

Do Borrowers Behave Differently under A *Waqf* Institution?

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ABSTRACT

Waqf was considered the main vehicle for investing in commercial and public ventures in early Muslim civilization. This paper discusses how the use of awqaf funds for lending can be a better alternative for financing in the Muslim world. We propose to model the concept of integrating the private equity and venture capital concept with *waqf*. An experimental study using a principal-agent contract, which mimics a possible contract in *waqf*, is employed to see the effect of the use of such social funds in investment and the social value embedded in such contracts. A standard loan contract with social preference is adopted to discern how much the structured contract superior compares with its legalistic Islamic standard contract employed in an Islamic bank. Using *mudharaba* in the experiment, the result provides evidence that knowing the nature of social endowment funds of an Islamic *waqf* institution motivates the borrower to comply with signed contracts and influences his giving behavior. This is expected to empower emerging Muslim economies and act as one of the solutions offered for development.

Keywords: Moral Economy, Private Equity, Venture Capital, *Waqf*

JEL Classification: G2, G41

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