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Bernama - Penjana Kapital's Success To Have A Trickle Down Effect
On Malaysia's VC Ecosystem - Tengku Zafrul

☐ Monday, Dec 14 2020☐ ☐

KUALA LUMPUR, Dec 14 - Penjana Kapital Sdn Bhd's success in attracting eight foreign venture capital (VC) firms will result in a trickle-down effect that will grow and enhance the capabilities of local ecosystem and start-ups through knowledge transfer, as well as spurring network opportunities.

"The foreign VC commitment will also encourage private capital to support promising local start-ups and businesses, alleviating their challenges as a result of the pandemic," Finance Minister Tengku Datuk Seri Zafrul Abdul Aziz said.

Penjana Kapital has attracted eight foreign VC managers, namely from United States, South Korea, China, Indonesia and Singapore, and local partners to invest up to RM1.57 billion in Malaysian start-ups.

The amount is made up of RM600 million from government matched up with 1:1 basis of RM600-million commitment by the VC fund managers and potential investment of a further RM370 million into companies that match their risk and investment profile.

Start-up financing requires professional investors that are interested in and truly understand the asset class, who must be matched with VC fund managers with the business acumen and commitment to the effort, and start-ups which are ready to receive VC investments, he said.

This process generally involves proper business planning with defined growth targets, appropriate business valuation, and potential exit strategies for investors.

"Knowing and understanding this process makes Penjana Kapital's success in attracting these investors that much more commendable,


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particularly during these difficult times. And what these VCs usually invest in are new sectors, or new ways of managing existing industries, which is good for the long-term development of a knowledge-based economy," he told Bernama today.

Penjana Kapital, incorporated on July 1, 2020, is in charge of the Penjana Nasional Fund. The setup is part of the government's initiative to accelerate Malaysia's economic recovery.

It is meant to catalyse and re-build Malaysia's private capital investment space, and it is expected that it will be honing in on tech-based start-ups. Early indication shows that sectors they are interested in include fintech, edutech, agritech, mobility and artificial intelligence.

Apart from Malaysia's business-friendly investment ecosystem, these new sectors will also be supported by the government's RM21-billion national digital infrastructure plan, Jalinan Digital Negara (JENDELA), designed to enhance Malaysia's nationwide digital connectivity and optimising spectrum usage.

Tengku Zafrul said among the key success factor of Penjana Kapital is that in selecting these VC fund managers, it implemented a rigorous evaluation process that was verified and validated by an external independent global consulting firm.

"They developed a highly structured programme which includes setting key financial performance benchmarks, as well as determining non-financial/strategic goals, like knowledge transfer requirements."

For instance, the eight VC fund managers and their local partners were selected through a rigorous evaluation and due diligence process by the investment panel of Penjana Kapital.

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Two VCs were selected per VC lifecycle stage.

The seed/co-creation stage will be a start-up launchpad that will co-create companies or provide seed capital to early-stage companies, he explained.

“The Series A/B stage will invest in post-revenue companies that have passed the ideation stage. The following stage, growth stage will focus on companies undergoing expansionary stage. And finally, venture debt will provide short/mid-term debt financing for companies that are not traditionally covered by the banks,” Tengku Zafrul explained.

Secondly, with the pandemic accelerating the adoption of digitalisation, the “ground has been softened” for further investments in tech-based sectors based on the real needs of our people, particularly in sectors like edutech to develop remote teaching/learning, and agri-tech to develop food security.

“Thirdly, the relationship also allows Malaysian startups and companies to leverage on the connections and value-add that regional and global investors have. That in itself is a rich environment for fine-tuning ideas and concepts for eventual commercialisation,” he said.

Asked on how the government would ensure the capital stays within the Malaysian ecosystem, Tengku Zafrul said a key criteria of the fund is a minimum deployment into Malaysian start-ups. Potential Asian investee companies must bring tangible economic benefits to the Malaysian economy to qualify for the 1:1 fund-matching by the government.

“This will encourage private capital to continue supporting promising local start-ups and businesses.



"Apart from that, we have seen many investors continuing to invest, thanks to our highly attractive tax incentives and investments ecosystem, and the government's strong promotion of Malaysia as an ideal base or springboard to access the 648-million ASEAN market," he said.

Through the Penjana Nasional Fund measure, he said it was encouraging to see participation from venture capital fund managers in the request for proposal process that Penjana Kapital conducted.

"This indicates strong interest and confidence from the international investment community towards the growth prospects of the Malaysian economy and its start-up industry."

As for the knowledge transfer programme (KTP), Tengku Zafrul said it is expected to benefit three main groups, the venture capital fund management industry, the start-up companies and the general public as a whole. This programme is to nurture and develop talent within the venture capital ecosystem.

He expects KTP to create meaningful, high-skilled jobs either in those identified investment areas, or within the VC ecosystem.

"It is anticipated that over the medium to longer term, more than 700 jobs will be directly created. Subsequently, the network effect will lead to the creation of more than 1,000 jobs, either through investee companies, events or trainings. In total, at least 1,800 high-skilled jobs will be created," he said.

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