thereby realizing a return on the initial investment [16].

2.2 Private Equity

While venture capital focuses on early-stage startups, private equity more broadly encompasses investments in mature, established companies. PE buyouts involve acquiring a controlling stake in a public or private company, with value creation and exit arrangements determined by the transaction and fund strategy [17]. They also provide growth equity: external expansion capital for established or growing private companies, typically through a minority investment that allows founders or existing management to retain control. The capital may support market entry, product development, or operational scaling [18].

Both VC and PE commonly operate through a fund structure organised as a limited partnership. The investors, known as Limited Partners (LPs), provide capital while the General Partner (GP) manages the partnership; the scope and consequences of LP participation are governed by the applicable limited-partnership law and the partnership agreement. Under Delaware law, for example, a limited partner is generally not liable for partnership obligations subject to specified statutory exceptions, and specified consultation, voting, committee, and conflict-approval rights do not automatically constitute control [19]. The fund is managed by a professional GP, whose precise authority and capital contribution depend on the fund documents [20].

To provide a quick orientation, Table 1 summarizes the key commercial distinctions between Venture Capital and Private Equity.

Table 1. Commercial Distinctions Between VC and PE

Feature	Venture Capital (VC)	Private Equity (PE)
Target Company	Early-stage startup	Mature, established company
Investment Size	Minority investment	Majority investment / Buyout
Risk Profile	High risk	Moderate risk
Value Creation	Innovation and rapid scaling	Operational improvement and restructuring

Source: Author's synthesis.

2.3 Why Malaysia?

Malaysia presents a compelling environment for the intersection of venture capital and Islamic finance. The Malaysian government has actively cultivated a vibrant VC ecosystem through strategic initiatives and state-backed funding agencies. The KL20 Action Paper articulates a

government roadmap of reforms involving founders, venture capitalists, talent, incubators, and accelerators, with the stated objective of strengthening Kuala Lumpur's position in the global startup ecosystem [21].

State-linked entities such as the Malaysia Venture Capital Management Berhad (MAVCAP), Cradle Fund, and Penjana Kapital play pivotal roles in anchoring the ecosystem, providing both direct funding and matching capital to attract foreign VC managers [22]. When combined with Malaysia's undisputed leadership in Islamic capital markets, this robust VC infrastructure creates a unique opportunity to pioneer authentic, Shari'ah-compliant venture capital structures that can serve as a model for the global Islamic economy.

3. Malaysian Legal Framework

The operationalization of Islamic venture capital in Malaysia is governed by a sophisticated, multi-layered regulatory architecture. However, a critical analysis reveals that while the framework is robust for general Islamic finance, it may not yet fully accommodate the specific nuances of venture capital.

3.1 Capital Markets

The primary legislation governing the industry is the Capital Markets and Services Act 2007 (CMSA). The CMSA provides the statutory basis for the regulation of all capital market activities, including fund management and corporate finance advisory [23]. The Securities Commission Malaysia (SC) is the statutory body entrusted with administering the CMSA and developing the Malaysian capital market. The SC has been instrumental in developing the Islamic Capital Market (ICM). Under sections 316A–316H of the Capital Markets and Services Act 2007, as inserted by the Capital Markets and Services (Amendment) Act 2010, the SC may establish a Shari'ah Advisory Council as the authority for ascertaining the application of Shari'ah principles to Islamic capital-market business and transactions. In relevant court or arbitral proceedings, the Council's rulings must be considered or obtained and are binding on the persons and court or arbitrator specified in section 316G; where applicable, the Council's ruling prevails over a conflicting ruling of a registered Shari'ah adviser under section 316H [24].

Critique: Does the CMSA adequately accommodate Islamic VC? The Malaysian framework subjects VC/PE corporations and management corporations to registration, continuing reporting, conduct, and specified disclosure obligations, while restricting their dealings to sophisticated investors rather than the general retail market. VC/PE firms may be exempt from issuing a prospectus in specified circumstances but must, where applicable, deposit any information memorandum with the SC and comply with the applicable ongoing reporting and disclosure requirements [25]. Whether those obligations are disproportionately burdensome for small funds, or whether the framework is overly oriented toward retail protection, is a policy question requiring empirical support rather than an established regulatory fact.

3.2 Islamic Fund Management

The SC's Guidelines on Islamic Capital Market Products and Services establish the regulatory framework for specified Islamic capital-market products and services, while the application of

the separate Islamic Fund Management guidelines depends on the relevant entity and regulatory category [26]. Fund management companies must be licensed under the CMSA and are subject to strict governance, risk management, and Shari'ah compliance protocols. Crucially, an Islamic fund manager must appoint a registered Shari'ah adviser or a Shari'ah committee to ensure that all investments, operational procedures, and fund documents comply with Islamic principles [27].

Critique: Do these guidelines address the realities of VC? The guidelines excel at mandating Shari'ah screening for public equities (e.g., ensuring a listed company's debt ratio is below 33%). However, debt and convertible instruments can create Shari'ah-screening issues for early-stage investments. The cited review supports that general point; claims about the frequency of bridge loans and the consequences for firms with otherwise halal core businesses require separate evidence [28]. The guidelines currently lack a bespoke, qualitative screening methodology tailored for the VC ecosystem.

3.3 AAOIFI Standards

While the SC provides the national regulatory framework, AAOIFI publishes Shari'ah standards relevant to the contractual forms considered in this paper, including Sharikah/Musharakah, Mudharabah, and Al-Wakalah bi al-Istithmar [29]. Their application to VC and PE is an analytical use of the relevant contract standards rather than an express AAOIFI classification of every VC or PE structure. Whether a standard has legal effect in Malaysia depends on its incorporation into applicable Malaysian law, regulation, a contractual arrangement, or a Shari'ah-governance determination.

Critique: Are AAOIFI standards sufficient for institutional funds? AAOIFI standards provide contract-specific Shari'ah guidance, while a Delaware limited partnership is governed by its partnership agreement and statutory provisions allocating management, voting, and limited-partner rights. The interaction between these sources is an institutional question that cannot be established by a transaction-specific article alone; it requires separate analysis of the applicable AAOIFI standards, partnership agreement, and governing partnership law [30].

3.4 IFSB Guidelines

The Islamic Financial Services Board (IFSB), headquartered in Kuala Lumpur, issues prudential and governance standards for the industry. IFSB-6: Guiding Principles on Governance for Islamic Collective Investment Schemes is particularly pertinent to VC and PE funds [31]. It outlines best practices for protecting the rights of investors, ensuring transparency, and managing conflicts of interest within Islamic funds, addressing the specific agency risks inherent in delegated management structures.

Critique: Does IFSB-6 capture VC governance? IFSB-6 is heavily oriented towards mutual funds and unit trusts where investors are entirely passive. It does not adequately address the role of the Limited Partner Advisory Committee (LPAC), a crucial governance mechanism in VC where LPs actively vote on conflict-of-interest waivers without violating their limited liability status [32].

4. Literature Review

The academic literature surrounding Islamic equity finance is extensive but fragmented. This review organizes the scholarship into four distinct themes to identify the current boundaries of knowledge.

4.1 Theme One: Classical Fiqh

The foundation of any Islamic financial structure rests upon classical Islamic jurisprudence (fiqh al-mu'āmalāt). Classical jurists such as Ibn Qudāmah in al-Mughnī, al-Kāsānī in Badā'i' al-Ṣanā'i', and al-Sarakhsī in al-Mabsūṭ provide major treatises containing the classical legal categories of partnership, agency, and related contracts, including muḍārabah, mushārahah, and wakālah [33]. Contemporary scholars like Wahbah al-Zuhaylī have synthesized these classical rulings, confirming the flexibility of Islamic commercial law [34]. Furthermore, classical concepts such as amānah (trust) and kafālah (guarantee) are relevant to analysing trust and risk-mitigation relationships; ju'ālah and the application of these concepts to modern compensation structures require separate source-specific analysis [35].

Scope of the literature: Classical fiqh works provide the doctrines of partnership, agency, and related contracts, while modern institutional analyses of Islamic equity finance and contemporary Islamic private-equity transactions show why those principles must be applied to fund-management and governance arrangements rather than treated as a simple one-contract analogy [36].

4.2 Theme Two: Uṣūl al-Fiqh

To bridge the gap between classical texts and modern finance, scholars rely on uṣūl al-fiqh (principles of Islamic jurisprudence). Mohammad Hashim Kamali's work is instrumental in explaining how methodologies such as qiyās (analogical deduction), maṣlaḥah (public interest), and 'urf (custom) can be applied to contemporary issues [37]. The principle of sadd al-dharā'i' (blocking the means to evil) is frequently invoked to evaluate complex financial engineering that might technically comply with contract rules but practically result in prohibited outcomes like ribā [38]. Furthermore, the maqāṣid al-Sharī'ah (higher objectives of Islamic law) framework, as articulated by Aḥmad al-Raysūnī and modernized through a systems approach by Jasser Auda, demands that financial structures promote justice, economic development, and the equitable circulation of wealth [39].

What this literature does NOT explain: For the specific sources reviewed here, uṣūl al-fiqh supplies methodological tools, while the cited Ahmed study is concerned with institutional structure rather than drafting a term sheet or carried-interest clause. The translation of general principles into those mechanics is therefore treated in this paper as a research problem and an authorial analytical task [40].

4.3 Theme Three: Modern Islamic Finance

The third theme encompasses the application of these principles to modern finance. Mufti Muhammad Taqī 'Uthmānī and Monzer Kahf have discussed equity and risk-sharing modes within Islamic finance and contrasted them with interest-based debt instruments; the strength and scope of that preference must be stated with attention to the particular financing context

[41]. Rodney Wilson's edited comparative survey of Islamic financial markets discusses the development of Islamic banking, including retail and wholesale possibilities and the institutional context of the Islamic Development Bank [42]. Specifically regarding venture capital, Habib Ahmed examines risks in equity and debt financing and discusses an institutional model for Islamic equity finance informed by venture-capital practice [43]. Fathonih et al. have also examined Sharia venture capital as a financing alternative for Muslim entrepreneurs [44].

What this literature does NOT explain: The cited Islamic-venture-capital review discusses fund formation, operations, underlying contracts, valuation, risk management, and exit strategies, but it does not address the specifically named mechanics of drag-along rights, anti-dilution provisions, or LPAC voting thresholds [45].

4.4 Theme Four: The Malaysian Context

The final theme focuses on the Malaysian ecosystem. The joint ISRA–Securities Commission Malaysia publication provides a broad account of Shari'ah, regulatory, governance, risk-management, equity-market, private-equity, and venture-capital issues relevant to Malaysia's Islamic capital market [46]. Publications by the SC and BNM document the regulatory evolution and market growth of Islamic funds in Malaysia [47]. Academic studies, such as those by Muhammad et al., have examined partnership-based financing practices in Malaysia [48].

What this literature does NOT explain: The cited Malaysian materials address regulatory and market context, while the ILPA Principles provide a separate global private-equity governance benchmark. This paper therefore identifies the absence of a single integrated jurisprudential roadmap in the sources cited here as its research problem [49].

5. The Framework

This section constructs the integrated jurisprudential framework by systematically analysing ten core components of a modern VC/PE fund. Each subsection follows a rigorous methodology: (1) Commercial explanation, (2) Current literature, (3) Relevant fiqh, (4) Malaysian context, (5) Counterarguments, and (6) Framework application.

5.1 General Partner

Commercial Explanation: The General Partner (GP) is the professional management firm responsible for sourcing, executing, and managing investments. The GP typically manages the fund's investments and operations, subject to the fund documents, applicable law, and any reserved governance rights of LPs, advisory committees, or investment committees [50].

Current Literature: Anwer et al. describe the management team of a pooled Islamic-venture-capital investment as functioning as a muḍārib in a muḍārabah structure; whether that functional analogy maps onto the conventional limited-partnership GP is a matter for the fund documents and this paper's analysis [51].

Relevant Fiqh: Under classical muḍārabah, the muḍārib provides labour and management while the rabb al-māl provides capital. Under wakālah bi al-istithmār, the manager acts as an agent and may receive an agency fee subject to the conditions of the applicable Shari'ah standard [52].

Malaysian Context: The SC framework requires Islamic capital-market activities to conform to approved Shari‘ah principles and regulates specified Islamic products and structures; the cited guideline does not by itself establish that every Islamic fund-management arrangement may use both muḍārabah and wakālah [53].

Relevant Fiqh: The contractual treatment of GP remuneration must be analysed separately under the applicable muḍārabah and wakālah rules. The classification of a fixed management fee, a profit share, or a performance-based reward depends on the governing contract and the relevant Shari‘ah standard; the cited transaction article does not itself establish a categorical prohibition or incompatibility [54].

Framework Application: This paper proposes a hybrid wakālah-muḍārabah structure. The GP acts as a wakīl for the day-to-day management (justifying the management fee) and as a muḍārib for the investment performance (justifying the carried interest). This dual capacity must be explicitly delineated in the Limited Partnership Agreement (LPA) to avoid gharar (uncertainty) regarding the GP's legal capacity at any given moment.

5.2 Limited Partner

Commercial Explanation: Limited Partners (LPs) are institutional investors—such as pension funds, sovereign wealth funds, and family offices—that generally provide capital. Under the governing partnership agreement and applicable law, they ordinarily do not manage the fund's day-to-day affairs, although they may exercise specified protective, consultation, and LPAC approval rights [55].

Current Literature: In Islamic-venture-capital models, LPs may be analogised to the rabb al-māl in a muḍārabah or to the principal (muwakkil) in a wakālah, but the classification depends on the fund documents, the manager's authority, and the allocation of risk and control [56].

Relevant Fiqh: Classical fiqh dictates that the rabb al-māl bears all financial loss unless the muḍārib is guilty of negligence (tafrīt) or misconduct (ta‘addī) [57].

Malaysian Context: Malaysian institutional investors, including the Employees Provident Fund (EPF) and Khazanah Nasional, participate in private-equity and related investment activities through formal mandates and governance processes. EPF publicly describes due diligence, governance, performance monitoring, diversification, and portfolio-resilience practices, while Shari‘ah oversight is expressly identified for the Simpanan Shariah scheme; these sources do not establish a universal Shari‘ah-compliance requirement for all VC/PE investments by either institution [58].

Counterarguments: Some argue that LPs in modern funds exercise substantial indirect control through LPACs, raising questions about whether a simple rabb al-māl analogy is sufficient. The legal consequence of that control cannot be stated categorically: under Delaware law, a limited partner is generally not liable for partnership obligations, and specified consultation, voting, committee, and conflict-approval rights do not automatically constitute participation in control; the result remains dependent on the governing partnership law and the limited-partnership agreement [59].

Framework Application: A plausible jurisprudential approach utilizes the concept of shūrā (consultation) and restricted agency (wakālah muqayyadah). The LPA can impose negative covenants (e.g., prohibiting investments in certain sectors) without constituting active management. The LP's limited liability aligns perfectly with the Shari‘ah principle that financial loss is strictly limited to the capital contributed.

5.3 Investment Committee

Commercial Explanation: In some VC funds, an Investment Committee (IC) is an internal GP body that reviews or approves investment proposals; its precise decision rights depend on the fund's governance documents and applicable regulation [60].

Current Literature: In the sources cited here, governance is generally analysed at the level of the fund, manager, contracts, Shari'ah oversight, and investor protection; those sources provide limited explicit analysis of the internal Investment Committee as a delegated decision-making body. This is a scoped observation about the cited materials, not a claim about the literature as a whole [61].

Relevant Fiqh: The IC may be analysed as exercising delegated agency on behalf of the GP; the precise characterization as wakīl al-wakīl is an analytical application that depends on the scope of delegation and the governing fund documents [62].

Malaysian Context: The SC guidelines include investment-committee requirements for specified Islamic capital-market and collective-investment structures; the precise application depends on the regulatory category and the relevant guideline provision [63].

Counterarguments: Does the delegation of authority to an IC dilute the fiduciary duty (amānah) owed by the GP to the LPs? One could argue that the GP cannot delegate its core muḍārabah duties without LP consent.

Framework Application: This framework suggests applying the rules of sub-agency with explicit LP consent in the fund documents. The GP remains ultimately liable to the LPs for the actions of the IC. The IC members owe a fiduciary duty to both the GP and the fund. Their decision-making process must be documented to prove they acted without negligence, thereby protecting the GP from liability for investment losses under the muḍārabah rules.

5.4 Advisory Committee

Commercial Explanation: The Limited Partner Advisory Committee (LPAC) consists of representatives from key LPs. It does not make investment decisions but resolves conflicts of interest and approves valuation methodologies [64].

Current Literature: In the sources cited here, the LPAC is not developed as a distinct institutional mechanism in Islamic venture-capital scholarship. This is a scoped observation about the cited materials, not a claim that LPACs are absent from Islamic-finance scholarship as a whole [65].

Relevant Fiqh: The LPAC may be analysed through the concepts of shūrā (consultation) and muḥāsabah (accountability); this LPAC-specific characterisation is the paper's analytical application rather than a proposition expressly established by the cited uṣūl al-fiqh textbook [66].

Malaysian Context: Dana Penjana Nasional is documented as a government matching fund-of-funds programme involving foreign VC fund managers and Malaysian partners. The cited government source does not establish the prevalence, formalisation, or criticality of LPACs in Malaysian funds; those propositions require separate fund-level or governance evidence [67].

Counterarguments: If the LPAC approves a conflict of interest (e.g., the GP buying an asset from its own prior fund), does this absolve the GP of Shari'ah liability? A strict interpretation might argue that a conflict of interest is inherently a breach of amānah that cannot be waived.

Framework Application: One possible interpretation is that the LPAC exercises a protective, not an executive, function. By approving a conflict of interest, the LPAC (acting as representatives of the rabb al-māl) provides informed consent (riḍā), which cures the potential breach of fiduciary duty (amānah), provided the transaction is executed at fair market value to prevent ghubn fāḥish (gross inequality).

5.5 Management Fees

Commercial Explanation: The GP commonly charges a management fee to fund investors to cover fund-management and operating expenses; the fee base, rate, duration, and treatment of expenses depend on the fund documents [68].

Current Literature: Anwer et al. describe an Islamic-venture-capital structure in which the GP receives a management fee in addition to a share of profits for its services; the permissibility and precise classification of a fixed fee within a particular muḍārabah arrangement require separate Shari‘ah analysis [69].

Relevant Fiqh: Under muḍārabah, remuneration is ordinarily structured as a share of profit rather than a fixed return to the muḍārib. Under wakālah bi al-ujrah (agency for a fee), an agreed agency fee may be permissible subject to the applicable Shari‘ah standard and contract terms [70].

Malaysian Context: The SC guidelines regulate Shari‘ah-compliant Islamic VC/PE activities, but the cited guideline does not itself expressly authorise management fees under a wakālah model. The fee structure must therefore be supported by the applicable Shari‘ah standards and fund documents [71].

Counterarguments: Why not just charge expenses directly to the fund instead of a fixed fee? ILPA Principles 3.0 addresses the allocation, disclosure, and review of management fees and fund expenses; whether direct charging creates additional administrative or incentive problems is an inference for this paper, not a proposition established by ILPA [72].

Framework Application: As established in Section 5.1, a plausible approach utilizes a hybrid structure. The management fee is strictly classified as ujah (remuneration) for the wakālah (agency) services (e.g., office rent, salaries, due diligence). It must be demonstrably tied to actual operational costs to avoid being classified as a guaranteed return on capital.

5.6 Carried Interest

Commercial Explanation: Carried interest is a share of fund profits paid to the fund manager, commonly becoming payable after investors have recovered their original investment and any applicable hurdle; its percentage and distribution waterfall depend on the fund documents [73].

Current Literature: Islamic private-equity literature discusses profit-and-loss sharing and the allocation of profits among participants; this paper considers carried interest as an analogous performance-based allocation, but that analogy is the author’s analytical application rather than a proposition expressly established by the cited transaction study [74].

Relevant Fiqh: In muḍārabah, profit is distributed according to a pre-agreed ratio. Ju‘alah is a reward-based contract; the application of that contract to carried interest requires separate analysis under the relevant Shari‘ah standard and fund documents [75].

Malaysian Context: Dana Penjana Nasional is documented as a government matching-fund programme involving foreign VC managers and Malaysian partners, but the cited government source does not establish that carried interest is standard practice in Malaysian VC or document the carried-interest terms of Penjana Kapital or MAVCAP structures [76].

Counterarguments: Why not pure muḍārabah? A strict muḍārabah requires profit to be shared according to a pre-agreed ratio, whereas carried interest may activate only after a hurdle rate is met. Why not a composite contract? The permissibility of combining contracts depends on the form, sequencing, and mutual contingency of the arrangement and should be tested against AAOIFI Shari'ah Standard No. 25 and the relevant fiqh rules [77].

Framework Application: This paper proposes analysing carried interest through the lens of ju'alah (reward for performance) combined with tanāzul (waiver of rights). The LPs agree to grant the GP a 20% share of the profits conditional upon the GP achieving the hurdle rate. This is a valid ju'alah. Alternatively, under muḍārabah, the GP and LPs agree to a baseline profit-sharing ratio, but the GP exercises tanāzul, waiving its right to profit until the LPs achieve their preferred return.

5.7 Board Representation

Commercial Explanation: VC governance commonly involves active investor participation, including interaction with portfolio companies and recruitment of managers or directors; board representation is one possible monitoring and governance mechanism, and its use varies by fund and company [78].

Current Literature: Scholarly research indicates that venture-capital firms purposefully use boards in portfolio companies and that such boards may be more active than boards in other firms; the resulting monitoring and governance effects should be analysed in the specific institutional context [79].

Relevant Fiqh: The GP's board-representation role may be analysed by analogy to wakālah, subject to the fund documents and the scope of delegated authority [80].

Malaysian Context: The Malaysian Code on Corporate Governance emphasizes the fiduciary duties of directors [81].

Counterarguments: Does the GP's board seat create a conflict of interest between its duty to the fund and its statutory duty to the portfolio company? Some argue this dual loyalty is inherently problematic under Islamic trust principles.

Framework Application: This framework suggests applying the rules of ta'āruḍ al-maṣāliḥ (conflict of interest). The GP director owes a primary statutory duty to the portfolio company. To maintain Shari'ah compliance, the LPA must explicitly authorize the GP to hold these board seats, and the GP must establish information barriers (Chinese walls) to prevent insider trading, fulfilling the Islamic mandate of amānah (trust).

5.8 Protective Rights

Commercial Explanation: VC investors demand protective provisions (veto rights) over major corporate actions (e.g., issuing new shares, selling the company) to prevent dilution or value destruction [82].

Current Literature: Islamic contract doctrine treats the validity of attached stipulations as dependent on their relationship to the contract and to Shari'ah restrictions; applying that doctrine to VC protective rights is an analytical inference [83].

Relevant Fiqh: The Prophet (peace be upon him) stated, "Muslims are bound by their conditions, except a condition that makes the unlawful lawful or the lawful unlawful" [84].

Malaysian Context: Under ss 31–35 of the Malaysian Companies Act 2016, a company may have or adopt a constitution and may include provisions addressing its objects, statutory

matters, and other corporate matters. Shareholders' agreements are a separate contractual instrument and are not established by those constitution provisions alone [85].

Counterarguments: At what point do protective veto rights cross the line into active management, thereby jeopardizing the LP's limited liability status? If LPs veto too many operational decisions, they may be deemed active partners (*mushārik*).

Framework Application: A plausible jurisprudential approach distinguishes between negative control (veto rights) and positive control (active management). Veto rights over fundamental structural changes (e.g., altering the company's core business) are valid *shurūṭ* designed to protect *ḥifẓ al-māl* (preservation of wealth). They do not constitute active management and therefore do not violate the *muḍārabah* restrictions on the *rabb al-māl*.

5.9 Exit

Commercial Explanation: The fund realizes its returns through an exit, typically an IPO, a trade sale, or a secondary buyout [86].

Current Literature: Islamic-venture-capital literature discusses exit strategies including IPOs, outright sale, buyouts, mergers and acquisitions, liquidation, and other forms of realisation. Whether a particular exit should be classified as termination or dissolution of a *mushārah* or *muḍārabah* is an analytical issue addressed by this paper rather than a proposition established by the cited review [87].

Relevant Fiqh: A conventional exit by transfer of an investor's equity interest may be analysed as a *bayʿ* (sale) in the broad *fiqh* sense; the legal classification of an IPO, merger, liquidation, or other exit route requires separate analysis [88].

Malaysian Context: Bursa Malaysia provides the primary IPO exit route, while the SC regulates mergers and acquisitions [89].

Counterarguments: How to handle "drag-along" rights, where majority shareholders force minority shareholders to sell their stakes during an exit? Some classical interpretations might view this as coercion (*ikrāh*), invalidating the sale.

Framework Application: This paper proposes that drag-along rights can be analysed under the principle of *maṣlaḥah* (public interest/collective benefit). If a trade sale benefits the majority of the partnership, a pre-agreed drag-along clause prevents a minority shareholder from unreasonably blocking a lucrative exit (*ḍarar* - harm). This is a valid contractual condition agreed upon at the inception of the investment.

5.10 Fund Termination

Commercial Explanation: VC funds have finite contractual lifespans. At termination, the fund's assets may be realised through sale, distribution, write-off, liquidation, or other procedures specified by the fund documents and applicable law [90].

Current Literature: Fund termination aligns with the classical dissolution of a partnership (*taṣfiyah*) [91].

Relevant Fiqh: Upon dissolution, the principal capital is returned first, followed by the distribution of remaining profits according to the agreed ratio [92].

Malaysian Context: The legal treatment of fund termination depends on the fund's regulatory status, governing documents, and applicable Malaysian corporate, insolvency, and SC rules; the CMSA alone should not be presented as a complete code for winding up every VC/PE fund [93].

Counterarguments: How to handle illiquid assets that cannot be sold by the end of the fund's life? Forcing a sale might result in massive losses, violating the duty to protect wealth.

Framework Application: If assets remain illiquid, a plausible approach permits qismah ‘ayniyyah (distribution in kind). The GP distributes the actual shares of the portfolio companies directly to the LPs. This satisfies the Shari‘ah requirement for final settlement and dissolution of the muḍārabah without forcing a "fire sale" that would destroy value, thereby upholding ḥifẓ al-māl.

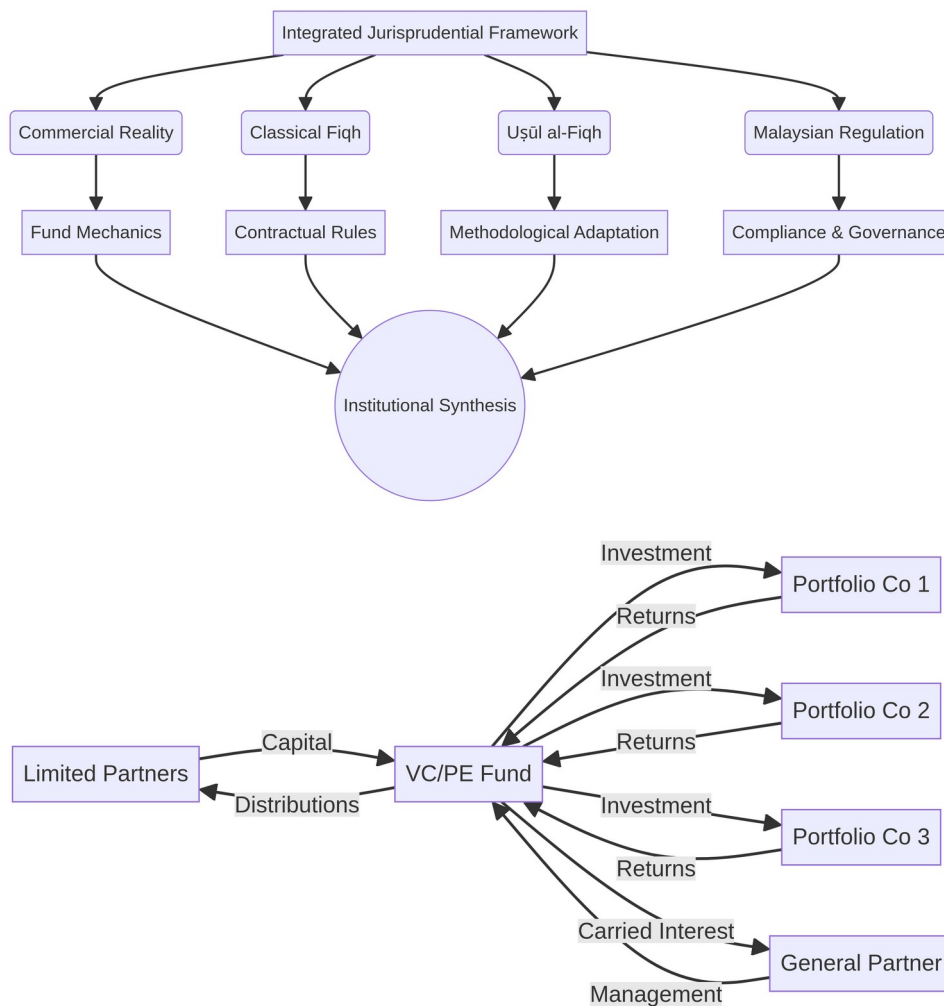


Figure 1. Integrated Jurisprudential Framework

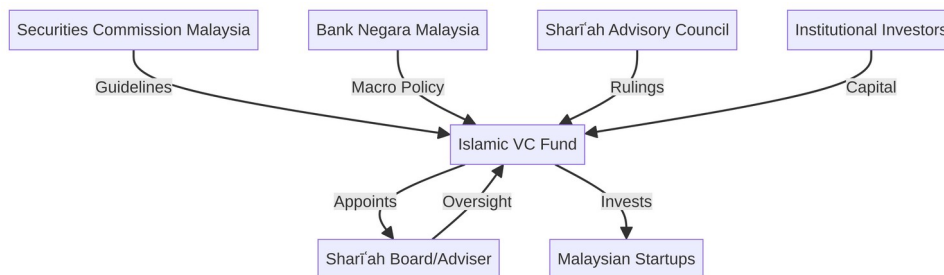


Figure 2. Modern VC/PE Fund Structure

Figure 3. Malaysian Islamic VC Ecosystem

6. Institutional Synthesis

Taken together, these ten components demonstrate that no single nominate contract adequately governs an Islamic VC fund. Rather, the fund functions as an institutional synthesis of multiple Shari‘ah contracts. The GP's role cannot be reduced to a mere muḍārib; it is simultaneously a wakīl managing operations, a muḍārib sharing in performance, and an amīn (fiduciary) sitting on portfolio company boards. The LP is not merely a passive rabb al-māl; it exercises protective shūrā through the LPAC and enforces shurūṭ via veto rights.

This synthesis reveals that the jurisprudential validity of an Islamic VC fund does not depend on forcing modern mechanics into a single classical box. Instead, it depends on ensuring that the interaction of these various contracts—wakālah, muḍārabah, ju‘ālah, shūrā, and bay‘—does not violate overarching prohibitions against ribā (usury), gharar (excessive uncertainty), or ḍarar (harm), while actively promoting the maqāṣid of wealth preservation and economic development.

Table 2. Framework Application Summary

Component	Commercial Function	Classical Fiqh	Framework Application
General Partner	Fund management	Muḍārib / Wakīl	Hybrid Wakālah-Muḍārabah
Limited Partner	Capital provision	Rabb al-Māl	Rabb al-Māl with Shūrā
Management Fee	Operational expenses	Prohibited in Muḍārabah	Ujrah under Wakālah
Carried Interest	Performance reward	Profit share	Ju‘ālah with Tanāzul
LPAC	Conflict resolution	N/A in classical fiqh	Shūrā and Riḍā
Protective Rights	Investor protection	Shurūṭ	Valid Shurūṭ for Ḥifẓ al-Māl
Fund Termination	Asset distribution	Taṣfiyah	Qismah ‘Ayniyyah permitted

Source: Author’s synthesis.

7. Application to Malaysia

The integrated framework developed in Section 5 is not merely theoretical; it is directly applicable to the Malaysian ecosystem. Rather than treating Malaysia as a generic backdrop, this framework addresses specific institutional actors and real-world funds.

In 2008, Malaysia Venture Capital Management Berhad (MAVCAP) established a RM35 million fund identified in contemporary scholarship as Malaysia's first Islamic venture-capital fund, managed by Musharakah Venture Management Sdn Bhd. Contemporary reporting describes efforts to attract additional investors and assess technology proposals, but the available sources do not establish a MAVCAP-specific difficulty concerning exits or management fees [94]. The framework proposed in this paper provides one possible jurisprudential basis for analysing how such funds might utilise hybrid wakālah-muḍārabah structures, including the treatment of management fees, subject to independent Shari‘ah review.

For the Securities Commission Malaysia (SC), this framework provides the jurisprudential basis for drafting specific, bespoke guidelines for Islamic VC and PE, moving

beyond the generic Islamic Fund Management guidelines. By recognizing the hybrid structure, the SC can provide regulatory certainty regarding carried interest and LPAC governance.

For state-backed agencies such as Penjana Kapital, which administers Dana Penjana Nasional, the framework may provide a conceptual basis for analysing Shari'ah-compliant VC structures alongside the programme's existing matching-fund model [95]. Dana Penjana Nasional has used local and global VC managers to mobilise foreign and domestic private capital, but the available official sources do not establish that this framework will attract Middle Eastern institutional investors specifically. Any such investment-attraction proposition should be tested through separate policy and investor research.

8. Research Limitations

While this paper provides a comprehensive jurisprudential framework, it is subject to certain limitations. First, the methodology is primarily doctrinal and conceptual; it relies on legal reasoning and textual analysis rather than empirical data. The study does not include qualitative interviews with current Malaysian VC fund managers or Shari'ah advisory board members to assess the practical friction of implementing these structures. Second, the regulatory analysis is strictly confined to the Malaysian jurisdiction. While Malaysia serves as an excellent model, the findings may not be directly generalizable to other major Islamic finance hubs, such as the Gulf Cooperation Council (GCC) countries, which operate under different civil and commercial legal traditions.

9. Policy Implications

The adoption of this integrated jurisprudential framework yields several critical policy implications:

1. **Regulatory Evolution (SC):** The SC should consider issuing a dedicated "Guidance Note on Islamic Venture Capital and Private Equity," incorporating the hybrid structures and governance mechanisms outlined in this framework.
2. **Standardization (AAOIFI & IFSB):** Global standard-setters should expand their focus from bilateral contracts to institutional fund structures, issuing specific standards on VC/PE mechanics such as carried interest and LPAC governance.
3. **Capacity Building (Universities & ISRA):** Academic institutions must update their curricula to teach Islamic finance not just as a collection of classical contracts, but as an integrated system of corporate governance and institutional structuring.
4. **Industry Practice:** Fund managers must move away from attempting to force complex VC funds into a single classical contract (like pure *muḍārabah*) and instead embrace the hybrid, multi-contract institutional approach.

10. Conclusion and Future Research Agenda

Malaysia is uniquely positioned to lead the global development of Islamic venture capital and private equity. It possesses the regulatory architecture, the government backing, and the intellectual capital required to pioneer this sector. However, to fully realize this potential, the industry must transition from a contract-by-contract analysis to an integrated jurisprudential framework.

This paper has demonstrated how such a framework might operate, systematically analysing the ten core components of a VC fund through the lenses of commercial reality, classical fiqh, uṣūl al-fiqh, and the Malaysian regulatory context. By seeking to resolve the jurisprudential tensions surrounding management fees, carried interest, and tiered governance, this framework provides one possible analytical model to attract institutional capital to Islamic innovation.

The development of Islamic VC is not merely a financial exercise; it is a jurisprudential imperative. The conclusion of this paper is not the end of the inquiry, but rather the foundation for a broader research agenda. Each of the ten institutional components examined in Section 5 constitutes a potential standalone research project. Future work must delve deeper into the specific mechanics of the General Partner's fiduciary duties, the enforceability of protective rights, and the Shari'ah parameters for startup valuation. Ultimately, a robust Islamic venture capital ecosystem will ensure that Islamic finance fulfills its higher objective (maqāṣid) of driving equitable economic development and technological innovation.

Table 3. Literature Review Matrix

Theme	Key Authors	Focus Area	Limitation regarding VC/PE
Classical Fiqh	Ibn Qudāmah, al-Kāsānī, al-Sarakhsī, al-Zuḥaylī	Contractual rules (muḍārabah, wakālah)	Focuses on bilateral, non-institutional partnerships
Uṣūl al-Fiqh	Kamali, Auda, al-Raysūnī	Methodological adaptation (qiyās, maqāṣid)	Provides methodology but not specific financial mechanics
Modern Islamic Finance	‘Uthmānī, Kahf, Wilson, Ahmed	Economic necessity of equity finance	Remains at macro-economic or conceptual level
Malaysian Context	INCEIF, ISRA, SC, BNM	Regulatory framework and market growth	Relies on traditional equity structures rather than VC models

Source: Author's synthesis.

Table 4. Malaysia Regulation

Regulatory Body/Act	Key Document	Relevance to Islamic VC/PE
Parliament of Malaysia	Capital Markets and Services Act 2007	Statutory basis for fund management licensing
Securities Commission (SC)	Guidelines on Islamic Capital Market Products	Operational and Shari'ah compliance requirements
Bank Negara Malaysia (BNM)	Central Bank of Malaysia Act 2009	Establishes binding authority of Shari'ah Advisory Council
IFSB	IFSB-6: Guiding Principles on Governance	Best practices for Islamic collective investment schemes

Source: Author's synthesis.

Table 5. Comparison with Existing Islamic Finance Literature

Author	Contribution	Limitation	How this paper extends it
Anwer et al. (2019)	Maps VC to muḍārabah	Ignores institutional complexity	Introduces hybrid structures and LPAC governance
Moghul (2007)	Analyses US PE transactions	Focuses on transaction, not fund	Analyses the fund as an integrated institution
Ahmed (2005)	Proposes operational formats	Remains conceptual	Applies mechanics to specific Malaysian regulations
Fathonih et al. (2019)	Highlights SME financing	Lacks granular legal mechanics	Provides detailed analysis of carried interest and exits

Source: Author's synthesis.

Table 6. Research Agenda

Research Area	Specific Question	Methodology
Term Sheets	How can convertible notes be structured under Shari'ah?	Doctrinal analysis of wa'd (promise) and bay' (sale)
Exit Strategies	Are drag-along rights enforceable under Islamic law?	Analysis of maṣlaḥah and ḍarar (harm)
Valuation	What are the Shari'ah parameters for valuing early-stage startups?	Empirical study of current Shari'ah board practices
Cross-border Funds	How to reconcile AAOIFI standards with Delaware LP law?	Comparative legal analysis

Source: Author's synthesis.

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