



THE ROLE OF VENTURE CAPITAL FINANCING INSTITUTIONS IN EMPOWERING SMALL BUSINESSES

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ABSTRACT

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Venture capital companies, as a means of financing, have a great opportunity to develop small, medium, and cooperative businesses because they have characteristics that other companies do not have. The research method in this journal uses qualitative descriptions taken from several journals. The result of the research is that a venture capital company is a non-bank financial institution that provides assistance to small and medium entrepreneurs, not only in the form of funding but also management assistance. One of the other efforts developed by the government in order to encourage the development of SMEs is the issuance of regulations on the establishment of non-bank financing institutions, namely venture capital companies (PMV).

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A. INTRODUCTION

Various countries that are now classified or referred to as advanced industrial countries initially began to develop the country and its society, supported by small businesses. Large countries such as the United States, Japan, Germany, France, Austria, Belgium, and Switzerland are "raised" by small businesses or small industries with labor groups of under 50 people. In the Asian region, it can be mentioned that the four "Asra tigers," namely South Korea, Taiwan, Singapore, and Hong Kong, have economic activities that are also largely supported by small businesses. Even in our neighboring countries

in the Asean region, Malaysia and Muangthai, which are also candidates or even have become young people, small business activities are so widespread and evenly distributed in various lines of people's lives as the main source of economic support for these countries.¹

Recent developments in financing institutions that have developed, such as financial institutions, are not yet well-known in the community, judging from the existence of financing institutions, which are relatively new when compared to bank financial institutions. Although financing institutions are financial institutions together with banking institutions, the combination and emphasis of business activities between financing institutions and financial institutions are different. Financing institutions arise as a source of financing options; outside of financing institutions, there are many other financial institutions that can provide financial assistance, such as pawnshops.²

Venture capital companies, as a means of financing, have a great opportunity to develop small, medium, and cooperative enterprises because they have characteristics that other companies do not have.³

B. THEORITICAL FRAMEWORK

Theory study or also what is often called the theoretical basis is a series of concepts, definitions, and also perspectives on one thing that are neatly arranged. This theoretical study is important in a research because it will later become the theoretical basis or theoretical basis of the research

C. METHOD (Written in bold capital, Cambria 12)

This research uses a qualitative descriptive method, which describes theories that are relevant to the problems in the research and then compares them with the results of empirical studies obtained through field studies.

¹ Hamfri Djajadikerta, MENGANGKAT USAHA KECIL DENGAN MODAL VENTURA (Bina Ekonam, 1997)

² Nitaria Angkasa, PERAN LEMBAGA PEMBIAYAAN MODAL VENTURA DALAM PEMBERDAYAAN USAHA KECIL, (DERIVATIF 2016)

³ Sulistyowati, PROBLEMATIKA EKSISTENSI MODAL VENTURA SYARIAH DALAM PERSPEKTIF EKONOMI ISLAM, Lentera, Jakarta

D. FINDINGS AND DISCUSSION

1. PENGERTIAN MODAL VENTURA

Before discussing further about venture capital, to equate views, several understandings, such as:

1. Venture Capital Company is a non-bank financial institution that provides assistance to small and medium entrepreneurs, not only in the form of funding but also management assistance.
2. A business spouse or business partner is a small or medium-sized company that receives capital assistance from a venture capital company.

Venture capital is capital included by a venture capital company in its business partners.⁴

The role of venture capital can vary greatly, depending on the investors and companies involved. However, in general, venture capital provides financial support, management, industry expertise, networking, and assists companies in achieving long-term growth and success. Venture capital, also known as equity financing, refers to a form of financing in which investors provide funds to a company in hopes of gaining financial fortune in the future. In a venture capital scheme, the inventor becomes a shareholder or has a share of ownership in the company.

The characteristics of this venture capital institution that are not owned by other financial institutions are that they do not require collateral to be able to issue funds, which is very helpful for parties who need business capital, especially for parties who do not have assets to be used as collateral for the financing guarantee, while banks, in providing credit, require their customers to provide the necessary guarantees as a mandatory condition, as it is well known that not all parties can and always easily provide collateral objects (collateral) to be able to get funds for developing their businesses, especially micro, small, and medium entrepreneurs (UMKM).

In accordance with the characteristics of venture capital, it does not

⁴ Hamfri Djajadikerta, Tuntutan

require collateral in providing financing, which results in many problematic financing situations, resulting in sharia venture capital companies experiencing losses, which in the end stipulates collateral as collateral in financing for sharia venture capital companies.⁵

Venture capital is different from conventional loans, where companies have to pay back the loan amount and interest within a certain period of time. In contrast, in venture capital, investors benefit through their shareholding in the company. This profit can be obtained by increasing the value of shares, paying dividends, or selling shares to other parties. Venture capital investors are typically individuals, venture capital firms, or venture capital funds that specialize in providing capital to companies that have the potential to generate high profits in the future. They usually look for companies with high growth potential, innovative products, strong management teams, and promising business plans. Venture capital can be used by companies in various stages of development, from start-up startups to established companies. Venture capital is often chosen by companies that need additional funds for new product development, market expansion, technology development, acquisitions, or corporate restructuring. Venture capital can be used by companies in various stages of development, from start-up startups to established companies. Venture capital is often chosen by companies that need additional funds for new product development, market expansion, technology development, acquisitions, or corporate restructuring.

Venture capital can provide significant benefits to a company, including important funding sources, management support, industry expertise, extensive business networks, and a drive for growth and expansion. However, companies must also consider the consequences of stock ownership and the possibility of losing the company's business decisions to venture capital investors. Sementara itu Triyanti menyebutkan bahwa terdapat 4 karakteristik modal ventura yang berbeda dibandingkan dengan lembaga keuangan lainnya, yakni sebagai berikut:⁶

⁵ Sulistyowati, Tuntutan, 246

⁶ Ninuk Triyanti, "Modal Ventura Sebagai Model Pendanaan Alternatif", PERSPEKTIF, Vol.2, No.1 April, 1997, hal 51-59

1. Venture capital is a high-risk investment because it is provided as risk capital to individuals or companies that have bright ideas and prospects without being accompanied by guaranteed returns, as well as loans in general.
2. Venture capital is not invested as passive capital, but the participation of capital is also accompanied by PMV involvement in the form of consultative guidance or direct guidance and supervision of the PPU management.
3. Venture capital participation is temporary but long-term. However, PMV is limited to a maximum participation period of 10 years, within which period PPU is expected to have reached the desired growth rate as agreed. This temporary inclusion is intended only to help PPU's business grow, not to control its shareholding.
4. The expected benefit of venture capital is the appreciation of the value of the shares that are invested or capital gains that can later be discussed together.

Based on Article 2 of Presidential Regulation Number 9 of 2009, there are three types of financing institutions, which include:

- a. Finance Company (PP), which is a business entity specifically established to conduct leasing, factoring, consumer financing, and/or credit business.
- b. Venture capital companies are business entities that conduct financing or capital participation in a company that receives financing assistance for a certain period of time in the form of share participation, participation through the purchase of convertible bonds, and/or financing based on distribution or operating results.

Infrastructure finance company (PPI), which is a business entity established specifically to finance in the form of providing funds for infrastructure projects.⁷

As a business entity, financial institutions run their business in the field of financial services, both the provision of funds to finance productive

⁷ Rehmedi, Usman. 2010. Hukum Perbankan. Sinar Grafika. Jakarta. hal 78

businesses and consumptive needs, as well as non-financing financial services. The business activities of financial institutions emphasize more on the financial function, namely financing financial services and non-financing financial services; thus, the term financial institutions is narrower in understanding than the term financial institution. Financing institutions arise as a source of financing options; outside of financing institutions, there are many other financial institutions that can provide financial assistance, such as pawnshops.

The provisions of Article 1 point 2 of Presidential Decree Number 61 of 1998 and in the provisions of Article 1 point b of the Decree of the Minister of Finance No. 1251/MK.013/88 stated that what is meant by a financing institution is a business entity that carries out financing activities in the form of providing funds or capital goods by not attracting funds directly from the public.

According to the above regulations, a financing institution is a business entity, namely a company specifically established to carry out activities included in the business field of financing institutions and activities by financing parties or business sectors in need and in providing funds for the act of providing money for a capital goods need, namely goods used to produce something else, such as machinery, factory equipment, and so on, and not withdrawing directly or not taking money directly as banks do.⁸

The participation of venture capital entrepreneurs in the partner company is by buying shares of the company's partners, or, in other words, venture capital is risk capital, which will bear the risk of loss if something happens to the partner company, meaning that the partner company is not obliged to return the lost capital to the venture capital company. So in essence, venture capital is the participation of capital in the form of shares in a limited period of time (generally five to ten years) without collateral and does not charge interest to finance projects that have bright prospects.

What distinguishes venture capital from ordinary share capital is its distinctive nature, where venture capital is put into the business for a

⁸ Nitaria Angkasa, Tuntutan, 75

temporary period (5 to 10 years) with the aim of withdrawing the capital after the business runs smoothly and is established and able to grow and develop by reselling the shares. The release of investment by a venture capital company if the target to develop its partner's business has been achieved is known as divestment.⁹

There is a difference between venture capital financing institutions and other financing institutions. According to Presidential Decree Number 61 of 1988, the government established a business entity known as a venture capital financing institution, which conducts financing business through capital participation in a company (Business Partner Company, or PPU) that receives financing for a certain period of time. The goal of this venture capital institution is to expand alternative sources of financing for people around the world.

One of the other efforts developed by the government in order to encourage the development of SMEs is the issuance of regulations on the establishment of non-bank financing institutions, namely venture capital companies (PMV). The formation of this PMV is very appropriate considering that this venture capital system is very different from other financing systems. In principle, the PMV (venture capital) model is a cooperation system that is equity financing, namely providing financing in the form of capital participation in a company, or in Indonesia, known as a business partner company (PPU), for a certain period of time and is temporary.¹⁰

The empowerment of small and medium enterprises is an important focus of a country's economic development. Small businesses have the potential to create jobs, increase people's incomes, and reduce economic disparities. However, many small businesses face obstacles in obtaining financing from conventional financial institutions. LPMV (Venture Capital Company Institution) emerged as an alternative solution to meet the financing needs of small businesses by providing venture capital.

2. The Role of Venture Capital in Small Business Empowerment

⁹ Nitaria Angkasa, Tuntutan, 75

¹⁰ Ibid 77

This economic development should cover all levels of society and all levels of entrepreneurs, in accordance with the promise of Article 33 of the 1945 Constitution. However, the 1945 Constitution does not guarantee discrepancies in revenue generation. According to GBHN 1993, development participation is the implementation of democracy based on small and medium enterprises that develop healthy, resilient, and independent people's economic enterprises so that they can contribute to the national economy.

Efforts to improve their initiatives, work ethic, and participation in all areas of people's economic lives are carried out to transform small and medium entrepreneurs, who make up the largest part of national entrepreneurs, into strong and independent entrepreneurs. To achieve this goal, they are required to improve their abilities in management and entrepreneurship, as well as acquire the ability to master and utilize technology.

In order to meet the goal of supporting small businesses and helping offset economic growth with income equality, One is to use the venture capital system to provide funds to small entrepreneurs. However, keep in mind that a venture capital business is like any other business, with the goal of getting as much profit as possible. However, beyond its general meaning, venture capital can also be given specific goals to help weak entrepreneurs grow.

In this case, venture capital is obtained by looking for small businesses. In terms of financing, small businesses can be awarded according to several criteria. The first is administrative financing for purposes such as education, production methods, and cooperation carried out by small businesses with the profit-sharing system of venture capital firms.¹¹ In this case, venture capital is obtained by looking for small businesses. In terms of financing, small businesses can be awarded according to several criteria. The first is administrative financing for purposes such as education, production methods, and cooperation carried out by small businesses with the profit-sharing system of venture capital

¹¹ Sotanto hadinoto. 2007. Micro kredit challenge. Media komputindo. Jakarta. Hal 351

firms.¹²

Here are some of the roles venture capital plays:

1. **Source of funding:** venture capital provides access to funding sources that can help companies overcome capital limitations that may exist. Venture capital investors will provide the necessary funds to finance the operational activities of a specific company or project.
2. **Management Support and Experience:** Venture capital investors often not only provide funding but also provide their management support and experience. They can provide advice, guidance, and access to their network that can assist companies in strategic decision-making, business development, and expanding market reach.
3. **Industry Expertise:** Venture capital is often conducted by investors who have knowledge and expertise in the related industry. They can help companies face the challenges and opportunities that arise in the industry. With their experience and expertise, venture capital investors can provide valuable insights to optimize a company's operations and strategy.
4. **Networks and Connections:** Venture capital investors usually have extensive networks and connections in a particular industry or sector. This can help companies expand their business networks, find strategic partners, and open up new opportunities. By leveraging a network of venture capital investors, companies can access resources and opportunities that may not have been available before.
5. **Market development:** venture capital investors often have a strong interest in the success of the companies they invest in. Therefore, they will try to help the company in the development of the market. This support can be helpful in planning marketing strategies, increasing brand visibility, or expanding geographic coverage.

In order to carry out the mission as a support for small businesses to provide a balance between economic sector growth and income equality, One of them is funding small entrepreneurs through this venture capital system. In this case, venture capital activity is carried out by searching for

¹² Frans. M. Royan. 2006. Grosir Keliling. Gramedia. Jakarta. Hal 76

small companies. Regarding the pattern of financing that can be distributed to small businesses, it can actually be divided into several criteria: first, administrative financing, for example, for education, production techniques, and cooperation patterns used by small businesses with a profit-sharing system by venture capital companies.

The influence of venture capital financing institutions on the development of small businesses is seen in the applications that occur, for example, in mobile wholesalers, where many venture capital companies offer to become business partners; in the partnership later, the company and in the partnership later, the venture capital company will inject the funds needed by mobile wholesalers; and after the traveling wholesaler becomes large, it will get a profit share of all profits from a certain composition.

Venture capital companies formed by the government have a mission to help small businesses with share capital participation. In addition to capital participation, venture capital companies also help develop small businesses with the help of management.¹³

E. CONCLUSION

Many small and medium enterprises that require additional business capital funds, are unable to meet banking requirements, even though these companies besides being quite a lot, also have potential and a good future, as long as they get enough financial assistance and good management guidance so that at some point the company can be independent. This reality does not only occur in Indonesia or other developing countries, it is even experienced by developed industrial countries. Departing from this fact, then efforts were made on how to create a capital participation system that might help improve their business activities without having to bear a brat, but also open up profitable possibilities for the owners of capital included in the company they helped.

This situation then gave birth to the concept of venture capital participation, a system of capital participation that is arranged in such a way that each party has rights, obligations and responsibilities that can avoid the

¹³ Nitaria Angkasa, Tuntutan 78-79

takeover of owned businesses assisted by those who assist.

Sharia venture capital companies are financing institutions that have characteristics that are not owned by other companies, namely when providing financing does not require collateral, this is very helpful for business partner companies (PPU), especially micro, small and medium start-up entrepreneurs who are just starting their business with limited capital and do not have assets to be used as collateral for the financing guarantee, and also very helpful for business partner companies (PPU) that are feasible (worthy of funding) but not bankable (not meeting banking requirements) and also very instrumental to Business Partner Companies (PPU) which are blacklisted by other financial institutions, but have the determination and earnest spirit to continue to develop businesses with promising prospects. In addition to providing business capital financing assistance, venture capital companies are also involved in assisting the business development management of business partner companies (PPU).

Sharia venture capital development strategies that can be carried out include intensive and comprehensive socialization both from practitioners and academics so that public literacy understanding of sharia venture capital companies increases, the expansion of business capital funding for PMVS from various parties both domestic and foreign, domestic is not only limited to Islamic financial institutions but can synergize with other institutions, for example, collaborating with BPKH (Hajj Financial Management Agency) and loans from abroad, namely IDB (Islamic Development Bank), increasing reliable and professional human resources by holding training, workshops, increasing capacity building, and improving the management system of sharia venture capital companies, especially sharia strategic management efforts to realize operational activities that are truly based on sharia principles, and efforts to approach networking with agencies government so with hope.

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