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Analysis of Venture Capital Financing Contracts Between PMVS And MSME Partner Companies in Indonesia

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Abstract: Venture capital is a risk-based financing scheme combining equity participation with proportional risk and profit sharing between venture capital companies (PMVs) and partner companies (PPUs). Literature and practice, however, show a shift in venture capital's character toward instruments resembling debt-based financing, emphasising material collateral and fixed repayment terms. This article analyses the implementation of the profit-sharing principle in PMV–PPU financing agreements from the perspectives of contract law, Financial Services Authority regulations, the doctrine of freedom of contract, and MSME protection. The research uses a normative juridical method, examining the Civil Code, financing-institution and venture-capital regulations, and relevant decisions and doctrines, supplemented by Islamic economic literature on profit-and-loss sharing. Analysis shows that the profit-sharing principle conceptually requires sharing risks and profits consistent with equity participation. However, material collateral and fixed instalment obligations in some contract designs alter the creditor-debtor relationship and obscure the nature of risk. This article recommends reconstructing contract design and affirming limits on collateral use in venture capital financing to harmonise freedom of contract, venture capital's character, and PPU protection as an MSME actor.

Keywords: Venture Capital, Profit Sharing Principle, Financing Agreement, Joint Venture Company, Legal Protection.

INTRODUCTION

Venture capital was developed as a risk-free financing scheme . *Venture capital*) that targets businesses with high growth potential but face limited access to bank financing, particularly micro, small, and medium enterprises (MSMEs). This scheme not only provides funding but also includes elements of partnership, mentoring, and proportional profit sharing between the venture capital firm (PMV) and the partner company (PPU). The main characteristic of venture capital is its equity-based nature. *Participation*) and sharing of risks together, not on the emphasis on material guarantees, as is common in conventional banking credit.

Recent developments indicate a significant shift in venture capital practices in Indonesia. Initially designed as a financing instrument with unique characteristics that set it apart from conventional bank credit, venture capital is increasingly becoming a *debt-like instrument*. Amitha & Dwiyatmi (2025) found that PMVs in Indonesia no longer function primarily as financing institutions that foster small businesses, but have shifted to become more business-oriented by requiring collateral in the form of movable and immovable assets. The venture capital financing pattern accompanied by such collateral is more akin to a traditional debt agreement than to equity participation and shared risk.

One necessary consequence of this shift is the loss of technical assistance for small businesses *as an element of coaching*. Assistance. Amitha & Dwiyatmi (2025) noted that the mentoring and coaching functions, which are essentially essential components of the venture capital concept, have largely disappeared since the implementation of regulations by the financial services authority. For MSMEs seeking strategic partners who provide added value through expertise, networks, and coaching, this shift creates an additional burden: access to venture capital financing is increasingly resembling conventional banking standards, with an emphasis on collateralised assets and a measurable return.

The implications of this shift are particularly evident in the structure of agreements between PMVs and PPUs. Wahjuningati (2023) points out that standard venture capital contracts distinguish between equity participation agreements and limited participation agreements, and that these distinctions have implications for PMV involvement in technical assistance, marketing, and business management. As practices shift toward a more conventional model, these elements of equal partnership tend to diminish. They are replaced by clauses that emphasize securing guarantees and ensuring repayment, thus increasing the imbalance in bargaining power between PMVs and PPUs.

At the normative level, the implementation of PMV business is actually built on a regulatory framework that positions PMV as a strategic partner for PPU. Sofia et al. (2021) emphasised that Financial Services Authority regulations require PMVs to invest in companies with growth potential, while also obligating them to monitor and provide strategic guidance. Nadhif (2022) outlined that equity participation can be implemented through various instruments, such as equity participation and convertible bonds, each of which has implications for the joint venture's capital structure and risk profile. In this ideal configuration, clarity of agreements regarding risk assumption and profit sharing is crucial to maintaining a balance between the parties' rights and obligations (Sofia et al., 2021).

Recent literature has thus described two important aspects of venture capital governance in Indonesia. On the one hand, there is a regulatory framework and ideal design that positions PMVs as providers of capital participation, strategic partners, and business advisors (Sofia et al., 2021). On the other hand, normative analysis shows a shift in the character of venture capital toward debt-like instruments and the loss of technical guidance functions, while highlighting the complexity of standard contracts and the imbalance in bargaining power between PMVs and PPUs (Amitha & Dwiyatmi, 2025). However, these studies generally stop at mapping the policy and general character of contracts, without specifically examining how the implementation of the profit-sharing principle in concrete PMV-PPU contract designs—especially across varying financing patterns—is tested for consistency with the venture capital character as *a risk-averse entity*. capital and the purpose of protecting MSMEs.

Starting from this context, the main problem to be addressed in this article encompasses two aspects. First, how is the profit-sharing principle implemented in financing agreements by venture capital firms for partner companies, particularly in group and individual financing schemes? Second, to what extent is this contractual practice consistent with the

characteristics of venture capital as a *risk-averse venture? capital* and regulatory framework that emphasizes equal partnerships and protection for micro, small, and medium enterprises.

To answer these questions, this article uses a normative juridical approach. The analysis is conducted on general civil law provisions regarding agreements and specific regulations governing the implementation of venture capital companies (PMV) and financing based on the principle of profit sharing, supplemented by doctrinal studies, scientific literature, and policies and guidelines of relevant authorities. Through this approach, discussions regarding the construction of the legal relationship between PMV and joint venture companies (PPU), the position of the profit sharing principle in the design of financing contracts, and its implications for the protection of PPU are drawn solely from normative constructions and doctrinal thinking, without relying on the findings of field research.

This article argues that although formally a financing agreement with a profit-sharing principle has fulfilled the requirements for a valid agreement and normative provisions regarding the contents of the agreement, the practice of imposing guarantees and arranging returns in certain financing patterns creates inconsistencies with the spirit of *risk. capital* and places PPU in a less protected position. To support this argument, the discussion is divided into four sections: first, the normative and conceptual framework of venture capital and the profit-sharing principle; second, the implementation of the profit-sharing principle in financing practices; third, an analysis of the suitability of the practice to the characteristics of venture capital and the protection of PPU; and fourth, a proposal to strengthen regulation and supervision to maintain the purity of the profit-sharing principle in venture capital financing.

METHODS

Study This use approach juridical normative. Analysis done with reference to the provisions of the Civil Code, in particular Articles 1320 concerning the condition of legitimacy agreement and 1338 concerning the principle of freedom of contract, and regulations specific to venture capital firms and institutions financing issued by the Financial Services Authority (OJK) and the Ministry of Finance. The primary legal materials reviewed covering regulation legislation about institution financing, OJK Regulations on licensing business and administration venture capital firms, as well as provision related agreement financing and guarantees materiality.

Legal materials secondary covers books, articles journals, and results study related previous with venture capital law, principles for results, freedom contract, standard contract standards and protection consumer service finance. Legal materials are analysed qualitatively through systematic, interpretive, and teleological interpretation. For test suitability, design, contract, venture capital financing, venture capital character as risk capital, and PPU protection, in particular MSME actors. Thus, "the results research research" in the article are understood as the results of juridical construction and synthesis of doctrine, not empirical findings.

RESULTS AND DISCUSSION

Conceptual and Normative Framework of Venture Capital Financing and Profit Sharing Principles

Conceptually, venture capital is understood as a non-bank financing institution that provides funds and managerial support to companies with high growth prospects that do not yet meet the requirements for bank financing. The main characteristic of venture capital is the involvement of venture capital firms (PMVs) in capital participation, either through equity participation or through a combination of equity and debt. investment and quasi-equity instruments such as convertible bonds, accompanied by active participation in the management and development of joint venture companies (PPU) (Sofia et al., 2021). In this

construction, the relationship between PMV and PPU is ideally not merely a creditor-debtor relationship, but rather a business partnership that requires proportional sharing of risks and profits.

Venture capital financing agreements are subject to the general provisions of contract law in the Civil Code. Article 1320 of the Civil Code requires agreement between the parties, legal capacity, a specific object, and a lawful cause as conditions for a valid agreement. Article 1338 of the Civil Code emphasises the principle of freedom of contract, which allows the parties to determine the terms of the agreement so long as they do not conflict with the law, public order, or morality. In the context of venture capital, this principle allows PMV and PPU to regulate in detail the financing mechanism, profit-sharing scheme, timeframe, collateral, and dispute resolution mechanism.

However, freedom of contract is normatively limited by the need to maintain a balance of rights and obligations, as well as protection for structurally weaker parties, namely PPU, which are generally MSMEs. Standard contracts drawn up unilaterally by PMVs must still be tested against the principles of fairness and proportionality. Wahjuningati emphasized that standard venture capital agreements must be carefully explored to ensure that their provisions do not place PPU in a position that is legally and economically unduly disadvantaged (Wahjuningati, 2023).

In Islamic financing, the principle of profit-and-loss sharing (P&L) is applied. Profit-sharing (PLS) has long been known through the *mudharabah* and *musyarakah* models, which require the sharing of profits and risks between capital providers and business managers (Ramdani, 2018; Rifai, 2020; Safitri et al., 2023). Profit-sharing contracts address not only profit sharing but also fair risk management to prevent disproportionate risk burden on one party (Choiroh, 2022). This is where the issue of freedom of contract must be read in conjunction with the principle of protecting the weak and consumer protection laws. Various studies have shown that the imbalance in bargaining power between financial service providers and service users often results in unfair clauses (Nasaruddin & Erwin, 2023; Widiyaningsih, 2020). Therefore, a fair approach in standard agreements is key to ensuring that contracts are not only formally valid but also substantively reflect justice and the welfare of both parties (Mochtar, 2019).

Ultimately, a shared understanding of the capital structure, profit-sharing amounts, and legal consequences of each agreement provision is a prerequisite for a sustainable PMV-PPU relationship. Clarity of clauses, transparency of information, and mutual understanding between the parties will minimize future disputes (Fadhilah & Tarigan, 2023; Poernomo, 2019). This conceptual and normative framework suggests that, ideally, venture capital should position PMVs and PPUs as equal partners with proportional risk-sharing, without excessive reliance on material collateral. Any financing contract design that re-emphasizes material collateral and returns still needs to be critically examined against this normative framework, particularly in relation to the protection function for PPUs as the weaker party.

Profit and Loss Sharing Principle Loss Sharing) in Venture Capital Financing in Indonesia: Operational Definition, Criteria, and Critical Views

Venture capital financing, or risk-based financing, in Indonesia represents a significant alternative mechanism within the financial system, especially for MSMEs that are not fully served by bank financing. In this article, the profit-sharing principle serves as a normative benchmark for assessing whether the PMV-PPU relationship continues to reflect the risk characteristics of MSMEs. capital or shift to become debt-like instrument. Therefore, a clear understanding of the operational definition and validity criteria, and a critique of practices that use the label "profit sharing" but, in substance, operate like debt, is necessary.

1. Operational Definition of the Profit-Sharing Principle in Indonesian Positive Law

a. Basic Concepts and Regulatory Basis

In the context of Indonesian positive law, the profit-sharing principle (PLS) is a key pillar of venture capital financing. Windhatria, Santosa, and Muda define venture capital as a long-term investment in which the PMV and PPU share profits or losses based on mutual agreement (Windhatria et al., 2024). The essence of this model is that the PMV does not simply provide a loan but acts as a business partner, sharing the risk of uncertain outcomes.

Wujarso (2021), in the context of the PLS mechanism in *mudharabah* and *musyarakah* contracts, explains that the fund owner (*shahibul mal*) and the business manager (*mudharib* or partner) are required to share operational profits according to a pre-agreed ratio (percentage). There is no guarantee of a specific rate of return before the business is launched; this mechanism differs fundamentally from interest-based financing, which promises a fixed return to the funder.

b. Regulations in the Financial Services Authority Regulations

Normatively, the status and scope of venture capital companies (PMV) in Indonesia are primarily regulated by a combination of general civil law provisions and sectoral regulations governing financing institutions. The Civil Code provides a general basis for agreements through Article 1313, which defines an agreement; Article 1320, which sets out the conditions for the validity of an agreement; and Article 1338, which affirms the principle of freedom of contract, binding the parties as law. On this foundation, Minister of Finance Regulation Number 18/PMK.010/2012 concerning Venture Capital Companies defines PMV as a business entity that provides financing/capital participation to a partner company for a certain period in the form of share participation, purchase of convertible bonds, and/or financing based on the sharing of business results. This formulation emphasizes that financing based on the principle of profit sharing is a form of business activity that is explicitly recognized within the positive legal framework.

Subsequently, the Financial Services Authority detailed the regulations through OJK Regulation Number 35/POJK.05/2015 concerning the Implementation of Venture Capital Company Businesses and then updated it with OJK Regulation Number 25 of 2023 concerning the Implementation of Venture Capital Company Businesses and Sharia Venture Capital Companies. These two regulations, in essence, emphasise that venture capital businesses finance through equity participation and/or for a specific period to develop a joint venture company, including through venture fund management. These regulations open up space for various financing schemes—both participation-based and financing with a more receivable-like character—while placing PMVs within a prudential regime that requires risk management, maintenance of asset quality, and the implementation of good governance.

This dimension of prudence and governance is emphasised by OJK Regulation Number 48 of 2024 on Good Governance for Financing Institutions, Venture Capital Companies, Microfinance Institutions, and Other Financial Services Institutions, which requires the application of the principle of good corporate governance, corporate governance, risk management, and adequate compliance for PMVs. In this context, the use of material collateral, financial covenant arrangements, and other risk management mechanisms are essentially a direct consequence of the prudential obligations imposed by regulators. However, when these prudential obligations are translated into financing contract designs that make collateral and fixed instalment payments the primary safeguards, there is potential for tensions with the nature of venture capital as a risk-taking institution. capital and the principle of risk sharing,

which forms the normative basis for profit-sharing schemes. This regulatory framework serves as the starting point for this article's analysis, assessing the extent to which PMV contractual practices align with the essence of venture capital and the goal of protecting partner companies, particularly MSMEs.

2. Criteria for a Scheme to be Considered Profit Sharing

a. Essential Requirements in Mudharabah and Musyarakah Contracts

A scheme can only be considered authentic profit-sharing if it meets a series of essential criteria, both derived from Islamic jurisprudence (fiqh) of muamalah (Islamic jurisprudence) and Indonesian legal practice. Hariati (2024) explains that in mudharabah, the shahibul maal (the owner of the capital) provides the capital, while the mudarib manages the business, and both parties share profits or bear losses based on the contract. The first fundamental criterion is proportional risk sharing: a situation where one party is guaranteed profits while the other bears almost the entire risk of loss should not occur.

Wujarso (2021) emphasized that in pure mudharabah, if the business incurs losses, the investor could potentially lose some or all of the capital, while the mudarib loses the time and effort invested. This contrasts with debt-based financing, where the lender still earns interest regardless of the business's results. Conceptually, PLS requires risk. real sharing, not just nominal profit sharing over a fixed liability structure.

b. Operational Criteria Based on OJK Regulations

Referring to the principles articulated in POJK 35/2015, Haspada et al. (2021) identified that an authentic profit-sharing scheme requires PMV and PPU to position themselves as partners in a joint venture, rather than as creditor and debtor. The consequences include:

- a) The profit-sharing ratio must be clear and written down before any investment is made.
- b) Mustika et al. (2024) emphasise that determining the ratio must take into account the amount of capital, the level of work contribution, and the level of business difficulty, so that profit sharing does not unfairly disadvantage either party.
- c) Profit sharing must be based on actual operational results.
- d) In Islamic banking practice, the recognized profit-sharing calculation methods are profit sharing and revenue sharing. sharing, not fixed- based calculations return (Ramdani, 2018). Although the context is banking, the same logic can be applied to venture capital: profit sharing should come from the PPU's business performance, not from hidden interest on the principal.
- e) Strategic decision-making should reflect a partnership.
- f) Business decisions that significantly impact financial performance should ideally be made through mechanisms that allow for PPU rather than being determined entirely unilaterally by the PMV. Domination of one party in decision-making, along with the imposition of rigid repayment obligations, tends to shift the relationship toward a creditor-debtor model.

c. Principles of Transparency and Accountability

Ramdani emphasised that transparency in a business's financial condition is a sine qua non. A prerequisite for implementing a profit-sharing system (Ramdani, 2018). Periodic, auditable financial reports form the basis for calculating shared profits. Without transparency, profit sharing becomes little more than a numerical formula that's difficult to verify.

M. Umar, as quoted by Nurcahyo (2018), added that profit-sharing cooperation agreements require openness and willingness (*rida*) from both parties in decision-making. Therefore, the principles of transparency and accountability are not merely technical aspects, but rather part of contractual justice, which underpins PLS and the intersection between freedom of contract and protection of the vulnerable.

3. Critical Perspective: Practices Labeled as Profit Sharing with a Debt Character

a. The Phenomenon of “Fake Profit Sharing” in Venture Capital Practices

One of the main criticisms of venture capital financing practices in Indonesia is the emergence of schemes labelled “profit sharing” that operate in substance like debt financing. Research by Windhatria et al. (2024) on venture capital in DKI Jakarta shows that venture capital companies can essentially utilize collateral clauses for lending and borrowing, rather than for pure profit sharing. In a partnership model that positions the parties as joint business owners (partnership), the imposition of material collateral between co-owners is considered unusual.

However, a normative analysis shows that many PMVs still require personal guarantees or other collateral from the PPU before disbursing funds, positioning the PPU as if it were a debtor obligated to repay the funds regardless of business performance. This practice clearly contradicts the essence of profit-sharing, which is that the risk of loss should be shared according to an agreed-upon ratio.

b. Practical Mechanisms Resembling Debt

Ardiansyah (2015), through an agency perspective Theory shows that *mudharabah* and *musyarakah* financing structures in Islamic banking are often implemented with very strict procedures and strict eligibility criteria. Although the context is banking, the resulting effect is similar: profit sharing is treated operationally like a conventional loan, which is expensive and high-risk for the recipient.

Ascarya & Yumanita (2007) found that *murabahah* (buying and selling with a fixed margin) products dominate over *mudharabah* and *musyarakah*, reaching 60–90 percent of total Islamic banking financing. This finding illustrates financial institutions' preference for guaranteed-return instruments over risk-adverse schemes. Sharing. Similar preferences may explain why, in venture capital practice, schemes purportedly based on profit sharing are often designed so that the PMV minimizes its risk exposure, while the PPU assumes obligations that approximate the character of debt.

c. Criticism of the Implementation of the Profit-Sharing Scheme

Nasution & Ginting (2024) explain that in venture capital financing, if the PPU fails to fulfill its obligations under the agreement, the collateral can be executed to repay the debt. Normatively, this logic is closer to conventional credit patterns than PLS-based partnerships. In a true partnership, business losses should be internalized within the capital portion, not transferred entirely to the PPU through collateral execution.

Rahardiansyah et al. (2023) identified moral hazard in *mudharabah* financing, such as the tendency to conceal profits or manipulate financial reports. To address these risks, financial institutions often establish stringent control mechanisms. On the one hand, these mechanisms are essential for risk mitigation; on the other hand, if overly designed, they have the potential to eliminate the PPU's autonomy and shift the relationship to a creditor-debtor control pattern.

Research by Trihantana et al. (2023) shows that profit-sharing financing to non-bank third parties has an inconsistent impact on the profitability of financial institutions. Although this study is based on banking data, the implications are

relevant: in practice, profit-sharing schemes often do not produce an attractive risk-return profile, thus encouraging defensive and debt-like contract designs .

d. Normative and Regulatory Implications

The role of notaries in venture capital financing is also closely related to the above problem. Windhatria et al. (2024) note that the role of notaries in venture capital financing practices has so far been more preventive-administrative than protective-substantive, namely limited to the creation of deeds without ensuring that the contents of the deeds truly reflect the principles of partnership and profit sharing. As a result, contracts formally packaged as equity participation agreements often contain clauses that substantially resemble secured credit agreements.

From a regulatory design perspective, this situation indicates that the existing legal framework does not sufficiently provide clear operational guidance and boundaries regarding: (i) the use of collateral in profit-sharing schemes, (ii) the sharing of risk of loss, and (iii) the standard clauses that must be present to ensure a true partnership between PMV and PPU. This is where the normative analysis in the next section will examine the extent to which PMV–PPU contracts align with or deviate from the formulated normative standards.

Typology of Implementation of the Profit Sharing Principle in Venture Capital Financing

The results of the study show that the implementation of financing based on the profit sharing principle in venture capital companies can be typologically identified. A series of relatively rigorous analytical steps. These steps include initial exploration and market potential surveys by marketing officers, information gathering on potential PPUs, business feasibility analysis, and evaluation of market, production, management, financial, legal, and risk aspects. All evaluation results are then compiled into an investment proposal submitted to the board of directors and investment committee for financing approval.

After obtaining internal approval, the company prepares and sends a confirmation letter to the PPU, which outlines the type of financing, amount, term, profit-sharing percentage or service fee, divestment schedule, and other general requirements related to the use of funds and the PPU's obligations. The confirmation letter, approved by the PPU, serves as the basis for the company or a notary to draft a deed of agreement. In the next stage, the parties sign the financing agreement with notary approval, thereby establishing a clear, formal legal relationship between them.

In practice, companies implement two main profit-sharing financing patterns. The first pattern is financing MSMEs through a group scheme. *lending*) and a joint liability system without material collateral. Group members range from eight to twenty people, each receiving individual financing, but payments are made collectively. If one group member is unable to fulfill their obligations, the other members are obliged to cover the shortfall. This pattern is relatively close to the character of venture capital as a *risk-averse venture capital* because it emphasizes the assessment of business prospects and group solidarity, not material guarantees.

The second pattern is financing for small and medium-sized businesses on an individual basis, requiring material collateral, such as a fiduciary bond or other security. In addition to profit sharing, this scheme also requires capital repayment in fixed instalments on a specific schedule. The financing implementation phase is followed by regular monitoring through financial reports, field visits, and business coaching for the PPU. At the end of the financing period, a divestment phase begins, during which all obligations are repaid until the capital and returns are declared fully paid.

Formally, the contents of the agreements in both patterns have met the provisions regarding the minimum contents of venture capital financing agreements, including the identity of the parties, the amount and term of financing, repayment mechanisms, cost details, collateral if required, the rights and obligations of the parties, fine provisions, and dispute resolution mechanisms. However, the differences in contract design between the group financing pattern without collateral and the individual financing pattern with material collateral and instalments still raise substantial issues. The second pattern functionally approaches the character of a conventional debt agreement, thus shifting venture capital financing from a *risk profile based on capital to one that more closely resembles collateral-based credit*. Capital-based equity and shared risk are instruments that more closely resemble collateral-based credit. This distinction is a critical point for assessing the extent to which the implementation of the profit-sharing principle in PMV-PPU financing practices aligns with the character of venture capital and the goal of protecting PPU, particularly MSMEs.

Compliance of Practices with the Characteristics of Venture Capital and Protection of Partner Companies

From a contract law perspective, the inclusion of a guarantee clause in a venture capital financing agreement does not necessarily conflict with public law, provided statutory regulations do not prohibit it and does not violate public order or morality. The principle of freedom of contract, as reflected in Article 1338 of the Civil Code, allows the parties to agree on clauses deemed necessary, including those regarding guarantees, provided they are based on agreement and do not harm third parties. Thus, at the level of formal validity, financing agreements with a group pattern without guarantees, or with individual patterns with material guarantees, can be declared valid if they meet the general requirements of agreements under Article 1320 of the Civil Code.

However, if analysed from the conceptual characteristics of venture capital as a *risk, in a capital system* that requires equity participation and proportional risk sharing, the use of material collateral and the obligation to repay fixed instalments in individual financing schemes raise both normative and theoretical problems. This type of contract design shifts the equal partnership relationship between PMV and PPU towards a creditor-debtor relationship that places a greater portion of the risk on the PPU. PPU, especially MSMEs, are in a relatively weak bargaining position, both in their ability to negotiate contract clauses and in their capacity to understand the long-term legal implications of binding material collateral. Thus, the main problem that arises lies not in the formal validity of the agreement, but rather in the substantial misalignment between the financing contract design and the nature of venture capital as a *risk-taking entity. capital* that should offer a more balanced risk distribution.

In the context of consumer protection for financial services, the PPU can be viewed as a party requiring protection against potentially detrimental standard clauses. The imbalance in bargaining power between the PMV and the PPU increases the risk of agreements that superficially fulfil the principle of freedom of contract but are materially weighted in the PMV's favour. This situation creates tension between the principle of freedom of contract and the principle of protection of the weaker party. Therefore, it is necessary to assess whether the contents of financing agreements—particularly in the individual-guaranteed model—reflect the principles of fairness, proportional risk-sharing, and transparency regarding the rights and obligations of the PPU. Without these prerequisites, the profit-sharing principle has the potential to be reduced to a mere normative label that masks debt-based financing practices.

On the other hand, regulations regarding the implementation of venture capital businesses essentially reaffirm the characteristics of equity-based financing and profit

sharing, and encourage the role of PMVs as strategic partners providing business assistance. When measured against the conceptual framework regarding the use of material collateral and fixed installment repayment patterns in individual financing, it shows a gap between these normative constructions and contractual practices. This finding aligns with trends documented in previous studies that describe a shift in venture capital toward debt-like instruments and the fading of technical guidance functions (Amitha & Dwiyatmi, 2025), while also concretizing the problem of imbalanced bargaining power and the complexity of standard contracts between PMVs and PPUs (Wahjuningati, 2023).

That, it is in the interests of venture capital companies to apply the principle of prudence (prudential principle) also cannot be ignored. The character of financing to PPU especially MSME actors inherently carries a high risk of business failure, while regulators demand maintenance of asset quality and adequate risk management. In this context, the use of material collateral, the arrangement of certain covenants, and early warning mechanisms are important. A warning is an effective and reasonable tool to protect the sustainability of PMV businesses. Therefore, the main problem lies not in the guarantee itself, but rather in the contract design, which substantially undermines the principle of risk sharing and transferring almost the entire risk burden to PPU, so that the scheme, which is normatively constructed as capital participation, changes function into a debt-based financing relationship that is not in line with the essence of venture capital.

Thus, when measured against the existing literature and regulatory framework, the suitability of profit-sharing financing practices with venture capital characteristics and PPU protection objectives is ambivalent. On the one hand, the unsecured group financing pattern still reflects the spirit of *risk capital* and partnerships are on equal footing. On the other hand, the individual financing model with material collateral and instalment payments continues to blur the lines between venture capital and conventional credit, potentially leaving PPU in a less protected position. This ambivalence indicates the need to restructure contract design and clarify the limits on the use of collateral in venture capital financing, so that the principles of freedom of contract, the character of venture capital, and the principles of PPU protection can be more consistently harmonised.

Implications and Strengthening of Profit-Sharing Principles in Venture Capital

The findings regarding the dualism of financing patterns—group financing without collateral and individual financing with material collateral and fixed instalments—show that, in practice, venture capital tends to be ambivalent. On the one hand, group patterns still reflect the spirit of equal partnership and risk-sharing, while individual patterns shift financing toward debt-like instruments. This situation has important implications at three levels: company-level contract design, regulatory and supervisory frameworks, and legal protection for partner companies.

At the first level, namely the venture capital firm level, a restructuring of financing contract designs based on profit-sharing principles is necessary. The use of material collateral and fixed-installment repayment schemes in individual financing must be carefully positioned to avoid negating the essence of risk sharing. Venture capital firms should maximize risk management instruments that align with the *risk characteristics of individual financing capital*, such as stricter business selection, phased financing schemes, strengthened monitoring mechanisms, and ongoing managerial and technical assistance. Financing contracts should also include clauses that explicitly regulate risk and profit sharing, provide adjustment mechanisms in the event of business turmoil, and outline restructuring procedures that prioritise the sustainability of the PPU business rather than the liquidation of collateral. In this way, the principle of freedom of contract can be operationalized within a more balanced partnership framework.

At the second level, namely the regulatory and supervisory framework, the findings of ambivalence like financing indicate the need to reaffirm the boundaries of collateral use in venture capital. Regulators need to formulate more detailed guidelines on when and under what conditions material collateral can be used in profit-sharing financing schemes, as well as on how the risk must be fairly shared between PMV and PPU. These regulations could be formulated in the form of provisions that more clearly differentiate between equity-based financing and financing that substantially approaches conventional credit. Furthermore, PMV compliance indicators should not be solely oriented towards financial performance, but should also include measures regarding the quality of business mentoring, the intensity of monitoring, and the achievement of strengthening MSMEs as beneficiaries of the financing.

At the third level, namely legal protection for joint venture companies, it is necessary to strengthen consumer protection instruments for non-bank financial services, specifically covering standard PMV–PPU contract practices. This can be achieved by developing minimum standard clauses that must be included in financing agreements to ensure transparency of information regarding the risks, costs, and legal consequences of late payments. Furthermore, it is necessary to develop complaint and dispute resolution mechanisms that are easily accessible, fast, and low-cost for PPUs who feel disadvantaged by certain financing clauses or practices. The obligation to provide legal and financial education to PPUs is also an integral part of this protection, so that PPUs are not only risk-bearers but also legal subjects capable of understanding and negotiating their rights and obligations under the contract.

Overall, the main implication of this research finding is that strengthening the regulation of profit-sharing principles in venture capital requires an integrated approach between contract design at the company level, sharpening oversight norms and standards at the regulatory level, and improving legal protection instruments for PPU. Without regulation at these three levels, the risk of "labeling" the profit-sharing principle—where the term is used but the practice takes on the character of conventional credit—will remain high and potentially erode venture capital's role as a development financing instrument that supports MSME strengthening.

CONCLUSION AND RECOMMENDATIONS

Conclusion

Normatively, the analysis shows that venture capital financing based on the profit-sharing principle in Indonesia has developed along two main patterns. The unsecured group financing pattern with a joint and several liability system is substantially closer to the character of venture capital as a risk-based financing system. capital, because it emphasises partnership, mentoring, and a more equitable sharing of business risks. Conversely, individual financing patterns with material collateral and fixed instalment repayment terms, although formally valid under contract law and financing provisions, tend to functionally resemble conventional debt agreements and have the potential to obscure the essence of capital participation and risk. sharing in venture capital schemes, especially when PPU is an MSME actor with a weak bargaining position.

These findings point to the need to redesign venture capital financing contracts and to strengthen regulations governing profit-sharing principles. At the business actor level, venture capital firms need to align financing practices to better reflect risk-sharing and strengthen the capacity of PPU businesses through careful selection, concrete mentoring, and ongoing monitoring, without making material collateral the sole risk-management instrument. At the regulatory level, it is necessary to clarify the reasonable limits of collateral use in venture capital contracts, establish minimum standards for PPU protection, and develop

supervisory indicators that focus not only on asset quality but also on the development and sustainability of PPU businesses.

Thus, this article emphasizes that the dialectic between the principle of freedom of contract and the principle of protection of the weak party in venture capital financing can only be adequately responded to through regulatory and contractual designs that still provide flexibility for the parties, but at the same time ensure that the distribution of risks and benefits in the PMV-PPU relationship takes place in a more balanced, fair and consistent manner with the character of venture capital as a risk-taking instrument. capital for the development of MSMEs.

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