

Islamic Fintech Dialogue: Mobilizing Funding for Islamic Fintech

Islamic Fintech Dialogue Report

FOREWORD

Revolutionizing Malaysia's Social Finance Landscape with Islamic Fintech

Warmest greetings and my thanks to our readers from across the globe for your continued support.

Since the inaugural Islamic Fintech Dialogue with industry champions in 2019, Malaysia's Islamic fintech landscape has made progressive inroads in developing both the demand and supply-side of the ecosystem. The 2021 dialogue featured the highs and lows of the Islamic fintech industry with a specific theme on mobilizing funding for Islamic fintech.

A year ago, a lack of engagement between key stakeholders and an absence of national direction on Islamic fintech were highlighted as stumbling blocks. I am pleased to share the most notable highs in 2021 were the holistic approach which key industry stakeholders undertook in meeting some of the objectives of Shared Prosperity Vision (SPV) 2030, Malaysia Digital Economy Blueprint (MyDIGITAL) and the 12th Malaysian Plan 2021-2025 among others. These initiatives include: 1) increasing digital literacy for individuals and business; 2) facilitating the needs of MSMEs and SMEs to pivot their business digitally for survival; and 3) heightening the visibility of equity crowdfunding (ECF) platform and peer-to-peer platform (P2P) to help MSMEs, start-ups and B40s that lack credit history and proper credit assessment, to raise funding.

Accordingly, Securities Commission Malaysia (SC) mentioned that fintech could be a key enabler in re-building the Malaysian economy as the country recovers from the pandemic. This includes driving greater adoption of digital capability to enhance capital formation efficiencies and increase investor participation in the capital market. Based on SC's latest figures, there are currently 21 ECF and P2P financing platforms, which have collectively raised more than

RM2.2 billion (US\$519.6 million) for close to 4,000 MSMEs since their inception [1]. Of the 21 ECF and P2P platforms, six are Shariah compliant platforms [2].

In line with our vision of a digitally united Keluarga Malaysia, I am happy to note that the collective progress we have made as a nation, in ensuring the disadvantaged receive the proper aid and assistance, whilst striving toward creating an equitable society leveraging on the many benefits digital and technology have to offer. MDEC's Islamic Fintech Dialogue Series has established itself as a marker for the gathering of prominent fintech ecosystem partners to highlight challenges, resolve market hurdles and explore opportunities in moving the needle forward. Empowering the B40s and MSMEs remains a permanent charter for the government and MDEC, as we strive to holistically rally industry champions in achieving a digitally connected economy. The engine for Malaysia's future growth will be powered by technology-based economic sectors and I am confident resolutions achieved from this industry dialogue will have a positive ripple effect in heralding new digital and technology solutions.

As a global leader in Islamic finance, Malaysia has become a beacon for others to follow. Nevertheless, we must not rest on our laurels and ensure that we continue to open up new frontiers as we crystalize Malaysia as a globally competitive digital nation. In light of this, MDEC will continue to be the torch bearer and rally industry stakeholders to join forces in making Malaysia the hotbed for tech and fintech players.

Thank you.



Mahadhir Aziz
CEO
Malaysia Digital Economy Corporation

1 Source: <https://www.sc.com.my/resources/media/media-release/fintech-to-help-malaysia-build-back-better>, 26th October 2021

2 Source: <https://www.capitalmarketsmalaysia.com/digital-islamic-fintech/>

Malaysian Islamic Fintech Initiative

Malaysia is widely acknowledged as one of the most promising Islamic fintech jurisdictions in the world. Its merits are undeniable: it boasts one of the most sophisticated Islamic fintech regulatory architectures globally, it has a tried-and-tested, successful top-down approach, and it houses a vibrantly creative Islamic finance community. The key is to harness this potential and translate it into tangible rewards to spur the national economy and benefit the global Islamic finance industry.

This ambition is aligned with the Malaysian government's Shared Property Vision 2030 (SPV2030), which highlights Islamic finance and the digital economy as Key Economic Growth Activities to achieve its national commitment of elevating the country to become a nation of sustainable growth. This constant drive for innovation will also ensure fair and equitable distribution across income groups, ethnicities, regions and supply chains.

The Malaysian Islamic Fintech Initiative is a product of this ambition. Organized by Islamic Finance *news* and supported by Malaysia Digital Economy Corporation (MDEC), the Malaysian Islamic Fintech Initiative is the country's leading industry-driven, high-level engagement series aiming to craft the national agenda on Islamic fintech, provide guidance and direction to the stakeholders and mobilize meaningful, actionable outcomes to develop the Islamic fintech ecosystem. With the input and support of regulators, government agencies, fintech start-ups, Islamic finance institutions and stakeholders from the third sector and investment community, a series of recommendations and action plans have been formed, contributing to the formulation of a high-level framework for Malaysia's Islamic fintech industry.

Finding funding success

The Malaysian government has identified Islamic fintech as a strategic avenue to further bolster its global Islamic economic standing and as a source of economic growth. There is much to gain from developing this area. However, establishing a vibrant supportive ecosystem is a collaborative exercise involving many moving components, with funding as an instrumental factor of success for any start-ups.

The importance of a robust funding mechanism was highlighted during the first two dialogues under the Malaysian Islamic Fintech Initiative. A survey with 200 Islamic fintech start-up CEOs and founders from across the world conducted by IFN Fintech in June 2021 found that funding remains the biggest hurdle faced by Islamic fintech start-ups, a persistent concern that was also highlighted by the start-ups in 2020.

To address this perennial issue, the third instalment of the Malaysian Islamic Fintech Initiative focused on mobilizing funding for Islamic fintech start-ups, who find it twice as hard to secure funding due to a myriad of factors including a lack of Islamic finance awareness and understanding from investors. These prevent Islamic fintech start-ups to grow and scale up to serve the financial inclusion agenda. The closed-door dialogue was participated by international and domestic players.

DIALOGUE 1

Building Malaysia's Proposition

- Crafted 10 strategic recommendations to position Malaysia as a regional Islamic fintech hub
- Identified Malaysia's unique selling proposition and potential areas of leverage

DIALOGUE 2

Islamic Fintech & Digital Financial Inclusion

- Designed nine action plans for Malaysia to create a niche in being a leader in driving digital financial inclusion through Islamic fintech

DIALOGUE 3

Mobilizing Funding for Islamic Fintech

- Identified four key priorities and six strategic recommendations to facilitate an Islamic fintech funding ecosystem



Areeb Siddiqui
CEO & Co-Founder
Kestrl
(UK)



Dima Djani
CEO
ALAMI Sharia
(Indonesia)



Elaine Lockman
Co-Founder & Director
ATA Plus
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Gopi Ganesalingam
Vice President Global Growth
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Malaysia Digital Economy
Corporation

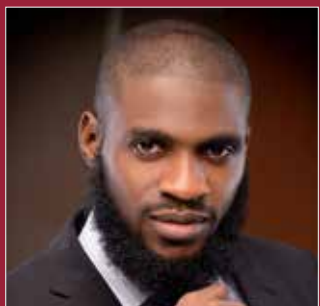


Mohammed Alsehli
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Malaysia Digital Economy
Corporation



Syakir Hashim
Head of APAC
Wahed Invest
(Malaysia)



**Tunku Danny
Nasaifuddin Mudzaffar**
CEO & Founder
microLEAP
(Malaysia)



Vladimir Malenko
Director
FairFin Capital
(Cyprus)

PRINCIPAL FINDINGS

Mobilizing funding

for Islamic fintech start-ups

1

Malaysia is a promising emerging
ASEAN fintech start-up ecosystem

2

Start-ups need to create and
amplify brand story

3

Investors still unclear about
differences between Islamic and
conventional finance

4

Scarcity of Islamic Investment
capital remains a hurdle

5

There is more than one source of
funding

6

Access to human capital as
important as access to funding

RECOMMENDATIONS

Mobilizing funding

for Islamic fintech start-ups

1

Establish Islamic fintech incubation
and acceleration programs

2

Generate awareness and amplify
success stories

3

Capitalize on ESG alignment

4

Involve conventional players

5

Expand alternative funding options

6

Build up talent pool

PRINCIPAL FINDINGS

Malaysia is a promising emerging ASEAN fintech start-up ecosystem

Malaysia may be overshadowed by its regional peers such as Singapore, Indonesia, China and India when it comes to start-up ecosystems, but Kuala Lumpur's prowess is steadily gaining international recognition, evident by its improving regional and global rankings.

The acknowledgement by its global peers is no accident: the country has been steadily investing and mobilizing resources behind the scenes to lay a solid foundation for start-ups, including fintech start-ups, to thrive. Among its ASEAN neighbors, Malaysia was one of the earliest to have the foresight to invest in the digital economy: it set up multiple government agencies, introduced enabling policies, built much-needed infrastructure and developed various acceleration and incubation programs.

As the agency established by the government to spearhead the development of the digital economy, MDEC implemented various initiatives to nurture the local tech ecosystem to be at par with its regional peers.

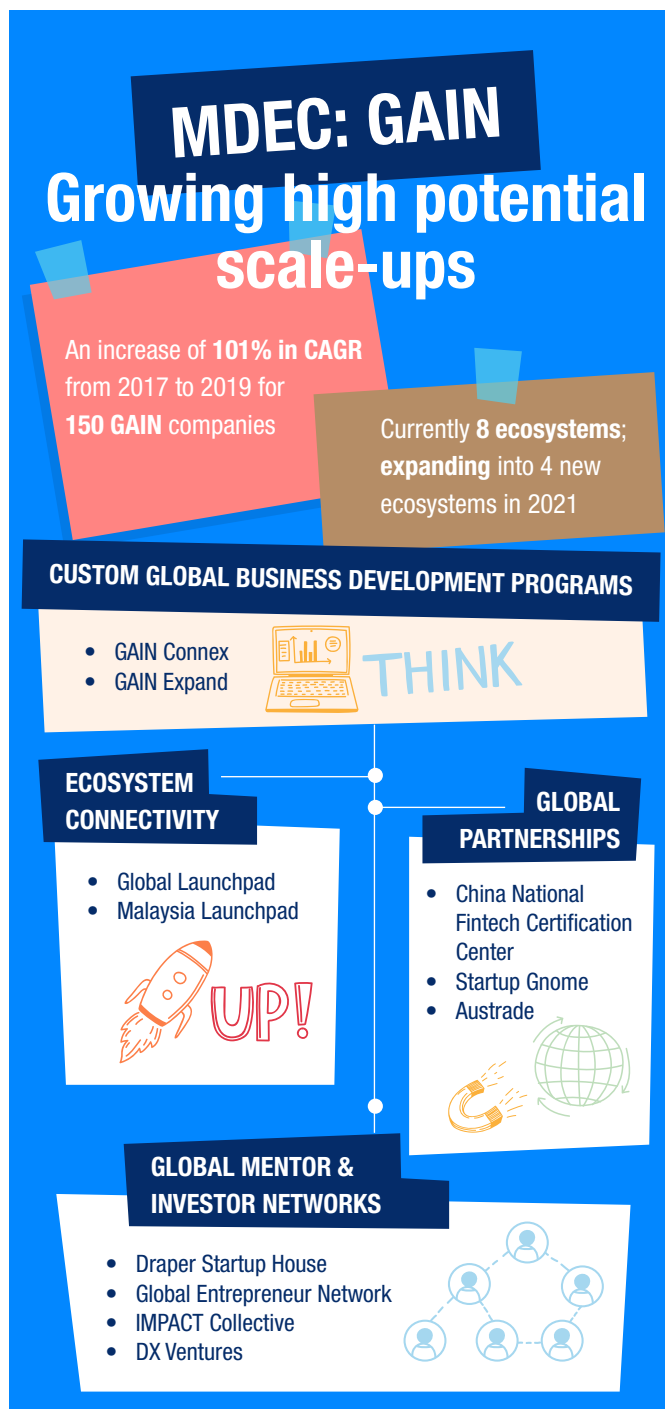
“What we’ve seen in the last five years is a really rapid growth of the start-up ecosystem in the country,”

Startup Genome founder and CEO Jean-Francois Gauthier



- Kuala Lumpur ranked 11th emerging start-up ecosystem in the world by Startup Genome

- Malaysia ranked 9th top start-up ecosystem in Asia Pacific and improved its global ranking by eight notches to 40 in 2021 according to the Global Startup Ecosystem Index 2021



The Malaysian Advantage: Supportive entrepreneurial programs

MDEC BUILDING LOCAL START-UPS

Nurturing tech champions

Malaysia Tech Entrepreneur Program (MTEP)

Visa pass for global tech entrepreneurs
Attracted over 200 foreign entrepreneurs to set up base in Malaysia



Malaysia Digital Hub

A hub to supercharge start-up growth through programs with ecosystem partners

Corporate Innovation

Sourcing of corporate challenges solutions from local start-ups



National Technology Innovation Sandbox

Funneling of start-ups from Malaysian Global Innovation & Creativity Center (MaGIC)

Research Commercialization

Leveraging on research institutions



The Malaysian Advantage: Dedicated Islamic finance and fintech initiatives



FIKRA Accelerator

Joint initiative by Securities Commission Malaysia and UN Capital Development Fund to which MDEC is the appointed ecosystem partner.

An acceleration program to identify and scale up innovative fintech solutions to support Malaysian Islamic capital market.

Status Update

Launched in May 2021. MDEC appointment as Ecosystem Partner. Deadline for the first program closed on the 7th July 2021. Received 100+ applicants, of which approximate 20% were foreign.

Stage 1 → Source and selection phase.

Stage 2 → Evaluation and cohort selection.

Stage 3 → Accelerator program split into: 1) 100 startups 2) Top 50 startups 3) Top 10 startups.

Stage 4 → Demo Day. Coincide with SCxSC Fintech Conference in October 2021.



i-Connect Fintech in Islamic Finance

Industry-led collaboration network involving industry, academia, government and civil society including MDEC.

Aims to enable Malaysia to leverage on new economic opportunities in disruptive innovation and lay foundation for Malaysia to be global Islamic fintech hub.

Status Update

Launched on the 14th July 2021. i-Connect is envisaged to enable Malaysia to leverage on new economic opportunities in disruptive innovation and lay the foundations for Malaysia to be a global hub for Islamic fintech.

Application timeline:



RAIF Impact Challenge

Royal Award for Islamic Finance (RAIF) is a joint initiative by Bank Negara Malaysia and Securities Commission Malaysia to support the sustainability agenda. MDEC appointed as partner for RAIF Impact Challenge.

Status Update

Objectives:

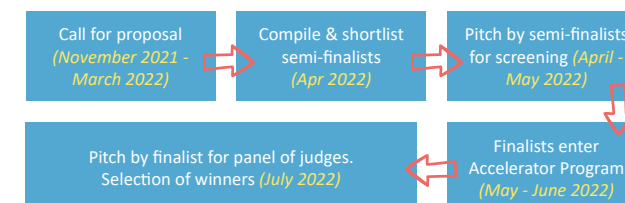


O1
Create positive and tangible impact in strengthening the economic and social resilience of the financially impacted communities.



O2
Continued expansion of Islamic finance global impact and realize sustainable development goals.

Proposed timeline:



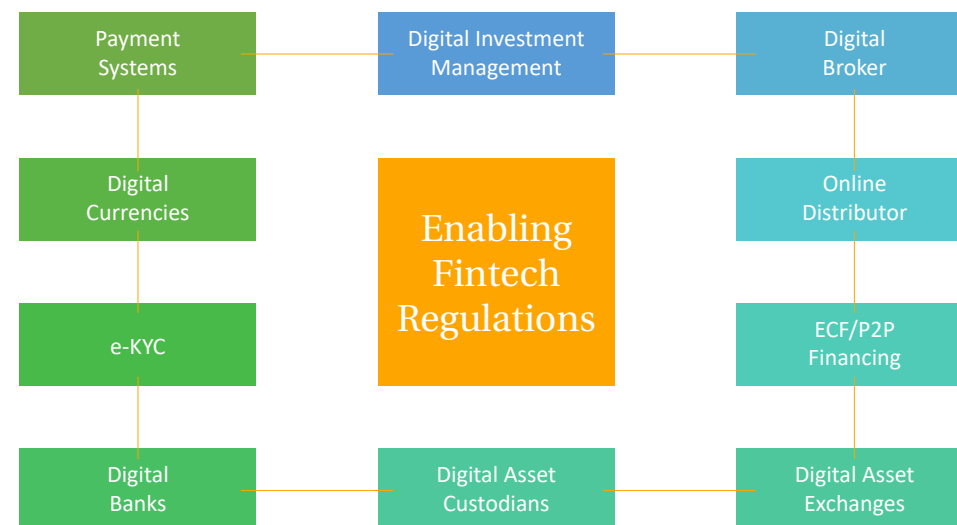
The Malaysian Advantage: Robust regulations

Malaysia's financial regulators – Bank Negara Malaysia (BNM) and Securities Commission Malaysia (SC) – are globally recognized for their leadership in engineering one of the most advanced and sophisticated Islamic finance regulatory infrastructure. With the foresight to recognize the potential of fintech reshaping the finance sector, the regulators have taken the lead to introduce enabling fintech regulations to build a thriving fintech ecosystem comprising local and international market participants.

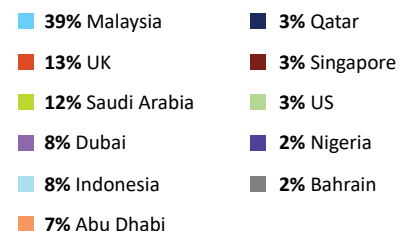
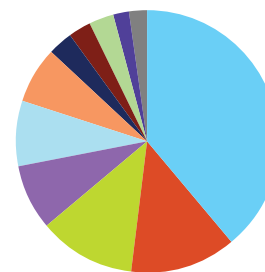
The proactiveness of the regulators and government to support the fintech industry has made this global Islamic finance leader a very attractive proposition for many ambitious Islamic fintech entrepreneurs. The 2021 IFN Fintech CEO and Founder Survey found that almost 40% of the respondents singled Malaysia as having the most robust and supportive regulatory infrastructure and Islamic finance architecture for Shariah fintech activities. Malaysia is the most popular destination of expansion for Islamic fintech entrepreneurs after Indonesia as many see it as the ideal gateway to tap the Asian market.

“The Malaysian regulators are one of the best we’ve worked with. They are highly engaging and open to industry feedback, easing our expansion into Malaysia”

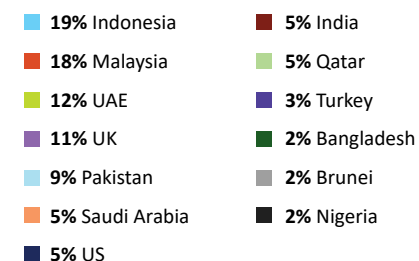
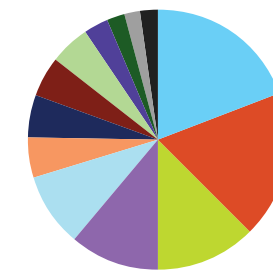
These, combined with the country's ease of business, have nurtured the world's largest Islamic fintech community, housing 48 fintech start-ups offering Halal financial services as at the 10th April 2022, according to the IFN Islamic Fintech Landscape.



Which market do you think has the most supportive and conducive ecosystem for Islamic Fintech?

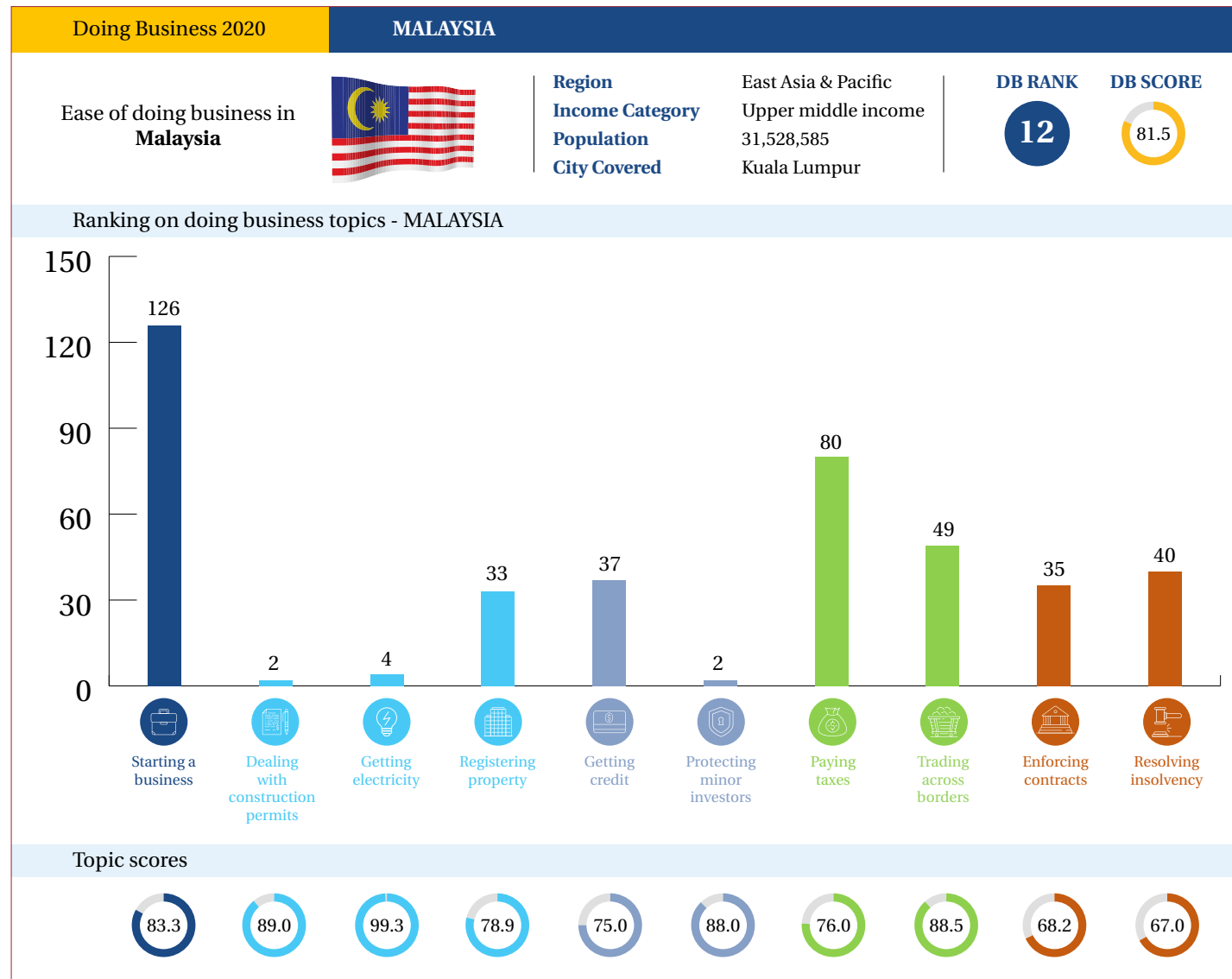


Ideally, which market would you like to enter next?



Source: IFN Fintech CEO & Founder Survey 2021

The Malaysian Advantage: Ease of doing business



“The Malaysian government is committed to continually assess the quality, inclusivity and sustainability of Malaysia’s growth. We have built good foundations but we also recognize the need to invest more in developing high-quality human capital to facilitate greater economic opportunities; next-generation reforms for higher productivity; as well as innovation-led private sector growth and policies,”

Tengku Zafrul Tengku Abdul Aziz at the launch of the World Bank’s Aiming High – Navigating the Next State of Malaysia’s Development report

KEY

Italics Start-ups working on an Islamic fintech product but have not launched
 * Start-ups without a Fatwa for their product(s)

TAKATECH



Grab Insure



PolicyStreet*



Qoala*



Senang*



TuneProtect



VSure.life*

PERSONAL FINANCE MANAGEMENT



Boost*



eHibah*

BLOCKCHAIN & CRYPTOCURRENCIES



Finterra



Grainer



Wakaful*

ISLAMIC ENABLERS



FIKRA



Mountain Partners*

CROWDFUNDING



Global Sadaqah



IAP Integrated



MADCash*



Pusat Pungutan Zakat*

PAYMENT, REMITTANCE & FX



GoPayz*



Menapay



MoneyMatch*



MuslimPay



MyMy*



PayHalal



SnapNPay*



Siddiq Malaysia*



Touch 'n Go*



Tulus*

ROBO ADVISERS



Algebra



Wahed Invest

TRADING & INVESTMENT



AAM Commodities*



AbleAceRaakin



Bursa Suq Al Sila



HelloGold



Quantum Metal*



Sedania As Salam Capital



Shoraka Suyula Platform*

ALTERNATIVE FINANCE



Airapay



Duittech International*



HariGaji*



Orpheus*



Money3*



TFX Islamic

P2P FINANCE



CapBay*



Ethis



Funding Societies



MoneySave*



MicroLeap

NUSA KAPITAL

Nusa Kapital

CASE STUDY

Tech entrepreneurial success via MDEC's GAIN program

MDEC's GAIN program, underpinned by the four pillars Gateway, Amplify, Invest and Nurture, fuels high-potential Malaysia-headquartered tech companies to put them on a global stage through year-round growth interventions.

One of the beneficiaries of the GAIN program is drone-based enterprise solutions provider Aerodyne established in 2014. Through GAIN, MDEC supported the firm by creating access to funds and business opportunities as well as providing a marketing boost, which facilitated Aerodyne's global expansion. In 2021, Aerodyne catapulted itself to top the global league of drone service providers, according to Drone Industry Insights.



Nurture

Involvement in professional development with influential mentors and aspiring mentees to harness the ecosystem

Invest

Funding facilitation with venture capitalists, private equity and other funding avenues

Amplify

High-impact visibility activities to elevate and establish credibility of companies to desired target audience

Gateway

Curated market access and business-matching events at regional and international levels



MDEC interventions

2019

- Connected Aerodyne with KEJORA (an Indonesia venture capital fund) and Khazanah Nasional to access funds
- Introduced to government fund agency VentureTech; Aerodyne secured significant Series B investment
- Invited Aerodyne to present at the Republic Korea Startup Summit 2019 organized by Korea's Ministry of SMEs and Startups

2020

- Increased Aerodyne's visibility through engagements at:
 - o Digital Investment Summit 2020 (Founder and Group CEO Kamarul A Muhamed as speaker)
 - o Maxis IoT Challenge (Founder and Group CEO Kamarul A Muhamed acted as mentor)
 - o Interview with Drone Industry Insights on Aerodyne's global positioning as the world's largest drone services company
- Increased Aerodyne's market access through:
 - o Participation at Russia-Malaysia Technology Day Virtual Conference 2020
 - o Participation at Japan External Trade Organization webinar
- Facilitated involvement with government stakeholders through participation in a closed-door session with the Digital Malaysia Vision Drafting Committee, under Malaysia's Economic Planning Unit for the Digital Malaysia Vision initiative

Aerodyne's growth journey over five years

	2016	2017	2018	2019	2020	2021
Number of employees	30	138	230	350	400+	800
Export markets (countries)	International expansion began in March 2017	5	10	20	32	35
Revenues	RM120 million (US\$28.19 million) in 2019, with 21% attributed to export markets					US\$80 million in 2021



Islamic fintech opportunity

GAIN has supported – and is supporting – approximately 170 tech companies, out of which 60 have raised a total of RM1.7 billion (US\$403 million). There is an opportunity to replicate and apply GAIN's model to Islamic fintech start-ups, from both the demand and supply side.

In 2020, at the height of the pandemic, MDEC mobilized online funding initiatives, running six funding activities covering debt and equity. The digital campaigns involved microLEAP, a peer-to-peer (P2P) finance platform with Islamic finance capabilities, underscoring the role of alternative Islamic finance providers such as P2P and crowdfunding platforms in channeling Shariah compliant funding to Islamic fintech start-ups.

Start-ups need to create and amplify brand story

- There is an overreliance on Shariah compliance as unique service proposition
- Founders need to build a proposition that is scalable and compelling based on research
- Mentorship and education crucial to guide start-up founders craft a brand story

It takes more than a good idea to win funding; it takes great storytelling, agreed market leaders. The ability to deliver one's brand story effectively is widely acknowledged as one of the most important skills required of a start-up CEO/founder.

Equally important as building the communication skills needed to persuade and convince investors of a start-up's value proposition and growth potential, is the ability to craft the right brand story. Like any business, a cohesive narrative that resonates with investors and clients is fundamental to getting a business off the ground and winning investments.

Dialogue participants noted that there is a tendency for Islamic fintech start-ups to over-rely on Shariah compliance as their unique selling proposition. However, founders need to understand that Shariah compliance is merely a single feature and not the main selling point of a proposition that needs to be compelling and scalable, which can only be built upon solid market research. It pays to think over a long-term horizon, determining a start-up's unique characteristics and proposition that would hold strategic value to investors and also the macroeconomic conditions needed to realize its value in full.

This is where mentorship and education would play a meaningful role, underscoring the crucial importance of dedicated Islamic fintech accelerators or accelerators with a Shariah track.



Investors still unclear about differences between Islamic and conventional finance

- Poor Islamic finance literacy and misconception about Islam are pervasive challenges
- Considerable time and resources spent on educating potential investors and customers
- Expectations about potential generated returns need to be managed

This need for education extends to investors as well. Islamic fintech start-up founders shared that they spend considerable time and resources educating potential investors and customers on the principles of Islamic finance. Depending on which markets they are operating in, the level of literacy could differ significantly. Misplaced sentiments about Islam and Shariah compliance and weak Islamic finance literacy remain some of the most persistent challenges Islamic fintech start-ups face.

Among investors, particularly those without Shariah investment background or experience, there have been clashes over how the business should be run as most Islamic fintech start-ups prioritize people over profits. There are also misperceptions about potential generated returns.

“In their perspective, Islamic finance would have this secret sauce that is different and more powerful compared to conventional finance; when in reality, it is just a different way to channel money, in a way that is more ethical and sustainable according to Shariah principles. So, in terms of equity returns, it doesn't really make a huge difference”

“What we don't have right now is the demand from Islamic banks and Islamic funds. Basically, with no clear exit strategies, Islamic VC and PE funds are not particularly looking forward to financing deals”



Scarcity of Islamic investment capital remains a hurdle

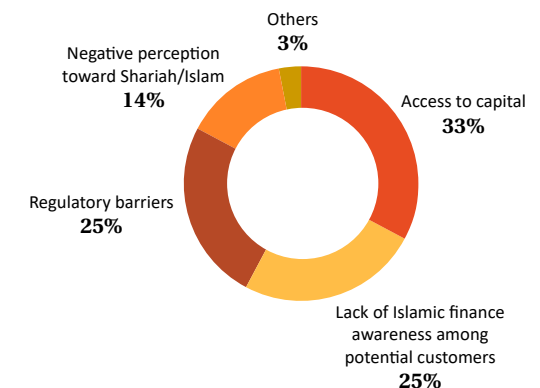
- Investor hesitancy due to lack of familiarity and understanding of Islamic finance principles

The scarcity of funding is arguably the most pervasive challenge for Islamic fintech start-ups. Interviewing 200 Islamic fintech CEOs and founders from across the world in 2021, IFN Fintech found that 33% of respondents singled out access to capital as their biggest challenge in scaling up, followed by poor Islamic finance literacy and unsupportive regulations.

Apart from competing with conventional start-ups for limited venture capital (VC) and private equity (PE) funding, Islamic fintech entrepreneurs also face the additional barrier of resistance or hesitance from potential investors due to the lack of understanding and appreciation for Shariah compliant principles and values.

A factor contributing to the scarcity of Islamic PE&VC funding for Shariah fintech service providers is the lack of interest from Islamic banks or funds to acquire these start-ups, therefore reducing the chances of a successful exit strategy for the start-ups, one dialogue participant noted. PE&VC funds are essentially intermediaries and the end-goal of investing into any assets is to realize returns on investment. This means exit preparation is vital: any business venture must articulately craft an evidence-backed proposition on why its venture is an exciting investment opportunity.

What are the biggest challenges you facing in scaling up?



There is more than one source of funding

Market participants are quick to point out that there are other financing options beyond PE&VC for Islamic fintech start-ups.

For pre-seed and seed funding, equity crowdfunding is becoming an increasingly preferred avenue for fintech start-ups. Several Islamic start-ups in other markets have successfully raised funds through equity crowdfunding platforms including the likes of Kestrl and Yelders, both based in the UK and who had leveraged the Seedrs platform, as well as Canada-based Manzil which raised through FrontFundr. In Malaysia, there are 10 licensed equity crowdfunding operators including Shariah compliant Ethis Ventures which have successfully channeled funding into various local start-ups including those in the fintech and e-commerce space.

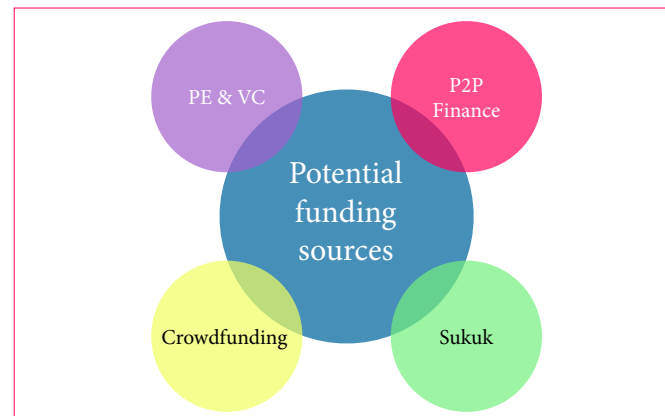
Peer-to-peer (P2P) financing is another option. There are 11 recognized P2P operators in Malaysia including microLEAP which offers Islamic investment notes which have been capitalized by a variety of businesses to raise financing at pre-seed and seed level.

For larger rounds, Sukuk are an option. While largely used as a funding tool for larger corporations and governments,

the market is moving toward catering to SMEs and start-ups. Indonesian blockchain platform Blossom Finance broke grounds in 2019 by facilitating the issuance of the world's first Sukuk based on smart contracts, raising IDR715 million (US\$50,476) for a local cooperative. This landmark offering showed the Islamic world that "micro" Sukuk is possible through the use of blockchain technology, which facilitates ownership of fractional Sukuk. The importance of such development is largely two-pronged: it widens the Sukuk investor base, which has traditionally been dominated by institutional and sophisticated investors, considerably to include retail investors; and it allows the issuance of small and medium-sized Sukuk, in line with start-ups' Series A and Series B needs.

The last three years have seen a flurry of fintech start-ups spearheading fractional Sukuk projects including Wethaq Capital in Saudi Arabia which aids business ventures to raise between SAR50 million (US\$13.13 million) to SAR500 million (US\$133.15 million) on a private placement basis. The emergence of such fintech solutions fills a gaping SME funding gap, which are generally of relatively smaller funding ticket sizes.

More recently in March 2021, UAE-based Pure Harvest Smart Farms became the first in the region to secure funding through Sukuk as an early-stage growth company, paving the way for other tech firms to follow suit.



Access to human capital as important as access to funding

- Certain roles more challenging to fill as tech and Islamic finance knowledge and skills are required
- Shariah advisors need to be proficient with financial technology development

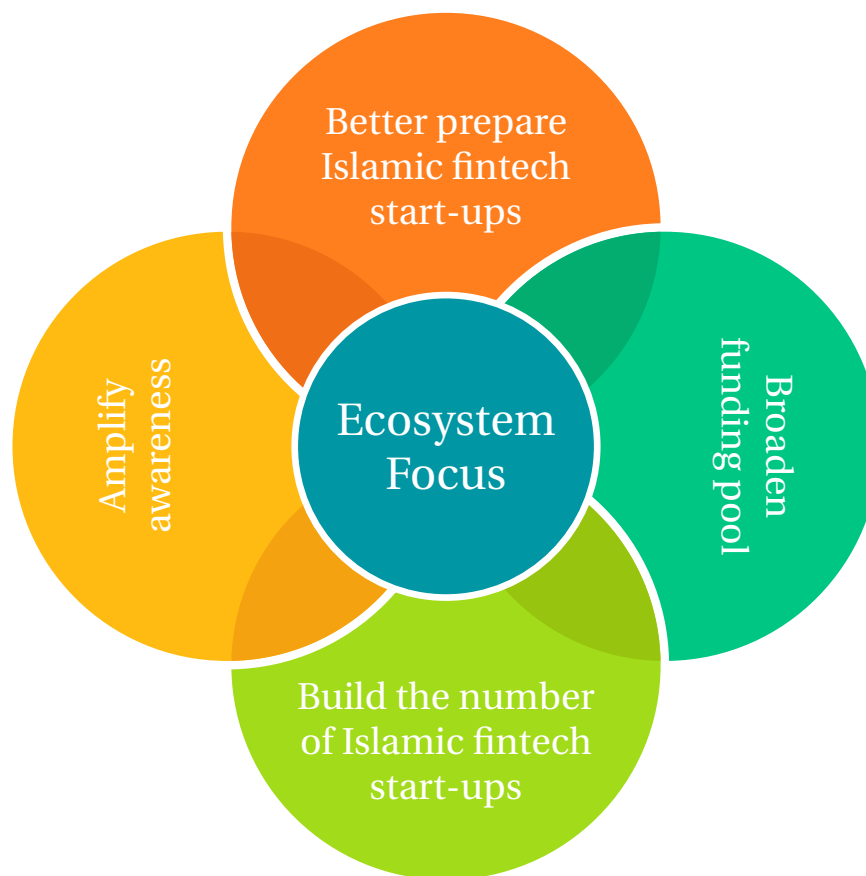
Investments into employees often are the biggest expense for any organization as they are critical to achieving organization goals. Yet, talent shortage, particularly in Southeast Asia, remains a severe issue. It is therefore unsurprising that human capital is a persistent theme in dialogues with Islamic fintech CEOs and founders, who have identified it as one of the biggest barriers to growth. While the lack of talent is a common issue across most industries, Islamic fintech practitioners highlighted the additional layer of challenge in filling up certain roles because both tech and Islamic finance proficiency, a combination that is lacking greatly, are required.

The human capital gripe extends beyond internal hires,

into the Shariah advisory space. With Shariah integrity central to an Islamic fintech start-up's business model, Fatwa or Shariah pronouncements, would facilitate its market expansion and business growth as these pronouncements assure the market of its compliance with Islamic principles. As the world capital of Islamic finance, Malaysia is not short of Shariah advisors: as at the 31st October 2021, the SC registered 58 individual Shariah advisors and 20 Shariah advisory firms. However, not all are proficient with the latest technological advancements, creating a knowledge and technical gap which would hamper the development and delivery of digital Islamic financial services.

“Islamic fintech is a very specific field, very technologically enhanced and psychologically intensive. We only have a few Shariah advisors who actually are capable of understanding the technological issues that we are dealing with”

STRATEGIC PRIORITIES



WHAT SHOULD WE FOCUS ON?

Ecosystem enablers and participants need to design and implement initiatives that would enhance the supply of capital and support start-ups scale up in an effective manner through a multi-pronged approach

“How do we move to the global rankings not just in terms of emerging start-up ecosystem, but also the main global start-up ecosystem?”

RECOMMENDATIONS

Establish dedicated Islamic fintech incubation and acceleration programs

Accelerators have rapidly gained prominence and importance as a vital component in venture creation, including as a source of initial funding for start-ups and early-growth tech ventures. They provide much-needed foundation, knowledge and expertise, mentorship and network.

While accelerators are a better fit for funding purposes, incubators also play an essential role of readying Islamic fintech start-ups toward a successful business pitch, i.e. creating a compelling brand story and delivering it persuasively, by assisting in engineering a business model and designing a plan as well as providing mentorship. Incubators provide the resources needed to jump-start a business.


These programs would be useful in preparing Islamic fintech start-ups in developing their proposition and products, and connecting them to investors. Due to the heavily regulated environment fintech start-ups operate in, compounded by additional Shariah governance requirements, market practitioners are of the opinion that specialized Islamic fintech programs, or dedicated Islamic fintech streams within existing accelerators and incubators, could lend strength to the fledgling Islamic fintech community.

At the moment, there are only a handful of fintech accelerators with an Islamic focus. In Turkey, Shariah banking giant Al Baraka launched AlBaraka Garaj, a start-up acceleration center focusing on the Halal economy including fintech.

In May 2021, Malaysia's SC took the lead by introducing the FIKRA Islamic Fintech Accelerator Program in collaboration with the UN Capital Development Fund. FIKRA is the world's first regulator-led Islamic fintech acceleration program focusing on capital market solutions.

There are several fintech programs with a dedicated Shariah focus such as Dubai's DIFC Hive, which has Islamic banks, Islamic finance legal specialists and Islamic advisors as part of their mentorship network to cater to Shariah fintech start-ups. MDEC and BNM introduced the Fintech Booster, a capacity-building program for fintech service providers which counts several Shariah finance advisory and consulting firms as well as Islamic finance legal firms as its partners.

More of such programs would build capacity to cater to a larger base of start-ups looking to offer digital Islamic financial services.



“Relationships are crucial. Start-ups need help connecting with investors and building that network”

CASE STUDY

Nurturing Islamic fintech start-ups through Islamic fintech acceleration programs



Introduction

FIKRA, launched by the Securities Commission Malaysia and the United Nations Capital Development Fund in May 2021, is the first accelerator program dedicated to fintech solutions in the Malaysian capital market. The goal of the innovation program is to identify and scale relevant fintech solutions to support the growth of innovative start-ups to develop a vibrant Shariah fintech innovation ecosystem in the country's Islamic capital market (ICM).

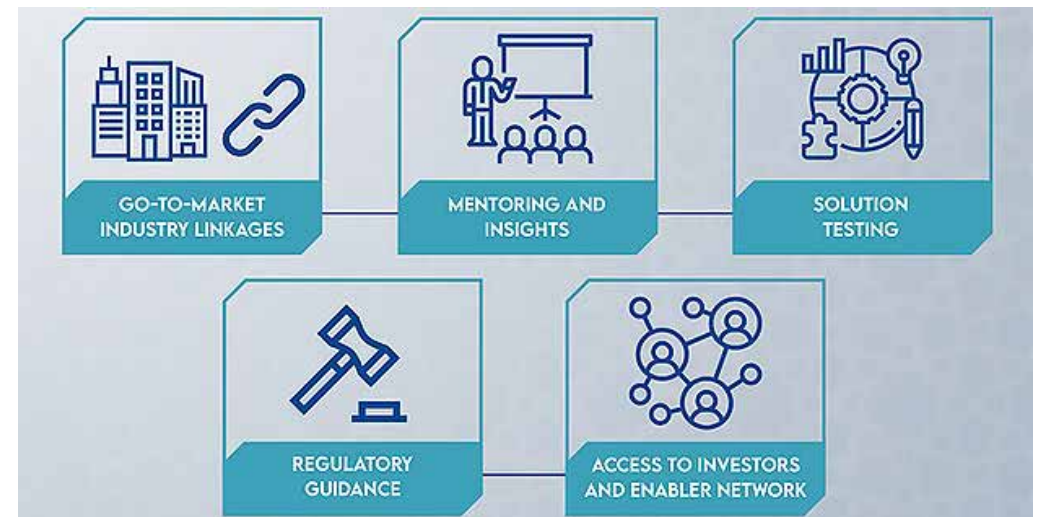
Eligibility Criteria



Evaluation Criteria



Benefits



Source: Securities Commission Malaysia, Capital Markets Malaysia

“Whilst our various regulatory frameworks cater to both conventional as well as Shariah compliant market segments, we have identified Islamic fintech as one of the growth areas of priority, leveraging Malaysia’s leadership in Islamic capital market”

Securities Commission Malaysia

“The program will focus on expanding ICM offerings and enabling greater connectivity, accessibility and inclusivity for issuers, investors and intermediaries in the areas that include Halal, SRI and Islamic social finance sectors”

Structure


A three-month program comprising curated sessions, masterclasses, mentoring and linkages with industry enablers for co-creation and testing, as well as solution showcase opportunities. Continued post-accelerator tracking and networking opportunities.

The first cohort



The program has attracted applications from a diverse pool of Islamic fintech service providers from Malaysia and international markets. The first cohort, which began the program in July 2021 and graduated in October 2021, consists of seven start-ups.

Start-up	Description
Crea8	A Malaysia-based socially-responsible robo-advisor
IBF DigiLabs –	A Singapore-headquartered developer of technology-based solutions for the smart Islamic economy
Kapitani	A Malaysian agri-fintech start-up empowering smallholder farmers with open access to capital, resources and knowledge
Kestrl	A UK-based app that helps Muslims budget, save and invest in line with their values
MADCash	A digital platform in Malaysia providing access to micro-funds for women from the bottom 40% income segment to start or upgrade a microbusiness
Nukleus	An equity crowdfunding solution focusing on the green economy based in Malaysia
Shoraka Suyula	A Malaysian secured digital marketplace for Re-Rahnu transactions enabling Ar-Rahnu (Islamic pawnbroking) operators to better manage their liquidity requirement



“Success of other Islamic fintech start-ups would provide the sector with more visibility within the conventional realm”

Generate awareness and amplify success stories

The level of understanding of Islamic finance among the majority of investors remains low, resulting in a reluctance or hesitance to invest into Islamic fintech start-ups or unlevelled expectations and demands, often against the spirit of Shariah. Educating investors about the uniqueness of Shariah compliant financial activities is important and equally important if not more, is to raise the profile of successful Islamic fintech start-ups. The mainstreaming of Islamic fintech would help in attracting new investors to the sector.

Suggested measures:

- A government-appointed champion for Islamic fintech to design, implement and monitor a comprehensive branding and marketing strategy in line with national Islamic fintech aspirations
- Regulators and enablers to include and highlight Islamic fintech in respective communication and branding strategies and campaigns
- Start-ups to raise Islamic financial literacy through targeted campaigns and programs as part of marketing and awareness initiatives
- Direct engagement or dialogues with potential investors for Islamic fintech exposure
- Organize or support Islamic fintech events
- Enablers to amplify successful and/or high-potential Islamic fintech start-ups through marketing materials and provide visibility through varied platforms including roadshows and conferences

Capitalize on ESG alignment

The natural alignment of Shariah finance with environment, social, and governance (ESG) principles provides an immense opportunity for Islamic fintech start-ups to position themselves to a wider audience. Globally, the finance industry has taken a strong ESG and socially responsible investment (SRI) stance, embracing principles of sustainability in the way they do business. The phenomenal rise of ESG

and SRI finance, which has become a multitrillion industry, demonstrates the palatability of ethical finance, an opportunity which has been seized by the Islamic finance industry to reach a wider market. The Islamic fintech community should follow suit, bearing in mind that Shariah compliant financial products are inclusive and open to non-Muslims as well.

Malaysia has spearheaded the Islamic ESG movement, with conducive policies and incentives as well as innovation such as the SRI and sustainability Sukuk. BNM's Value-Based Intermediation initiative, led by Islamic banks, has gained global recognition for its forward-thinking and holistic approach. There is a potential for similar replication for the Islamic fintech sector as an amplification strategy.

“Entrepreneurs should look for ways to balance and ensure compliance but also how they can provide these products to everyone, and not necessarily to just Muslims”

Involve agnostic players

- Encourage the offering of Islamic products alongside agnostic services
- Approach conventional investors

The involvement of conventional players is two-fold: encouraging fintech players to consider and offer Shariah financial services either by conversion or, perhaps more effectively and pragmatic, by expanding their offerings to include Muslim-friendly products; and attracting conventional investors into the Islamic finance space.

There are various success stories of conventional fintech start-ups expanding their market share and consumer base by adding a Shariah compliant dimension on top of their offerings. Some examples include Dubai-based Beehive, the MENA region's first peer-to-peer (P2P) lending platform to be regulated by the Dubai Financial Services Authority. It offers both conventional and Shariah compliant funding to SMEs and Islamic financing account for the lion share of its portfolio. Indonesian P2P Investree is a great example of a conventional lender who entered the Islamic space after about three years serving the market. Within the first year of its Islamic expansion, Shariah transactions accounted for 10% of its total financing portfolio. Closer to home, P2P platform microLEAP successfully implemented a conventional-Islamic model and facilitated Shariah compliant funding to various SMEs.

On the investor side, as PE&VC are essentially Shariah compliant, Islamic fintech start-ups should be opened to engaging conventional VC firms, even if conventional firms may need Shariah guidance. In recent years, the industry has seen a steady rise in conventional PE&VC funds, including from Silicon Valley, investing into the Islamic economy using Shariah instruments.

For example, Graphene Ventures, a Silicon Valley VC firm which counts social media giant Snap and ride-hailing service Lyft as part of its investment portfolio, secured US\$4 million in Islamic funding from a Saudi firm in September 2021 to channel into an eight-year Islamic fund focusing on early-stage tech companies. US-based Liquidity Capital in July last year entered into the Islamic venture finance arena through a partnership with Abu Dhabi-based Yas Investment to set up a US\$100 million Islamic venture debt fund to invest in MENA-based tech start-ups. Other notable Islamic PE&VC fund additions in 2021 include the UK's Ethos Invest which is setting up a US\$1 billion Islamic tech-based PE fund, Malaysia's Employees Provident Fund (EPF)'s US\$600 million Islamic PE fund introduced in February which is managed by international heavyweights such as BlackRock, HarbourVest Partners and Partners Group.



“If we have 100 entrepreneurs, 10 of them will grow to VC stage. But we need this 100 first”

CASE STUDY

Islamic fintech start-up attracts conventional investors



ALAMI co-founders (left to right): Harza Sandityo, Dima Djani, Bembi Juniar

ALAMI first began as an Islamic finance marketplace, aggregating Shariah compliant financial products in 2017. But it soon became a financial service provider itself by securing a P2P license from the Financial Services Authority, or OJK. Since it officially registered with the regulator in April 2019, the start-up has aggressively raised funds, served local MSMEs, built partnerships and enhanced its offerings. It became one of the fastest-growing Islamic P2P financiers in Indonesia.

It closed its first year of operations disbursing IDR80.2 billion (US\$5.55 million), and more than doubled it in 2020 reaching over IDR200 billion (US\$13.85 million) by the third quarter of 2020 while maintaining a 0% non-performing financing ratio. In the span of one year, the start-up also grew its pool of registered funders to over 10,000.

Fast forward to 2021, the start-up has disbursed over IDR1 trillion (US\$69.78 million) in Shariah compliant financing and struck various partnerships including with some of the most prominent Islamic banks in the

country. One of the most significant achievements it achieved in 2021 was buying a rural Islamic bank, BPRS Cempaka Al-Amin. With the acquisition, the P2P financier is now aiming to become the region's leading Islamic challenger bank.

ALAMI's impressive growth story – from marketplace to challenger bank in five years – is even more impressive because its growth has been supported by conventional investors. Its seed round late 2019 was notable because it was the region's first venture capital funding structured based on Akad Musharakah, a Shariah compliant contract. Led by Singapore-based Golden Gate Ventures, the round was participated by Malaysia's RHL Ventures, Indonesia's Agaeti Ventures and a Hong Kong-based angel investor Aamir Rahim through Zelda Crown. The start-up's phenomenal growth caught the eyes of conventional investors from the region and beyond, including the US. In January 2021, it raised US\$20 million in equity and debt in a round led by Golden Gate Ventures and AC Ventures, and participated by US-headquartered Quona Capital. And

a few months after it acquired the Shariah rural bank, the company closed a Series A+ round raising US\$17.5 million in August 2021.

"Traditionally, mainstream investors don't understand Shariah finance and so are not keen on investing in it, but I think as the market has grown, especially in Islamic jurisdictions like Indonesia and the GCC, I think those investors can appreciate that," CEO Dima previously told IFN.

ALAMI's journey demonstrates how Islamic fintech start-ups can attract conventional players with a compelling idea, solid strategy, and effective execution. Its decision to structure its seed financing to be compliant with Shariah, signals to start-ups and investors alike that Shariah engineering of financial contracts are within reach. Last but not least, ALAMI's funding success with local, regional and international investors raises the profile of the Islamic fintech collective, just as New York-founded robo-advisor Wahed Invest has done, allowing the investment community to warm up and gradually embrace Islamic fintech.

Type of business	Islamic P2P financing
Headquarters	Jakarta, Indonesia
Year founded	2017
Founders	Dima Djani, Bembi Juniar, Harza Sandityo
Regulatory status	Licensed by Otoritas Jasa Keuangan (OJK)
Total funding amount	US\$37.5 million (equity + debt)
Funding level	Series A+

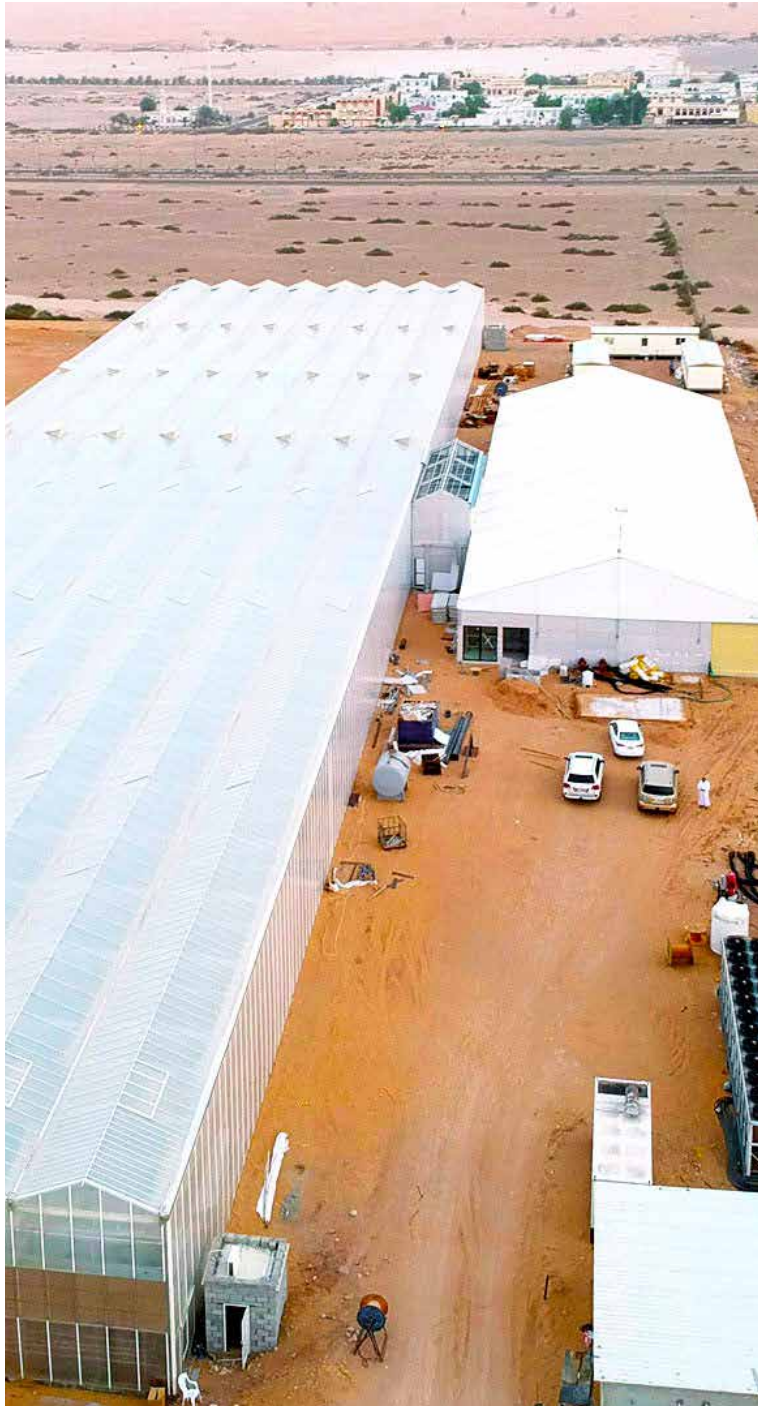
Expand alternative funding options

In Malaysia, there are promising progress in the Islamic PE&VC space, with new launches including EPF's US\$600 Islamic PE fund, the largest in the world, and Malaysia Venture Capital Management and Ficus Capital's Shariah compliant RM60 million (US\$14.17 million) FICUS SEA Fund, focusing on early-stage tech companies. There is still significant room for improvements.

- There is scope for the government and/or the private sector to set up funds to invest into early-stage and growth-stage Islamic fintech companies
- To attract conventional PE&VC funds – and new Islamic PE&VC funds – into the market, practitioners suggest offering incentives for Shariah compliant PE&VC deals
- Establish grants or funding schemes for Islamic fintech start-ups. Including grants to finance Shariah compliance certification process
- Redirect or carve out a portion of existing government funds allocated to technology, MSMEs or entrepreneurship to Islamic fintech start-ups

Funding beyond traditional PE&VC outfits should also be developed. This includes Shariah compliant P2P and crowdfunding platforms, Sukuk for SMEs targeting retail and institutional investors and fractional Sukuk mechanisms.





CASE STUDY

Start-ups accessing the Sukuk market

Overview

In March 2021, agritech firm Pure Harvest Smart Farms grabbed the attention of the global Islamic finance industry with its debut Sukuk offering. Its foray was notable as, unlike the usual issuers of Sukuk, Pure Harvest Smart Farms was a relatively young firm having only been established in late 2017, and was still building its business. It also raised a relatively modest amount (US\$50 million); in comparison, the average ticket size of Sukuk listed on the London Stock Exchange is approximately US\$400 million.

Who is Pure Harvest Smart Farms?

A UAE homegrown agritech start-up, Pure Harvest Smart Farms develops controlled-environment agriculture technologies to produce greenhouse fruits and vegetables in the challenging climates of the Arab Gulf region all-year round. Its innovative tech-led model addresses a crucial issue faced by the Emirates and the rest of the desert region: food security. For a country which imports over 80% of its produce, the start-up's proposition proved

compelling, winning early investments from Shorooq Investments and angel investors, as well as securing the largest agritech VC seed investment in the MENA region (US\$5.8 million) in 2018 from Mohammed Bin Rasheed Innovation fund and international angel investors.

In April 2020, it secured a multistage investment commitment of over US\$100 million with Wafra International Investment Company, a wholly-owned subsidiary of the Public Institution for Social Security of Kuwait, to deploy its solutions regionwide. The commitment is the largest agriculture technology investment in MENA.

How did they raise funds?

Led by SHUAA Capital, an asset management and investment banking firm with approximately US\$14 billion in assets under management, Pure Harvest Smart Farms forayed into the international Islamic capital market at the end of March 2021, with a dollar non-amortizing Sukuk Ijarah-Murabahah hybrid. Issued on a private placement basis, the three-year paper carries an 8% annual rental

rate distributed quarterly and 7% per annum as a deferred coupon payable at maturity.

The Islamic paper was oversubscribed and well-received in the market, attracting a wide spectrum of investors from institutions including Franklin Templeton and Sancta Capital to high-net-worth individuals.

"We are seeing investors seeking yield in defensive sectors in the current market environment, and Pure Harvest's Sukuk catered to these requirements perfectly," the company told IFN.

The transaction is noted to be a first of its kind for both the agritech and Islamic financing sectors. "It was the first time in this region that an early-stage business has been able to secure venture debt funding from capital markets," Pure Harvest said.

The senior secured facility shares similar characteristics with traditional direct financing transactions and offers higher yields in a low-interest environment, plus access to a growth-stage company. "As private placement is becoming more popular as a means for smaller

and growth companies to access capital markets, however, this will not be the last such deal we deliver.”

Proceeds from the Sukuk issuance will be used to fund the construction of Pure Harvest’s two new hybrid greenhouses in the UAE and Saudi Arabia, as part of the company’s aggressive growth campaign.

Islamic fintech opportunity

The success of Pure Harvest Smart Farms demonstrates that growth companies such as those within the Islamic fintech space could also turn to the Sukuk market for financing. In fact, it is learned that several Islamic fintech

companies are considering taking the Sukuk route, including Uzbekistan’s Alif Moliya, which has been working on a US\$10 million Sukuk offering. As the largest Sukuk issuer in the world with one of the most sophisticated Islamic capital market architectures, Malaysia is an attractive destination to manufacture such Sukuk for promising fintech start-ups.



Pure Harvest’s Sukuk

US\$50 million



29th March 2021

Issuer	Pure Harvest Smart Farms Sukuk
Profit rate	8% distributed quarterly 7% deferred coupon at maturity
Tenor	Three years
Structure	Ijarah/Murabahah
Purpose of issuance	Project finance
Maturity date	March 2024
Payment terms	100% at maturity, callable at any time
Lead arranger	SHUAA Capital
Legal advisor	Morgan, Lewis & Bockius
Governing law	English law
Shariah advisor	Amanie Advisors
Minimum investment	US\$200,000 (denomination)
Underlying assets	Real estate, equipment and machinery, bank accounts, assignments, share pledge
Tradability	Over-the-counter


Build up talent pool

Echoing recommendations from the previous dialogues, market practitioners continue to stress the importance of developing a pipeline of competent Islamic fintech professionals and entrepreneurs, and attracting foreign tech entrepreneurs to anchor their Islamic fintech businesses in Malaysia. Among suggestions made are:

- Offering income tax breaks to accredited foreign start-ups/employees to mitigate compensation differences between Singapore and Malaysia
- Leverage on the success of MDEC's Malaysia Tech Entrepreneur Program to ease the visa application process for a more conducive immigration exercise
- Design accredited Islamic fintech training programs as well as Islamic fintech entrepreneurship programs in collaboration with industry practitioners and relevant stakeholders
- Coordinate with existing education and training providers, including higher learning institutions, to include Islamic fintech/entrepreneurship modules into curriculum

In addition to these, the ecosystem must also focus on nurturing the talent pipeline for Shariah advisors who would be well-versed in both Islamic jurisprudence and digital financial instruments and concepts.

- Expand the pipeline by attracting and nurturing young Shariah scholars
- Include financial technology or tech development training modules or exposure as a requirement for registration or renewal of Shariah advisory licenses
- Require continuous professional development to include exposure to digital financial services



“It’s not just the talent pool of people who understand this domain who are important to our growth; but it is also the advisors. The question is whether we have a pool of progressive enough Islamic finance advisors who understand and can accept new tech innovation”

CASE STUDY

Growing future talent

To ensure that future graduates are able to meet the nation's digital economy demands, the Ministry of Education and MDEC designated at numerous universities and polytechnics as Premier Digital Tech Institutions. These academic institutions provide students with theoretical and practical training, giving them a head start in the digital ecosystem. This is part of MDEC's Talent @Institute of Higher Learning Initiative.

About premier digital tech institutions

















Premier Digital Tech Universities and Polytechnics, known as Premier Digital Tech Institutions (PDTIs), are Malaysia's leading digital tech-focused tertiary institutions. The PDTIs have a proven track record in producing high quality graduates for digital tech-based high value jobs, via cutting-edge research and education policies, strong industry linkages, and career development and placement services.

Programs

Digital Tech Faculty Expert Program (DTeX)

DTeX provides a structured program to create a pool of digital tech subject matter experts among faculty members of PDTIs and partner universities and to strengthen quality of teaching and learning. It creates a platform for technology partners to collaborate with PDTIs and partner universities and to be more actively involved in the nurturing and

PDTI faculties to-date – Ongoing expansion

 <ul style="list-style-type: none"> • Faculty of Computer Science & Information Technology (2017) 	 <ul style="list-style-type: none"> • School of Computing (2017) • School of Electrical Engineering (2020) 	 <ul style="list-style-type: none"> • Faculty of Computer & Mathematical Sciences (2017) • Faculty of Electrical Engineering (2020) 	 <ul style="list-style-type: none"> • Kulliyah of Information and Communication Technology (2019)
 <ul style="list-style-type: none"> • Faculty of Computing & Informatics (2017) • Faculty of Information Science & Technology (2019) • Faculty of Creative Multimedia (2019) 	 <ul style="list-style-type: none"> • Faculty of Computing & Digital Technology (2019) • Faculty of Business, Economics & Accounting (2019) 	 <ul style="list-style-type: none"> • Faculty of Computing, Engineering and Technology (2017) 	 <ul style="list-style-type: none"> • School of Computer Science and Engineering (2017)
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development of industry-ready teach talent from the tertiary education level.

Internship and employment

Collaboration with industry partners within the ecosystem provides university students with internship and employment opportunities. In addition to that, upskilling programs are available to equip the industry with job-ready graduates.

Micro-credentials

Micro-credentials are certification-style qualifications that individuals (students/public) choose to study to improve a certain skills or competencies, earned through the completion of short and purposeful skills-based learning experiences. They are short, low-cost online courses that provide individuals with a digital certification when complete.

The courses are developed by the university, technologies, industry or professional certification bodies. Some individual micro-credentials may be combined, or stacked, to earn full credentials via transfer of credit whilst pursuing tertiary education.

Micro-credential also known as digital badges, nano degrees, web badges, mini degrees or open badges.

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