

Structuring Investment Waqf Funds to Support Startups in Algeria: A Proposed Vision

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Abstract

This study explores the emergence of "Venture Waqf Funds" as a sophisticated hybrid model that integrates the perpetual nature and philanthropic core of Islamic endowments (Waqf) with the high-stakes, high-impact dynamics of venture capital (VC). The research navigates the complex financial and legal architectures required to mobilize waqf capital toward startup ecosystems without compromising the sanctity of the principal asset.

By employing an analytical-synthetic methodology—drawing from Islamic jurisprudence, modern VC frameworks, and corporate governance literature—the paper proposes a series of practical structural models. Central to these is a two-tier governance framework designed to insulate waqf assets from direct exposure while enabling professional fund managers to pursue aggressive growth.

Keywords: Venture Waqf; Cash Waqf; Startups; Islamic Financial Engineering; Maqasid Governance; Venture Capital; Impact Investing.

1. Introduction

Over the past two decades, startups have become one of the most important drivers of economic growth and structural transformation in modern economies—not only by creating new jobs and increasing productivity, but also by innovating solutions for socially sensitive sectors such as education, healthcare, financial inclusion, and green technologies. However, this developmental role faces a chronic financing challenge commonly described as the early-stage funding gap, as traditional financial institutions hesitate to finance highly uncertain projects that lack collateral, tangible assets, and stable cash-flow histories. Meanwhile, venture capital (VC) remains limited in scale outside major financial hubs and is often oriented toward specific sectors and return profiles that do not necessarily align with developmental priorities.

In the Arab and Islamic context in particular, this challenge is compounded by structural factors: (1) limited depth of venture capital markets relative to the size of the economy and entrepreneurial demand; (2) high cost of non-bank financing in pre-revenue stages; (3) heterogeneity of regulatory frameworks governing intellectual property, bankruptcy procedures, and small-firm corporate governance; and (4) weak channels of patient capital capable of withstanding long innovation cycles. Conversely, Muslim societies possess a historical and institutional asset that—if re-engineered—could play a qualitative financing role: the waqf system.

Historically, waqf has been among the earliest institutional mechanisms for sustainably financing public benefit and delivering social services through the preservation of the corpus and the dedication of its usufruct according to the founder's stipulations. Its effectiveness rested on two core features: perpetuity and purpose restriction. Yet, in many contemporary settings, waqf management—due to conservatism and risk sensitivity—has tended toward low-volatility investment strategies focused on real estate or quasi-fixed instruments. This has weakened waqf's ability to integrate into the knowledge economy and to finance innovation, often keeping it distant from value-creation cycles in technology and entrepreneurial sectors.

By contrast, venture capital offers an advanced model for risk management and startup selection through tools such as staged financing, active governance within portfolio companies, diversified portfolios, and exit mechanisms. However, in its conventional form, VC is anchored in maximizing investors' returns within a defined time horizon and does not

automatically ensure alignment with social justice objectives or with waqf-type constraints. Moreover, its contractual architecture (e.g., certain liquidation preferences and control rights) may raise challenges when aligning with Islamic finance principles and with the waqf requirement of “preserving the principal.”

Against this backdrop, the present study advances the proposition that developing Venture Waqf Funds can serve as a bridge between two worlds: waqf as long-term community capital, and venture investing as an innovation engine. In this study, “venture waqf” does not merely mean “charitable spending on entrepreneurship”; rather, it refers to a financial and governance architecture that enables the deployment of waqf resources—especially cash waqf or a portion of waqf income—into professionally selected startup investments, with risks managed through a disciplined investment policy, and with the founder’s stipulations and the objectives of Shariah translated into decision and performance-measurement indicators.

The importance of the topic arises from several interlinked considerations. First, it addresses the question of sustainability: how can waqf resources be directed to high-risk investments without undermining the essence of waqf, namely preserving the corpus and ensuring continuous benefit? Second, it addresses the question of efficiency: how can we ensure competent management of a startup portfolio that requires technical, commercial, and governance expertise often unavailable to traditional waqf trustees? Third, it addresses the question of Shariah and Maqasid coherence: formal compliance is insufficient if incentive design or weak constraints produces outcomes contrary to justice, disrupts beneficiaries’ allocations, or empties waqf of its purpose. Fourth, it addresses the question of governance, because venture funds are inherently complex in terms of conflicts of interest, information asymmetry, and valuation difficulty, requiring oversight and audit structures more advanced than generic administrative procedures.

The literature gap targeted by this study lies in the fact that much contemporary writing treats waqf and investment broadly (waqf development, cash waqf, waqf and sustainability), or treats venture capital as a purely financial topic. The design linkage between them—framed as a question of financial engineering and Maqasid-based governance—remains less mature: What is the most appropriate legal and financial model? How should investment and distribution policies be drafted? Which contractual arrangements are Shariah-acceptable and practically capable of protecting waqf rights within a startup? And how should outcomes be measured so that fund success is not reduced to financial return alone, nor impact reduced to unverifiable rhetoric?

Accordingly, this study seeks to provide an analytical–synthetic framework addressing the following problem: How can a venture waqf fund be structured to balance preservation of waqf principal and sustainability of returns with efficient and flexible startup financing, within a measurable Maqasid-based governance framework? The study aims to contribute to the literature by: (1) proposing multi-level structuring models that separate principal-protection entities from venture portfolios; (2) developing a Maqasid-based governance conception integrating Shariah dimensions with risk and conflict-of-interest management; (3) outlining a distribution and recycling policy aligned with waqf perpetuity and the cyclical nature of venture investing; and (4) proposing a dual performance-metrics matrix linking financial return with impact.

The study is organized as follows: the next section presents the theoretical framework for the intersections of waqf and venture capital; then proposed financial structuring models are introduced; followed by the Maqasid governance framework and measurement indicators; then implementation risks and regulatory requirements are discussed; and the paper concludes with findings and practical recommendations for waqf institutions, regulators, fund managers, and researchers.

2. Theoretical Framework: Intersections of Waqf and Venture Capital

This section builds a theoretical basis explaining how waqf—as an institution characterized by mission lock and perpetuity—can intersect with venture capital—as a high-risk financing mechanism reliant on active governance and exits—within an implementable and Shariah-disciplined design. The framework draws on three axes: (1) waqf theory as an institutional arrangement for preserving the corpus and dedicating benefits; (2) venture capital theory as a financing-and-governance contract addressing information asymmetry and risk; and (3) the intersection zone through concepts of patient capital, blended/impact finance, and governance approaches (agency/stewardship/mission constraints).

2.1 Waqf as a Financial–Social Institution: Perpetuity, Purpose Restriction, and Preservation of Principal

From an institutional-economics perspective, waqf may be understood as an arrangement that performs three simultaneous functions:

1. Asset insulation: removing an asset from consumption/private appropriation so that it is managed to serve a defined public or private purpose specified in the waqf deed (waqfiyyah).

2. Purpose restriction (purpose lock): directing benefits to designated beneficiaries while restricting managerial discretion according to the founder's stipulation, producing a level of mission discipline uncommon in commercial portfolios.

3. Intergenerational sustainability: assuming a long time horizon that renders waqf closer to "long-term capital" than to short-term investors.

Cash waqf and expansion of investment tools. Cash waqf is particularly relevant to venture waqf because it reduces "asset rigidity" compared to real-estate waqf and allows multi-asset portfolios, provided that wealth-preservation and risk-management principles are properly disciplined. In principle, cash waqf enables two important separations:

- Separation between the source of funds (donations/awqaf) and the deployment policy (investment/financing).
- Separation between beneficiaries and the channels through which benefits are delivered (investment returns or direct services).

Limits of flexibility in waqf. At the same time, waqf imposes governing constraints that require careful translation when moving into venture investing, most importantly:

- The principle of preserving the principal (at a level defined by fiqh, law, and the founder's stipulation).
- Commitment to permissibility (by sector, instrument, and conduct).
- Commitment to the founder's condition and to the binding authority of the waqf deed in decisions.

These constraints are not deficiencies; rather, they are "design features" that must be engineered to work with startup logic.

2.2 Venture Capital as a Contractual Solution to Information Asymmetry

In financial literature, venture capital is understood as an institutional response to two classic problems in financing innovation:

1. Information asymmetry: entrepreneurs know more about their ventures than funders; early-stage valuation is highly uncertain.

2. Agency problem: post-financing, a gap may emerge between investor interests (maximizing firm value and managing risk) and founder interests (growth at any cost, control, or strategy shifts).

Accordingly, venture capital developed a bundle of contractual and governance tools, including:

- **Staged financing:** linking capital injections to milestone achievement.
- **Information and control rights:** periodic reporting, audit rights, board seats.
- **Incentive alignment mechanisms:** ownership arrangements, employee stock options, growth-linked rewards.
- **Portfolio approach:** accepting high failure rates in exchange for a few outsized successes (power-law dynamics).
- Exit: strategic sale/secondary sale/IPO as a structural component of the model.

Theoretical takeaway: Venture capital is not merely "financing" but contract-based governance: it builds governance inside the startup through contractual provisions that reduce deviation risk and improve exitability.

2.3 Structural Tensions Between Waqf and Venture Capital (The Paradox of Perpetuity vs. Exit)

At the intersection of waqf and venture capital, several design paradoxes arise that must be solved rather than ignored:

1. Perpetuity vs. exit:

- Waqf leans toward continuity and preservation of corpus.
- Venture investing assumes investment/exit cycles to recycle liquidity and measure performance.

2. Purpose constraints vs. strategic flexibility:

- Waqf is restricted by founder stipulation and beneficiary allocations.
- Startups require pivots and business-model changes.

3. Trustee governance vs. fund-manager governance:

- The waqf trustee (nāzir/mutawallī) may function as a conservative steward.
- The VC manager acts more as an agent incentivized by performance and may prefer higher risk.

4. Acceptable-risk concept:

- Waqf addresses risk through preservation-of-wealth logic and avoidance of excessive gharar.
- VC is built on accepting failure probabilities as part of expected return.

Resolving these tensions requires financial and governance engineering that makes “risk” policy-bounded and “perpetuity” achievable through portfolio recycling rather than through freezing assets.

2.4 The Intersection Zone: Venture Waqf as Disciplined Patient Capital and Impact Investing

Venture waqf can be theoretically framed as combining three approaches:

1. Patient capital.

Waqf is not inherently pressured to deliver immediate distributions like commercial investors, enabling longer time horizons that support startups with long development cycles (e.g., deep tech, health, education). Yet “patience” must not become governance laxity; it must be patience with disciplined reporting and milestones.

2. Blended finance / impact investing.

Waqf carries a mission objective and may accept lower returns for higher impact within the bounds of principal preservation. In this sense, waqf resembles impact investing, with a key difference: waqf has binding conditionality (beneficiaries/Maqasid), not merely an ethical preference.

3. Hybrid organizations.

Venture waqf operates as a hybrid entity combining market logic (measurement, efficiency, governance, exit) with mission logic (Maqasid, justice, benefit to beneficiaries). Hybrid-organization literature indicates such models require governance to prevent mission drift and financial drift.

Operational definition. Venture waqf is the allocation of a portion of waqf capital or waqf income to an equity/partnership portfolio in selected startups, using contractual and governance mechanisms that reduce information asymmetry and ensure Maqasid and deed alignment, with a clear policy for recycling returns and distributing a portion to beneficiaries.

2.5 Contractual Intersections: From Shariah Contracts to a VC-Like Bundle of Rights

A key bridge between waqf and VC is recognizing that venture financing is not a single instrument but a bundle of rights that can be engineered within Shariah frameworks such as mushārakah, muḍārabah, and wakālah bi al-istithmār, subject to constraints:

- Mushārakah as an equity-like template: enables profit-and-loss sharing and governance rights (information/voting/board).
- Muḍārabah as a template where capital is provided and expertise is operational: potentially suitable in some cases but requires stricter disclosure due to limited direct control by the capital provider (wafq).
- **Wakālah (investment agency):** supports separation between the trustee’s role and the portfolio manager’s role, allowing a fixed/variable fee within constraints.

The theoretical point is not to “Islamize” a term sheet superficially, but to ensure that the core functions that make VC effective—staging, information rights, conflict controls, milestones, and exit mechanisms—have functional equivalents within Shariah-compliant structures.

2.6 Synthetic Comparison: Waqf vs. Venture Capital vs. Venture Waqf (Concept Map)

Traditional Waqf	Venture Capital	Proposed Venture Waqf	Traditional Waqf
Objective	Benefits/beneficiaries per founder condition	Value/return maximization	Maqasid impact + financial sustainability
Time horizon	Long/perpetual	Fund cycles	Perpetual at entity level + cyclical at portfolio level (evergreen)
Risk tolerance	Typically low	High but managed	Medium-high, constrained by policy and waqf entitlements
Governance tools	Trustee (nāzir/mutawallī) + oversight	Board rights + contractual terms	Multi-layer governance: trustee + investment committee + Shariah oversight + impact measurement
Success metric	Regular beneficiary allocations + principal preservation	IRR and exit	IRR/sustainability + Maqasid-driven impact indicators
Purpose constraint	Strong	Weak/optional	Strong, translated into policies and selection criteria

2.7 Maqasid-Based Governance as a Solution to “Compliance vs. Outcomes”

Some Islamic finance designs focus on form compliance. Venture investing demonstrates that incentive design and outcomes matter as much as instruments. Therefore, Maqasid-based governance is part of the theoretical core, not an administrative add-on, because it:

- prevents mission drift under market pressure;
- prevents investment laxity under the banner of impact without verifiable indicators;
- reframes “wealth preservation” to include protection from erosion (inflation/opportunity cost), not only nominal loss avoidance.

Section takeaway. The waqf–VC intersection is not a superficial combination but an institutional redesign solving paradoxes: perpetuity vs. exit, founder condition vs. startup flexibility, trustee stewardship vs. manager incentives, and the acceptable-risk concept. Venture waqf feasibility depends on: (1) adopting a VC-like contractual governance bundle to reduce information asymmetry; (2) translating Maqasid and founder conditions into selection and measurement policies; and (3) layered separation between the waqf principal-protection entity and the risk-bearing portfolio—making the waqf a disciplined patient investor rather than an ad hoc funder or purely commercial investor.

3. Research Problem and Objectives

3.1 Background: A Design Gap Between Two Institutional Logics

The venture waqf problem arises because it sits at the interface of two fundamentally different institutional logics:

- **Waqf logic:** preserving the corpus, restricting purpose, sustaining benefit, with high sensitivity to risk and to wealth-preservation standards and founder conditions.
- **Venture capital logic:** accepting high failure rates within a diversified portfolio, active contractual governance, staged financing, and periodic exits that recycle capital.

This divergence cannot be solved by declarations of intent (“we invest waqf resources in startups”). It requires financial engineering to discipline the relationship between waqf principal and risk, governance to address conflicts of interest and information asymmetry, and a Maqasid framework that turns founder conditions and Shariah objectives into decision criteria and impact metrics. Hence the “design gap”: many initiatives carry waqf/impact labels, but few offer clear answers to: How do we structure? How do we govern? How do we measure? How do we exit?—without undermining waqf’s defining features.

3.2 Problem Statement

The study’s central question is:

How can a venture waqf fund be structured—legally, financially, and in governance terms—to finance startups efficiently while preserving waqf principal and sustainability, complying with founder conditions, and achieving measurable Maqasid-based impact?

This central problem branches into practical/theoretical tensions that must be resolved in design:

- 1. Principal preservation vs. risk acceptance:** What level of portfolio risk is acceptable without exposing the waqf to erosion or disrupting beneficiary allocations?
- 2. Perpetuity vs. exit:** How can waqf perpetuity be reconciled with the venture model’s need for periodic exits?
- 3. Founder condition vs. startup flexibility:** How can founder conditions be translated into investment policy that neither suffocates startup pivoting nor allows mission drift?
- 4. Formal compliance vs. Maqasid discipline:** How can we ensure contractual forms are not merely formally compliant but generate fair outcomes and prevent injustice and conflicts?
- 5. Trustee governance vs. professional fund management:** How should authority and oversight be allocated so the waqf does not become an inexperienced VC manager, while the fund manager does not become a sole decision-maker threatening waqf objectives?

3.3 Research Questions

Main question:

- What is the optimal (or most suitable) model(s) for structuring a venture waqf fund in terms of financial engineering and Maqasid-based governance?

Sub-questions:

1. What Shariah and economic requirements imposed by waqf (principal preservation, dedication of benefit, founder condition) constrain venture-fund design?
2. Which contractual and governance elements of VC are necessary functions for addressing information asymmetry, and how can functional equivalents be developed within Shariah contracts (mushārakah/muḍārabah/wakālah)?
3. What structuring alternatives exist (two-tier, evergreen, first-loss, income window, etc.), and what are the trade-offs regarding sustainability, risk, exitability, and Maqasid alignment?
4. How can a Maqasid governance framework be built to prevent mission drift, conflicts of interest, principal erosion, and disruption of beneficiary allocations?
5. What performance indicators best capture both financial performance (as sustainability) and Maqasid-based impact (as purpose) in an auditable, accountable manner?

3.4 Research Objectives

The study aims to achieve the following:

- 1. Design objective:** Develop financial/legal structuring models for a venture waqf fund, clarifying each model’s logic, success conditions, and use scenarios.

2. Governance objective: Build a multi-layer Maqasid governance framework defining roles (trusteeship, investment committee, Shariah oversight, impact measurement) and mechanisms for conflict-of-interest management and disclosure.

3. Contracting objective: Align the VC “bundle of rights” (staging, information rights, in-company governance, exit) within Shariah-consistent financing/investment forms.

4. Measurement objective: Propose an auditable dual-metrics matrix (financial–Maqasid) to avoid reducing success to financial return alone or to unverifiable “impact talk.”

5. Practical objective: Offer operational recommendations for waqf institutions, regulators, and fund managers regarding launch, operations, and risk management.

3.5 Significance of the Study

The study's significance appears at three levels:

- **Academic significance:** addressing a gap where waqf and VC are often discussed separately or linked through generalities without implementable design models.

- **Practical/institutional significance:** enabling waqf institutions to shift from conservative investing to innovation-economy impact investing without compromising waqf essence or exposing beneficiary allocations to uncontrolled volatility.

- **Regulatory/policy significance:** guiding regulators toward requirements specific to waqf investment vehicles (disclosure, audit, principal protection, Shariah compliance, manager governance) that support entrepreneurial ecosystems.

3.6 Scope and Assumptions

Scope:

- Focuses on fund-level structuring more than firm-level startup management, addressing in-company governance only as needed for fund objectives.
- Treats venture finance primarily as equity/partnership-style investing rather than conventional debt financing.
- Prioritizes cash waqf and/or allocating part of waqf income due to better compatibility with portfolio management.

Operational assumptions:

- A legal framework exists—at least to some degree—allowing the establishment of waqf investment funds/portfolios or intermediated structures.
- Professional investment management and independent committees can be provided (including through external contracting).

3.7 Expected Contributions

The study expects to deliver two principal contributions:

1. Design contribution: practical structuring models (not merely theoretical sketches) with a decision map to help waqf institutions choose a model based on risk tolerance, Maqasid objective, and beneficiary profile.

2. Governance/Maqasid contribution: converting Maqasid and founder conditions into measurable, accountable mechanisms (policies + KPIs + controls), improving governance, auditability, and reducing drift risks.

4. Methodology

This study recognizes that structuring venture waqf funds lies at the intersection of two applied fields (waqf/Islamic finance and venture capital/fund engineering). Accordingly, the most suitable methodology is a design-oriented analytical approach that combines theoretical analysis with institutional design (Design-Oriented Research), rather than relying exclusively on conventional econometric testing. The study adopts a multi-method approach consisting of conceptual analysis, comparative (legal/institutional) analysis, standards-based content analysis, the construction of structuring and governance models, and logical validation through decision matrices and consistency checks.

4.1 Research Design

The study adopts a design-science/design-research approach tailored to financial products, implemented in five sequential stages:

1. Problem diagnosis:

Identifying the early-stage funding gap for startups and the gap in waqf investment in the innovation economy, highlighting structural tensions (perpetuity/exit, principal preservation/risk, founder condition/flexibility).

2. Deriving design requirements:

Formulating mandatory requirements for any venture waqf fund, such as:

- preservation of waqf principal and/or prevention of depletion per founder condition and governance texts;
- operational investability under VC logic (selection, staging, governance, exit);
- Shariah consistency (sectors, instruments, contractual rights);
- measurability via auditable financial and impact indicators.

3. Artifact design (design and synthesis):

Building structuring models (two-tier/evergreen/income-window/first-loss) and corresponding Maqasid governance models, and translating VC functions (information rights, staging, exit, etc.) into Shariah-consistent equivalents.

4. Demonstration (conceptual testing):

Testing each model through operational scenarios simulating the VC lifecycle: deal selection, financing, monitoring, failure/success, exit, then distribution and recycling of returns.

5. Evaluation and validation:

Models are not evaluated using realized-return data (due to lack of unified datasets) but through:

- Shariah and functional consistency checks;
- a trade-off matrix across models (principal protection, investment flexibility, exitability, measurability, governance risk);
- a proposed expert review (for future field conversion) with waqf specialists, fund managers, and Shariah scholars.

This design positions the study as a design-and-policy paper that can later be extended through empirical research.

4.2 Data Sources and Evidence

The study relies on qualitative/documentary sources including:

- 1. Fiqh and Maqasid sources:** defining waqf constraints (founder condition, principal preservation, beneficiary allocations) and formulating Maqasid governance as a decision guide.
- 2. Islamic finance standards and guidelines:** e.g., professional bodies' standards (such as AAOIFI where applicable) and governance/risk-management guidance.
- 3. Venture capital literature:** focusing on contractual governance, staged financing, portfolio management, shareholder agreements, and exit mechanisms.
- 4. Comparative regulatory/legal documents (for expansion):** waqf laws, fund regulations, and company laws across jurisdictions to assess enforceability, not only theoretical validity.
- 5. Market templates:** public term sheets and impact measurement frameworks (IRIS+/SDGs) as references for building indicator matrices—recalibrated to Maqasid.

4.3 Analytical Tools

The study employs a set of tools aligned with its design nature:

- 1. Conceptual and synthetic analysis:** decomposing waqf and VC characteristics and reconstructing a hybrid model.
- 2. Functional mapping of contractual elements:** identifying necessary VC functions (reducing information asymmetry, controlling agency risk, managing risk, ensuring exits) and locating Shariah-consistent arrangements that achieve the same functions (functional equivalence).
- 3. Stakeholder analysis:** mapping conflicts of interest among founder/trustee/fund manager/co-investors/beneficiaries/entrepreneurs/regulator and converting findings into governance controls (disclosure, conflict rules, independent committees).
- 4. Fund-level risk analysis:** classifying risks (investment, liquidity, operational, Shariah, regulatory, reputational) and proposing limits/controls/audit.
- 5. Decision and trade-off matrices:** comparing proposed structures using weighted criteria customizable by founder condition.

4.4 Model-Building Procedure

The study follows clear procedural steps:

1. Defining institutional layers:

Waqf entity (principal protection) → investment management entity (portfolio operations) → investment instruments (startup deals).

2. Drafting an Investment Policy Statement (IPS):

sector scope, investment stages, concentration limits, staging rules, loss limits, exit policy, distribution/recycling rule.

3. Designing Maqasid governance:

committees, authorities, Shariah oversight mechanisms, financial audit, and impact measurement linked to investment and monitoring decisions.

4. Incentive design:

manager compensation linked partly to impact without creating perverse incentives (impact inflation) or conflicting with principal preservation.

5. Modeling investment and exit cycles:

standardized scenarios (major success/moderate success/distress/liquidation) and assessing their effects on waqf principal, beneficiary regularity, and fund sustainability.

4.5 Operationalizing Maqasid in Measurement

To keep Maqasid from remaining rhetorical, the methodology adopts “metric translation” by:

- converting Maqasid into impact domains (economic empowerment, transactional justice, protection of wealth from erosion, protection of life/mind depending on sector);
- developing auditable indicators (jobs created, service cost, financial inclusion reach, ethical data compliance indicators, etc.);
- linking indicators to investment and monitoring decisions, i.e., not as annual reporting only but as part of staged-financing conditions.

4.6 Methodological Quality Assurance (Validity, Reliability, Robustness)

To strengthen robustness, the study adopts safeguards appropriate for qualitative/design research:

- 1. Triangulation:** cross-checking conclusions through literature + standards + operational deal logic.
- 2. Internal coherence:** each model must explicitly address principal protection, risk management, exit, governance, and measurement.
- 3. Transferability:** presenting models as adaptable templates across jurisdictions and founder conditions, clarifying fixed principles vs. variable parameters.

4.7 Methodological Limitations

- The study does not provide econometric testing of realized returns for existing funds due to scarce and proprietary data.
- Legal feasibility varies by country; models are presented as “reference designs” requiring local regulatory adaptation.
- Part of validation remains logical/design-based until complemented by expert surveys or case studies.

5. Financial Engineering of a Venture Waqf Fund (Expanded)

Financial engineering here refers to designing the legal and contractual architecture, cash flows, return-distribution mechanisms, and risk-management arrangements in a manner that balances waqf characteristics (principal preservation, founder stipulations, perpetuity, and beneficiaries) with venture investing characteristics (high risk, uncertainty, need for active governance, and exits). Accordingly, a venture waqf fund cannot be built merely as a “startup equity portfolio”; it must be designed as a **multi-layer architecture**.

5.1 Financial Design Principles: “Function Separation” Before “Contract Selection”

Before selecting a Musharakah/Mudarabah/Wakalah contract, a sound structure should be anchored in general principles that discipline decision-making:

- 1. Separating preservation from risk (ring-fencing):**
Protection of waqf principal and beneficiary entitlements should sit in one layer, while the high-risk venture portfolio sits in another, with clear, rule-based transfers between the two layers.
- 2. Separating ownership from management (ownership vs. management):**
The waqf is a **purpose owner**, while venture investing requires a **professional manager**. This separation reduces misjudgment risk and strengthens accountability.
- 3. Auditability by design:**
Every financial flow (waqf donation, income, profit, exit proceeds) must be documentable and reviewable: source, deployment, and how return/impact were measured.
- 4. Translating founder stipulations into an investment policy (condition-to-policy translation):**
Instead of leaving founder conditions as broad text, they should be translated into: targeted/excluded sectors, risk limits, a spending rule, and impact criteria.
- 5. Perpetuity at the entity level—not at the deal level:**
Waqf is perpetual, but startup investments are inherently cyclical (entry/exit). The solution is to make the fund **evergreen**: repeated exits recycle capital rather than freezing it.

5.2 Proposed Legal and Institutional Architecture

A minimum structure that typically achieves both protection and professionalism consists of four functional units (which may be consolidated into fewer legal entities depending on local regulation):

- 1. Waqf entity / waqf foundation:**
Holds and enforces founder stipulations, defines beneficiaries, approves investment policy, and owns the stake(s) in the investment vehicle.
- 2. Fund vehicle / SPV (special purpose vehicle):**
A legal wrapper that receives the capital earmarked for venture investing and enters into startup investment contracts (Musharakah/Wakalah/Mudarabah). It enables **risk isolation (ring-fencing)** and simplifies accounting.

3. Professional fund manager / management company:

Conducts deal sourcing, evaluation, monitoring, and exits under a clear mandate (often Wakalah). The manager is subject to a disciplined fee/incentive design.

4. Oversight “arms”:

- **Shariah supervision / Shariah advisor** (pre- and post-investment).
- **External auditor** + (where feasible) **custodian/asset trustee** to strengthen valuations and reporting integrity.
- **Maqasid impact committee** to audit outcomes (not intentions).

The core purpose of this architecture is to reduce **agency risk**, which is amplified in venture investing due to information asymmetry and valuation opacity.

5.3 Waqf Capital Sources: Diversifying Funding Channels

Financial engineering concerns not only deployment, but also sustainable capitalization. Possible channels include:

1. **Direct cash waqf** (one-off or recurring endowments).
2. **Allocating a portion of income from existing awqaf** to a “venture window” (Income Allocation Window).
3. **Corporate waqf:** corporate contributions as cash waqf or endowed shares in the fund.
4. **Cash waqf certificates:** a collective mechanism allowing small contributions with transparent allocation.
5. **Matching or catalytic grants** from development entities—subject to controls that preserve the independence of waqf stipulations.

5.4 Structuring Models (with Cash-Flow Logic and Controls)

(A) Cash Waqf + Investment Agency / Mudarabah Fund (Wakalah/Mudarabah)

Concept: The waqf funds the portfolio, and a professional manager runs it under Wakalah (fixed/variable fee) or Mudarabah (profit-sharing).

Simplified flow:

- Waqf donations/waqf funds → waqf entity
- Allocation for venture investing → fund vehicle
- Investments into startups → exits/distributions
- Profits: portion recycled + portion spent on beneficiaries + risk reserve

Key controls:

- Limits on ultra-early stages (pre-seed) relative to growth stages.
- Binding Investment Policy Statement (IPS) to prevent drift.
- Manager fees linked partially to two metrics: financial performance + impact performance.

Advantage: High flexibility and faster establishment.

Note: Mudarabah can reduce the capital provider’s direct control; therefore it requires strong information rights—often making Wakalah preferable with stricter governance.

(B) First-Loss Waqf (Tranching / Risk Layers)

Concept: The waqf participates in a junior tranche that absorbs losses first to attract co-investors (impact institutions or other investors), thereby increasing total capital available to startups.

Typical design:

- Waqf tranche (junior/first-loss)
- Partner tranche (senior)
- A profit-and-loss **waterfall** defining allocation order

Necessary controls:

- Pre-defined loss cap and scope (a clear **risk budget**).
- Explicit founder intent: does the waqf accept higher risk to amplify funding impact?
- Strict governance to prevent using waqf as “free subsidy” for deals lacking genuine impact.

Advantage: Strong leverage effect.

Challenge: Greater Shariah/regulatory complexity; requires careful drafting to ensure fairness in the waterfall and transparency of benefits.

(C) Venture Window Funded from the Income of an Existing Waqf (Endowment Income Window)

Concept: The waqf corpus remains in stable assets (real estate/low-risk portfolio), while a portion of annual income is allocated to venture investing.

Why it works as a transitional bridge:

- Highest level of principal protection.
- Allows a controlled test of venture governance capacity without full corpus exposure.

Challenge: Venture allocation depends on annual income, potentially limiting ticket size and follow-on ability.

(D) Waqf as a Limited Partner (LP) in a Shariah-Compatible VC Fund

Concept: Rather than building an in-house vehicle, the waqf invests as an LP in an existing VC fund, subject to Shariah/impact compatibility.

Success conditions:

- Ability to conduct governance due diligence and verify portfolio compliance (sector and conduct).
- Negotiating impact/ compliance reporting suitable for waqf requirements.

Advantage: Leverages established manager expertise and exit pathways.

Challenge: Reduced influence over deal selection; may require negotiated enhanced information rights.

5.5 Investment Policy Statement (IPS): Making the Waqf a Disciplined Institutional Investor

No structure succeeds without a binding IPS serving as an operational constitution. It typically includes:

1. **Targeted/excluded sectors:** per founder stipulations (e.g., education, health, financial inclusion) and exclusion of non-compliant activities.
2. **Investment stages:** indicative allocations across pre-seed/seed/Series A to avoid stage concentration risk.
3. **Ticket size and concentration limits:** cap exposure per company (e.g., 5–10% of the venture allocation).
4. **Staged financing and milestones:** disbursements conditional on operational/impact milestones.
5. **Follow-on reserve policy:** reserving a portion (e.g., 30–50%) for follow-on rounds to protect winners and manage dilution.
6. **Exit policy:** indicative time horizon, acceptance thresholds, and early-exit triggers when Maqasid alignment or risk profile deteriorates.

5.6 Investment Instruments: Shariah Forms That Deliver VC Functions (Functional Equivalence)

Venture investing requires specific functions: information rights, negative control (veto over material decisions), distress management, and exit arrangements. These can be engineered within Shariah-compliant forms through **rights engineering** rather than literal replication of conventional VC instruments.

Most suitable forms:

1. Equity / Musharakah:

Closest to startup shareholding and supports governance rights and information provisions.

2. Wakalah (investment agency):

Suitable for delegating management with a fixed fee plus a performance incentive (subject to constraints). A portion of the incentive may be tied to auditable impact indicators.

3. Mudarabah:

May fit cases where the founder/company acts as mudarib and the waqf as rabb al-mal, but requires heightened disclosure because the capital provider's managerial control is limited.

Examples of translating common VC terms into functional equivalents:

- **Information rights:** monthly/quarterly reporting + audit rights + approved budgets.
- **Protective provisions:** requiring investor approval for material decisions (large debt, activity change, sale of key assets).
- **Staged financing:** tying capital tranches to clear milestones.
- **Exit rights:** tag-along rights and drag-along rights conditioned on agreed fair standards.

Sensitive point: Certain conventional VC instruments (e.g., complex convertible preferred structures with layered liquidation preferences) require special care in Shariah alignment to ensure a fair waterfall and to avoid arrangements that may lead to unjust outcomes among partners.

5.7 Return Distribution Rules: Sustainability + Regular Beneficiary Allocations (Spending Rule)

A major risk in venture waqf is volatility of returns and disruption of beneficiary allocations. The study proposes a rule akin to university endowment spending rules (adapted to waqf and Shariah constraints):

A three-part rule:

1. **Reinvestment:** a fixed share of profits/exit proceeds to fund new investments.
2. **Waqf beneficiaries:** a “smoothed” annual spending rate based on a 3–5 year moving average to reduce volatility.
3. **Risk/liquidity reserve:** to cover years with weak exits or portfolio losses.

A practical approach is to set an annual spending cap as a percentage of the venture window’s average net assets (e.g., 3–5%) to avoid depleting the fund’s long-term capacity.

5.8 Exit and Recycling: Making Perpetuity Operational

Exit is not optional in venture investing; it is the mechanism that converts paper value into liquidity for distribution or reinvestment. Exit routes include:

- **Strategic sale (M&A):** most common.
- **Secondary sale:** to another fund or impact investor.
- **Buyback:** by founders/company under fair conditions and third-party valuation.
- **IPO:** less common but possible.

A core waqf question: Are exit gains treated as “income” (riy‘) or do they become new “endowed principal”? Practically, this should be resolved in the waqf deed/IPS:

- either treating exit gains as part of the **revolving investment capital** to strengthen sustainability,
- or allocating a defined share to beneficiaries under a specified distribution rule.

5.9 Risk Management: Preventive Risk Budgeting

Since failure is structurally embedded in venture portfolios, risk must be managed ex ante through design, not ex post through reaction:

1. **Periodic risk budget:** a maximum acceptable loss for the venture window.
2. **Diversification:** across sectors, stages, and (where possible) geographies.
3. **Portfolio-company governance:** board/observer seats, financial covenants, spending controls.
4. **Liquidity management:** holding some cash/low-risk instruments to protect beneficiary allocations and avoid forced sales.
5. **Shariah and reputational risks:** continuous screening of company activities (especially after pivots) and updated Shariah review.

5.10 Accounting, Valuation, and Disclosure: Addressing “Value Opacity” in Startups

Startup valuation is inherently uncertain, increasing the risk of misstatement and poor decisions. Therefore, the fund should adopt:

- a written valuation policy (last financing round, third-party valuation, or conservative methodologies);
- periodic disclosure: estimated NAV + portfolio analysis + risk distribution + distress cases;
- external audit: financial and Shariah compliance, and (where feasible) independent impact reporting.

Section Summary

The proposed financial engineering shows that venture waqf is not merely a financing idea but a full operating system: a legal structure that isolates risk, a professional manager under a clear mandate, an IPS translating founder stipulations into constraints and criteria, investment tools that replicate essential VC functions within Shariah-compliant forms, and a spending/recycling rule that prevents volatility in beneficiary allocations and avoids erosion of long-term capacity. The more these elements are embedded **by design** from the outset, the higher the likelihood of sustainability, governability, and credibility.

6. Maqasid-Based Governance: From Formal Compliance to Purpose-Driven Steering (Expanded)

This section constitutes the “core” of the venture waqf model. The principal challenge is not merely selecting Musharakah or Wakalah, but rather designing a decision-and-oversight system that prevents deviation from the founder’s stipulations, reduces agency risk and conflicts of interest, and ensures that high-uncertainty venture investing does not turn into institutional gambling with endowed funds. Accordingly, Maqasid-based governance is understood as a normative governance system with two dimensions: (a) Shariah/legal/financial compliance, and (b) Maqasid/impact realization that is measurable and accountable.

> Editorial note: Section 6 appears twice in the source text with near-identical content. The translation below renders it once to avoid redundant repetition, while preserving all substantive points.

6.1 Concept of Maqasid-Based Governance and Its Distinctiveness

Conventional governance (in investment funds or institutions) is typically built around protecting investors’ rights, reducing agency costs, enhancing transparency, and ensuring regulatory compliance. In the venture waqf context, Maqasid-based governance adds three qualitative layers:

1. Purpose lock: investment decisions are not neutral; they are constrained by the founder's stipulations and designated beneficiaries.

2. Outcome orientation (consideration of consequences): "contract validity" alone is insufficient; consequences must be examined: Does the structure disrupt beneficiary allocations? Does it create injustice in risk allocation? Does it cause mission drift?

3. Dual accountability: accountability to (a) beneficiaries and founder conditions, and (b) requirements of investment professionalism and sustainability.

Operational definition:

Maqasid-based governance for a venture waqf fund is an institutional system that specifies authorities, controls, transparency rules, Shariah oversight, and impact measurement mechanisms to ensure that venture investment decisions remain aligned with the founder's stipulations and the objectives of Shariah, without undermining professional investment management, risk governance, and exit discipline.

6.2 Maqasid Principles as Investment Decision Criteria

To prevent Maqasid from remaining rhetorical, the study proposes converting them into operational principles:

1. Protection of wealth (against loss and erosion):

Wealth protection does not mean eliminating risk entirely; it means avoiding uncalculated risk, preventing depletion of principal, and ensuring liquidity and reserve rules. It also includes protection from inflation and opportunity-cost erosion through disciplined growth.

2. Realizing benefit, removing hardship, and ensuring justice:

Startup investments should demonstrate—via a theory of change—their relevance to recognized benefits linked to beneficiaries (economic empowerment, health, education, financial inclusion). Justice also includes fair conduct within portfolio companies (labor rights, fair pricing, consumer protection, data ethics).

3. Preventing harm and constraining excessive gharar:

Venture investing entails uncertainty; Maqasid governance requires reducing it through governance **tools:** staged financing, information rights, concentration limits, and audits.

4. Fulfilling the founder's stipulation as a binding constraint:

Deviation should not be "rationalized" later; it must be prevented *ex ante* through investment policies, sector screens, and binding contractual provisions.

6.3 Proposed Governance Architecture: The Four-Layer Model

To reduce governance risk, the study proposes a multi-layer architecture so authority is not concentrated in one actor:

Layer (1): Waqf governance

- Board of trustees / *mutawallī*: approves general policy, the Investment Policy Statement (IPS), protects founder conditions, approves the spending rule, appoints/removes the investment manager based on performance.
- Audit & risk committee (preferably trustee-level): reviews limit compliance and reporting quality.

Layer (2): Investment governance

- Investment committee: VC/finance/sector experts, as independent as feasible; evaluates deals and approves entry/follow-on/exit within delegated authority.

- Fund manager/management company: executes strategy, manages the portfolio, negotiates terms, and reports periodically.

Layer (3): Shariah governance

- **Shariah board/advisor:** reviews fund structure and master agreements, approves excluded sectors, monitors portfolio-company pivots (especially changes in business model), and issues periodic compliance reports.

Layer (4): Impact/Maqasid governance

- Impact unit/committee: develops a theory of change, defines auditable impact KPIs, reviews performance, and links staged financing to certain impact milestones where realistically measurable.

Governing principle: governance is not reducible to Shariah review alone, nor to an investment committee alone. It is an integrated system preventing two opposing drifts: mission drift and financial drift.

6.4 Allocation of Decision Rights (Decision Rights Matrix)

Ambiguous authority in VC funds generates conflict and unmanaged discretion. The study therefore recommends an explicit decision-rights matrix, for example:

- Trustee board: approves IPS, spending rule, risk limits, manager appointment, ethical/Shariah policy, overarching impact framework.
- Investment committee: decides on deal entry within ticket/concentration limits, follow-on rounds, activation of protective provisions, and exit decisions.
- Shariah oversight: holds a Shariah veto over non-compliant deals or activities.
- Impact unit: reviews alignment with the theory of change, recommends impact conditions, and produces independent impact reporting.

This matrix reduces overlap and ensures founder conditions are binding rather than aspirational.

6.5 The Investment Workflow Under Maqasid-Based Governance

Governance should be embedded into the investment cycle, not appended as after-the-fact audit:

1. Initial screening: compliant sector/activity + alignment with beneficiaries + preliminary Shariah screen + preliminary impact screen.

2. Three-track due diligence:

- commercial/financial: team, market, business model, unit economics;
- legal/regulatory: IP, contracts, compliance risks;
- Shariah/impact: revenue sources, pricing practices, data ethics, impact alignment.

3. Term-sheet design with “Maqasid clauses”: information and governance terms, restrictions on mission-changing pivots without consent, and measurable impact milestones where appropriate.

4. Staged financing and monitoring: financial/operational reporting; Shariah compliance reporting upon activity change; impact KPI tracking.

5. Exit decision: based not only on return but also on continued Maqasid alignment, reputational risk, and prospects of sustained benefit.

6.6 Conflicts of Interest (COI) as a Central Governance Issue

COI risks are heightened in VC due to networks and related-party deals; they are even more sensitive in a purpose-endowed setting. The study recommends binding COI policies:

- mandatory written disclosure of any relationship (prior investment, kinship, partnership, consulting);
- recusal policy for conflicted voting;
- independent valuation for related-party transactions;
- limits on gifts/benefits and prohibition of side commissions;

- a decision log documenting acceptance/rejection rationales and criteria weights.

6.7 Incentive Design: Linking Performance Without Creating Perverse Incentives

Incentives are governance instruments. Since managers may increase risk to maximize performance fees, the study proposes:

- a moderate fixed management fee sufficient for operations but not encouraging unchecked expansion;
- performance incentives conditional on “safety gates”: Shariah compliance, adherence to risk limits, and transparent valuation/reporting;
- partial linkage to impact—only through auditable indicators—to avoid impact washing;
- clawback mechanisms in cases of misrepresentation or serious breaches.

6.8 Shariah Oversight: From Contract Review to Activity Monitoring

Startups can pivot quickly; new revenue streams and partnerships may emerge. Therefore, one-time Shariah approval at entry is insufficient. Required:

1. quarterly Shariah review framework;
2. contractual obligation for the company to notify investors upon changes in activity/revenue sources;
3. predefined treatment of non-compliant income (if it occurs): purification/correction/exit;
4. an annual compliance report integrated with financial and impact reporting.

6.9 Measuring Maqasid Impact: From Indicators to Accountability

To prevent impact from becoming mere narrative, the study recommends:

1. a theory of change per waqf theme (e.g., education waqf → invest in low-cost EdTech → expand access/improve outcomes);

2. auditable impact KPIs:

- reach (beneficiaries served/areas covered);
- effectiveness (learning gains, reduced treatment costs, etc.);
- equity (share of low-income users, tiered pricing, etc.);
- sustainability (revenue model avoiding permanent subsidy dependence).

3. linking impact to governance (not only reports): impact affects follow-on decisions, may condition some tranches, and triggers red flags (exploitative pricing, data abuses, discrimination, deceptive marketing) leading to remediation or exit.

6.10 Transparency and Disclosure: Protecting Waqf Trust

Trust is central to waqf legitimacy. The study proposes a three-part disclosure regime:

- quarterly financial report: estimated NAV, distributions, liquidity, concentration, distressed cases;
- **Shariah compliance report:** deal summaries, breaches (if any), and remediation plans;
- **annual impact report:** KPIs, methodology, data limitations, and—where feasible—individually verified impact cases, alongside external audit appropriate to the fund’s nature.

6.11 Post-Investment Governance in Portfolio Companies

Many deviations occur at the operating-company level. Tools include:

- board seat or observer rights proportionate to investment;

- strong information rights (monthly reporting, budget approval);
- protective provisions against changing core activity, excessive borrowing, or selling key assets without approval;
- data-ethics policies for tech companies handling sensitive data.

6.12 Corrective and Enforcement Mechanisms

Effective governance must be enforceable:

- remediation plan for non-compliance with impact/compliance requirements;
- suspension of staged funding when milestones are not met;
- early-exit rights for serious Shariah/ethical breaches or reputational-risk events;
- grievance mechanism for affected parties (especially relevant for impact-oriented funds).

Section conclusion: Deploying venture capital using waqf resources becomes legitimate and socially acceptable only when Maqasid governance is embedded by design: clear authority allocation, continuous Shariah monitoring of activities (not only contracts), incentives preventing excessive risk-taking or impact washing, auditable impact measurement linked to investment decisions, and enforceable corrective mechanisms.

8. Discussion: Institutional and Regulatory Conditions for Success

This section analyzes the feasibility of venture waqf funds by identifying success conditions and potential failure points—not only in financial design, but within a broader ecosystem involving waqf institutions, VC market depth, human capabilities, contractual/legal infrastructure, and regulatory alignment. Even advanced structuring and governance may fail without an institutional and regulatory environment capable of operating and enforcing them.

8.1 A First Launch Condition: Translating Founder Stipulations into an Executable Policy

A common practical gap in waqf investment initiatives is not lack of funding but the lack of operational translation of founder stipulations. Founder conditions are often broad (education/health/poverty/empowerment), whereas VC requires precise decisions: sector, stage, ticket size, selection criteria, impact indicators, and exit rules.

Therefore, an IPS derived from founder stipulations is a prerequisite, specifying at minimum:

- definition and boundaries of “acceptable impact” (Maqasid- and beneficiary-linked);
- risk and concentration limits;
- a spending rule that stabilizes beneficiary allocations;
- negative and positive screening criteria.

When this translation is absent, two drifts tend to occur:

- 1. market drift:** chasing fashionable deals unrelated to beneficiaries;
- 2. charitable drift:** financing weak commercial initiatives under the banner of “benefit,” undermining sustainability.

8.2 Professionalism Condition: Capability Gaps Between Waqf Administration and VC Management

VC is specialized: team assessment, market analysis, growth metrics, term negotiation, and intensive monitoring. Many waqf institutions lack these capabilities internally and may face stewardship conservatism that clashes with venture dynamics.

Success conditions include:

- clear separation between the trustee’s role (protecting stipulations/beneficiaries) and the manager’s role (deal execution and exits);
- an independent, expert investment committee (not a nominal one);
- balanced performance metrics reducing pressure toward pure return or pure rhetoric.

Outsourcing to an external manager is not a complete solution by itself; external managers may have commercial incentives misaligned with waqf, requiring strong contractual governance (fees, carry, clawback, reporting).

8.3 Sustainability Condition: Reconciling Waqf Perpetuity with Venture Exit Cycles

Waqf is perpetual; venture investing is cyclical. Success requires turning this paradox into an advantage:

- entity-level perpetuity for waqf;
- recurring portfolio entry/exit cycles generating liquidity for recycling.

Three strategic options:

- 1. income-window model:** safest for beneficiary regularity, but limited in scale;
- 2. evergreen model:** achieves perpetuity via recycling, but requires strong liquidity and valuation governance;
- 3. first-loss/tranching model:** maximizes leverage but increases compliance and governance complexity.

Choosing among them is not purely technical; it is an institutional identity decision reflecting the waqf's risk appetite for broader impact.

8.4 Incentive-Alignment Condition: Preventing Excess Risk and Impact Washing

Fees and carry shape behavior. Copying commercial incentives into a waqf context may increase risk-taking for higher carry or inflate impact claims to justify weak investments.

Success conditions:

- management fees covering operations without encouraging uncontrolled growth;
- performance incentives conditional on “governance gates” (Shariah compliance, risk-limit adherence, transparent valuation);
- independent impact assurance to reduce impact washing.

8.5 Market Condition: An Entrepreneurial Ecosystem Able to Absorb Capital

Even with perfect structure, success depends on investable deal flow and credible exits. VC needs accelerators/incubators, universities, IP infrastructure, co-investors, and exit markets.

Market readiness indicators:

- quantity and quality of startups in targeted sectors;
- presence of accelerators improving investability;
- co-investor networks for risk sharing;
- realistic exit opportunities (local/regional M&A, secondary markets, IPO pathways).

Where exits are weak, venture waqf may lock capital into illiquid stakes, requiring stricter liquidity/spending rules or starting with an income-window model.

8.6 Legal and Regulatory Condition: Intersection of Waqf, Funds, and Company Laws

Regulation is the ceiling for implementation. Waqf is typically governed by special law, funds by capital-market regulation, and startups by corporate/bankruptcy/IP law.

Key regulatory requirements:

1. recognition and operationalization of cash waqf as a portfolio (not only spending);
2. enabling SPVs/fund vehicles for risk isolation without prohibitive complexity;
3. clarity of fiduciary duties for trustees and investment managers;

4. proportionate disclosure governance (financial/Shariah/impact) without excessive bureaucracy;

5. effective bankruptcy and restructuring frameworks;

6. facilitation of exits: secondary transfers, simplified share-transfer procedures, and enforceability of shareholders' agreements.

Some jurisdictions may benefit from a regulatory sandbox for waqf-based impact investment vehicles.

8.7 Accounting and Disclosure Condition: Valuation Standards for Illiquid Assets

Startup valuation uncertainty is especially sensitive for waqf due to public trust. Inflated valuations or delayed loss recognition damages credibility and can distort spending decisions and stakeholder expectations.

Success conditions:

- conservative written valuation policy with independent review;
- reporting that discloses uncertainty rather than presenting false precision;
- external audit and transparent disclosure of failures as normal features of VC.

8.8 Social and Reputational Condition: Managing Public Trust and Donor Expectations

VC portfolios may have years with no exits or visible losses before major wins. Without expectation management, social/media pressure may push waqf institutions toward short-term decisions inconsistent with venture logic.

Success conditions:

- upfront disclosure of risk nature and time horizon;
- ring-fencing core beneficiary spending from venture volatility via smoothing rules;
- responsible institutional narrative: “disciplined failure within an impact portfolio,” not “gambling with waqf money.”

8.9 Staged Implementation Roadmap

A phased approach reduces transition shock:

1. Phase 1: income window + limited pilot

small income allocation; partner with specialized manager; build reporting/compliance/impact systems.

2. Phase 2: internal evergreen fund + expanded deployment

gradually increase allocation; formalize independent investment committee and conservative valuation; implement follow-on and exit policies.

3. Phase 3: partnerships and leverage (co-invest/first-loss)

attract impact partners; create tranching with explicit caps; strengthen impact assurance and audits.

8.10 Discussion Summary

Venture waqf is not merely a financial product but an institutional-regulatory arrangement. Success requires: (1) translating founder stipulations into an executable IPS, (2) professional investment management under multi-layer governance, (3) liquidity/spending rules protecting beneficiary regularity, (4) a market that provides investable deal flow and exits, (5) regulatory alignment recognizing waqf investment vehicles and protecting rights, and (6) valuation/audit systems preserving public trust.

9. Conclusion and Recommendations

9.1 Overall Synthesis and Key Findings

Through an analytical synthesis of waqf, Islamic finance, venture capital, and governance literature, this study shows that venture waqf is not simply an additional financing tool; it is a hybrid institutional model that redirects waqf capital toward

the innovation economy while operating under waqf constraints of perpetuity and founder stipulations. The study reaches several central conclusions:

1. Feasibility increases with layered separation (two-tier / ring-fencing):

The clearer the separation between the principal-protection waqf entity and the high-risk venture vehicle, the greater the sustainability and the lower the risk of principal erosion and beneficiary disruption.

2. Perpetuity is achieved at the entity level, not at the deal level:

The tension between waqf perpetuity and venture exit cycles can be resolved through evergreen structures or income windows, with clear recycling/distribution rules.

3. Maqasid-based governance is a condition of efficiency, not merely compliance:

Formal contract compliance is insufficient in a VC environment; governance must discipline incentives, manage conflicts, and operationalize Maqasid and founder stipulations as decision and measurement criteria—not as slogans.

4. Translating VC functions matters more than copying VC instruments:

Success depends on understanding VC functions (staging, information rights, portfolio-company governance, exits) and engineering Shariah-consistent functional equivalents, rather than merely labeling contracts as Musharakah/Mudarabah without effective protection and operational clauses.

5. Performance measurement must be dual and auditable:

Establishing an auditable matrix of financial and Maqasid indicators reduces two recurring risks: (a) maximizing returns at the expense of mission, and (b) impact washing at the expense of sustainability.

9.2 Practical Implications

- For waqf institutions: venture waqf is feasible and potentially high-impact, but it requires a shift from “asset management” to “portfolio management + governance + impact measurement,” i.e., an institutional transformation rather than a single investment decision.
- For entrepreneurial ecosystems: venture waqf can function as disciplined patient capital that addresses early-stage gaps, especially in impact sectors—provided exits and partnerships with accelerators/incubators exist.
- For regulators: there is a need for proportionate licensing and disclosure frameworks suitable for waqf investment vehicles, so they are not treated merely as fundraising charities nor as purely commercial funds.

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