ACCELERATOR

Capacity building for companies in the IDE space

BY **JENNIFER JACOBS**

HARIS HASSAN/THE EDGE

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In April, Fintech Lab Sdn Bhd signed a partnership agreement with University of California, Berkeley's (UCB) Sutardja Center for Entrepreneurship and Technology and San Francisco-based FinTech School to co-develop modules and training programmes on financial technology (fintech), blockchain and Industry 4.0.

Fintech Lab — set up by Ficus Venture Capital co-founders Baiza Bain, Abdullah Hidayat Mohamad and Rina Neoh and South Korean investors via BIK Group Ltd — is a Malaysian learning tech start-up created to help companies build capacity so as to be investment-ready. The start-up, which is Malaysia Digital Economy Corporation's (MDEC) strategic partner for its Islamic Digital Economy (IDE) initiative, is creator of the world's first IDE accelerator programme.

"When we started Ficus Venture Capital and were looking at companies in the Malaysian ecosystem, we found that a lot of these companies had good ideas, but were not investment-ready," Baiza tells *Enterprise* in a recent interview in Kuala Lumpur.

Neoh — who has invested in almost 80 start-ups (she is an active angel investor who founded Mercatus Capital, a regional fund, in 2007) — observed to her partners that Malaysian start-ups and even small and medium enterprises are in dire need of capacity building.

"The three of us [Baiza, Neoh and Hidayat] decided that rather than just wait for these companies to be developed, we would develop them ourselves," says Baiza.

"So, we created Fintech Lab. The name is a bit of a misnomer because when we started, we were just looking at companies within the fintech space. But today, the mandate is actually to develop companies across the board."

Hidayat interjects, "We focus more on the Islamic digital economy."

Baiza continues, "The early focus was on the Islamic digital economy because that is being developed by MDEC as one of its core areas. That is because Malaysia is a leader in Islamic finance, which is like a US$3 trillion industry, and the halal industry, which is like a US$5 trillion industry globally. What MDEC is looking at over the next five years is the shift from bricks and mortar to digital within this space."

He points out that as the entire industry is worth a total of US$7 trillion, even if 5% moved to digital, it would be quite a substantial market.

"We wanted to create a body where we could curate specific knowledge that would be used as a base for capacity building. So, we started to sign up quite a few organisations. The first one was Fintech School, which had been formed by fintech entrepreneurs," says Baiza.

He points out that some of the top universities in the world have fintech programmes, which are good but not industry-driven. "What Fintech School did was to get all the fintech entrepreneurs to collaborate and create knowledge modules based on their own experiences. And we wanted to curate the best of breed."

In this vein, it went into partnership with another San Francisco-based entity, the micro-learning solution Gnowbe. "Rather than six weeks of learning, they actually do micro modules where you spend an hour or two tops. And then you build on that. It is actually an easier way to learn, especially if you are doing it yourself," says Baiza.

He adds that this appeals to the market his company is addressing, namely the millennial generation. "Millennials always have their phones on hand. The older way of using the desktop [to deliver educational content] does not work anymore. Gnowbe finds that if you give somebody access to knowledge on their phone, they finish the courses more quickly."

Fintech Lab struck up a relationship with UCB through its relationship with Fintech School. "UCB is the No 1 ranked public school in the world and the No 4 ranked globally (after Harvard University, Stanford University and the Massachusetts Institute of Technology). It has one of the best IR4.0 programmes in the world. So, we spoke to them about Malaysia's ambition and how the government is trying to revolutionise the services and manufacturing sectors. I think it struck a chord," says Baiza.

"UCB has done a lot of innovations in terms of IR4.0. It even has innovation labs, believe it or not, in its football stadium. And they told us at the signing ceremony that last year, for the first time ever, UCB's start-up companies had raised more money than those coming out of Stanford."

Fintech Lab managed to secure the partnership by convincing them of Malaysia's potential. "We told them that the country was the gateway to Asean. It has a sizeable market and we can look at developing knowledge modules for the Malaysian market first. But these will also be applicable in Asean because Malaysia is a good base to create and disseminate these."

The company also has a partnership with the IE Business School, which is based in Madrid, Spain. "We signed a memorandum of understanding with one of its centres — the Saudi-Spanish Center for Islamic Economics and Finance. The IE Business School is the first business school to offer a master's degree in Islamic finance. That will help us because when we look at the Islamic digital economy, we need to look at the finance and entrepreneurship part of it," says Hidayat.

This school provides what is known as blended learning, that is, a combination of online and face-to-face learning. "I think blended learning is the way forward and that is what we want for Fintech Lab. That is why we have partners overseas. They provide us the theory so that when we meet in class, we can focus on and discuss the case studies and real practical issues," he says.

There will be 15 companies in each batch. The first batch will kick off next month. Although accelerators are traditionally meant for start-ups, this one is open to bricks-and-mortar companies in the halal industry and Islamic finance space, says Hidayat.

"Unlike other accelerators, which provide the service for free but take equity in your company, we will charge them a fee," he adds.

The endgame is to get these companies investment-ready for Ficus. But does the venture capital firm have the funds to invest?

"We are currently raising our first fund. We do have partners' capital and with that, we can do seed investing, probably RM50,000 to RM100,000 per company. But we are finalising this because through our shareholders in South Korea, we have managed to attract some Korean money to Malaysia," says Baiza.

"Right now, the condition for the Korean money is to have matching funds. The South Koreans have committed US$7 million and the investors we are talking to are keen. So, once we get that together, we will probably kick off with about US$14 million to invest."

Once the funds are in, it will be investing in these post-capacity building companies in pre-series A and Series A rounds, between RM500,000 and RM5 million, he adds.

Ficus is already looking at a couple of interesting companies. For instance, there is a company run by three sisters that specialises in modest fashion.

"The sisters started this company when they were in university. Even without proper capacity building, they are already earning RM8 million a year because two of the sisters are what you call 'influencers' on Instagram," says Baiza.

Despite this, they have been turned down by every bank they have approached. "They are successful in their own right. But when they go to the banks, they get scrutinised in terms of their documentation and they are not quite ready for that. It is not that they are hiding something. But banks being banks require a certain standard in terms of documentation and long-term business plans," he says.

"These women are just capitalising on being influencers so they can move their merchandise easily. But there is a huge difference between being able to move merchandise easily and a company that is acceptable to a bank for a long-term loan."

Hidayat highlights a husband-and-wife team who are making a fortune from Swarovski headscarf pins. "They were in the oil and gas industry. When they were retrenched during a bad period, they started a company to sell scarf pins," he says.

"And without having big exposure to digital marketing, they made RM1.2 million in their first year of business. They are expecting RM2.5 million in their second year. Imagine if they put up a website and institute proper capital management practices. And they have not even penetrated the Indonesian market yet."

Hidayat explains that for companies going through the IDE accelerator, the first phase focuses on financial management. In the second phase of capacity building, they will be sent back to their respective companies to apply what they have learnt and are required to report back on a weekly basis.

"That is because it is not enough for you to teach people in a classroom. We need to see how they apply it in their businesses," he says.

Only after they have successfully implemented orderly financial management, will the accelerator look at other things such as tweaking the business model and market access.

Both of these companies have been successful but as Hidayat points out, success without structure is not sustainable. To scale up and become regional champions, they will need more structure. And that is what the accelerator is for. E