



ISLAMIC FINANCE

A CATALYST FOR FINANCIAL INCLUSION



About the Report

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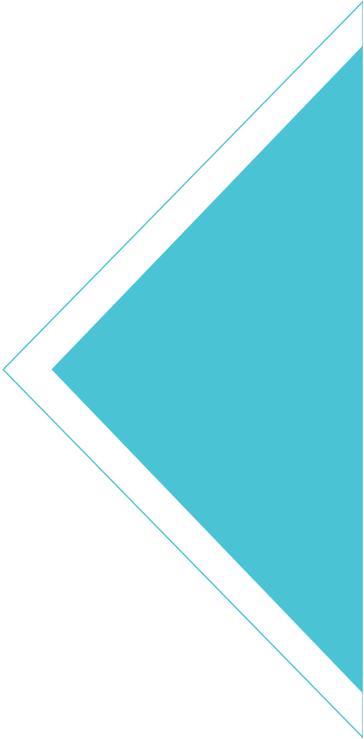
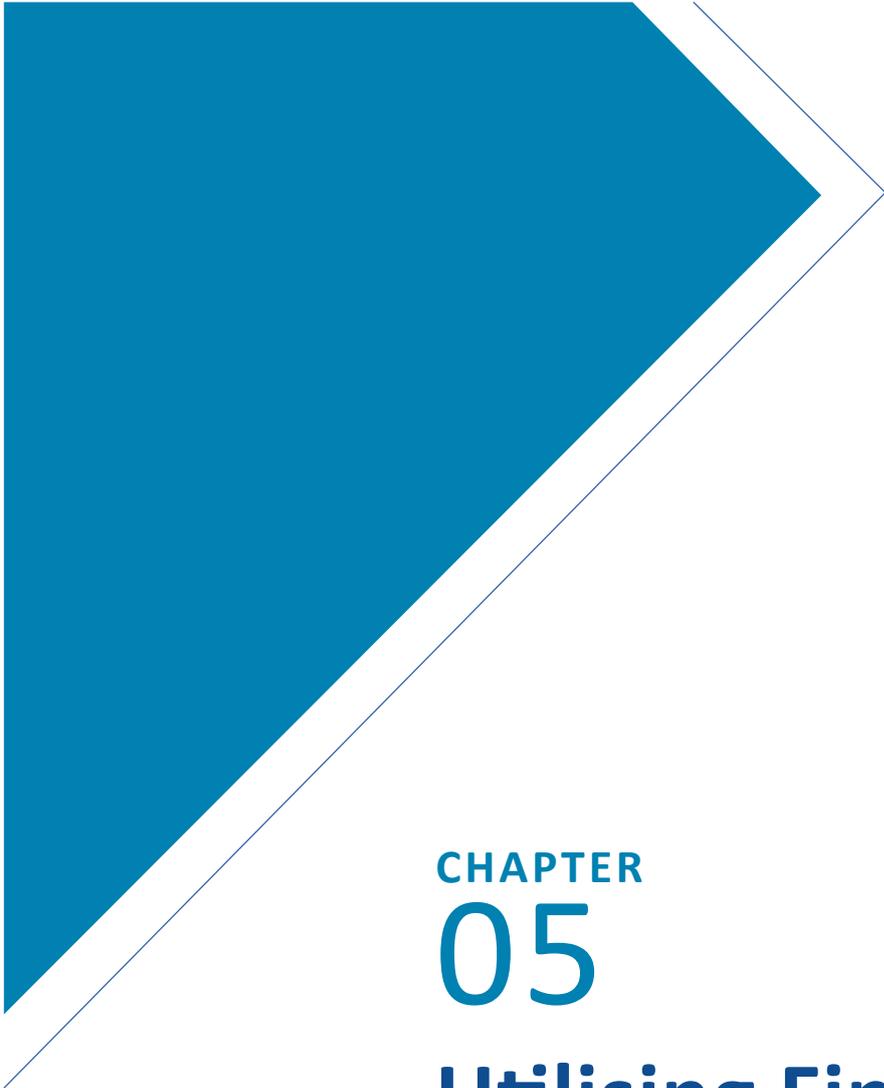
Acknowledgement

The Securities Commission Malaysia (SC) and the World Bank Group, together with the IOSCO Asia Pacific Hub as co-organiser, convened a one and half-day conference on Islamic Finance: A Catalyst for Financial Inclusion held from 29 to 30 April 2019 at the SC in Kuala Lumpur.

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The team worked under the overall guidance of Sharifatul Hanizah Said Ali, Executive Director, Islamic Capital Market Development, (SC), and Abayomi A Alawode, Head of Islamic Finance, (World Bank). Special thanks to Datuk Zainal Izlan Zainal Abidin, Deputy Chief Executive (SC) for his active contribution in the SC-World Bank Report.

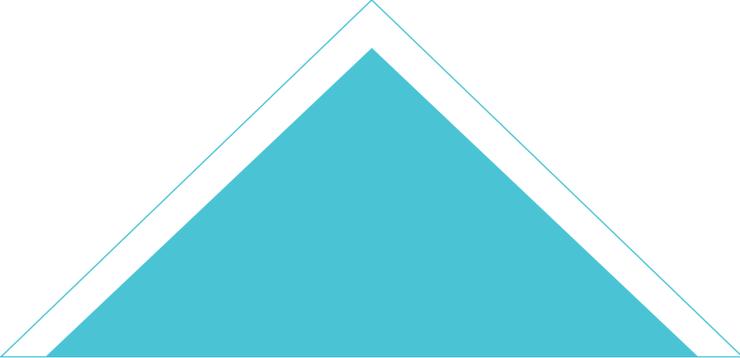
This report benefited from the insightful discussions provided by the speakers and participants of the Conference. (Refer to the Appendices for Conference agenda and list of speakers)



CHAPTER

05

**Utilising Fintech in
Islamic Finance for
Financial Inclusion**



Box 2: Case Study

Blossom Finance: Sukuk on the Blockchain

Marketplace innovation through the deployment of technology has helped facilitate capital formation. Leveraging blockchain technology, the mobilisation of small scale capital through issuance of micro sukuk structured on a profit-sharing basis is now made possible. In Indonesia, Blossom Finance is at the forefront in arranging micro sukuk issuance to fund Baitulmal Wa Tamwil (BMT) in Indonesia. The funds raised are in turn, built into a portfolio of financing assets that goes towards funding small traders and businesses and empowering women.

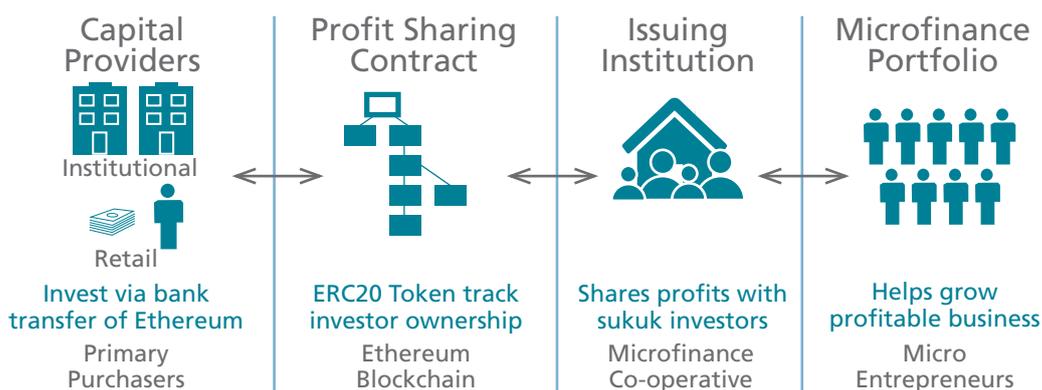


In Indonesia, a typical microfinance institution is in the form of microfinance co-operative. Modelled as a Shariah-based microfinance co-operative, BMT is among the most prominent microfinance institutions. They also work on pursuing SDGs initiatives. BMT takes members' deposit, provide financing and perform social business activities. The core businesses are commercially-related financial services activities but also reinvest their profits into social impact activities. Being a not-for-profit entity, BMT would channel its surpluses by providing key services including healthcare, education, retail provisions and villages and rural areas within the coverage of its business operations.

BMT had relied on the mobilisation of redistributive sources and solidarity-based funds such as *zakat*, *sadaqah*, *infaq* and *waqf* to address issues of poverty eradication. But increasingly, BMT institutions face the challenge of mobilising adequate liquidity (due to constant withdrawals) and managing its cashflow (in proving stable returns to depositors) effectively in order to act as meaningful microfinance institutions and perform its social obligation. Achieving the SDGs would thus require institutions such as BMT to scale up its business operations to meet the growing needs of the underserved especially in financing small traders and businesses.

Modelling a Technology-based Microfinance Sukuk

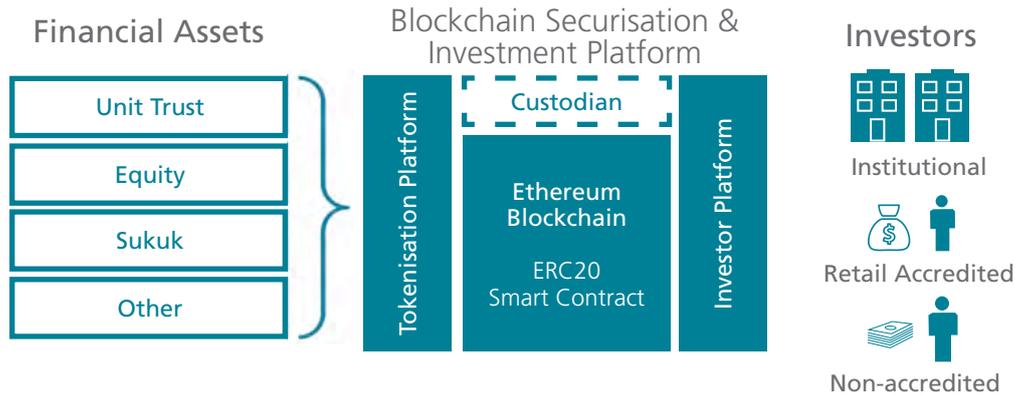
Islamic Microfinance SmartSukuk™



Underpinned by blockchain technology, the BMT sukuk issuance deploys the Ethereum-based blockchain, which paves the way for greater financial inclusion. It facilitates capital formation through various financial instruments and mobilises productive capital into small microfinance entities. Its ERC20 (an official protocol for Ethereum network) token is a smart contract and commands vital importance because it defines a common list of rules that all Ethereum tokens must adhere to. It also facilitates and tracks the primary and secondary transactions of such tokenized sukuk. Additionally, leveraging the ERC20 tokenisation platform further eliminates the need for multiple intermediaries to perform fiduciary and non-fiduciary obligations in the sukuk issuance process and ensure standardisation of its functions.

Blossom Finance's Blockchain Securitisation Model

Outcome: Blockchain Securitisation



Likewise, through its agents, greater fintech application was integrated as part of the BMT financial services activities including deposit-taking, collection and financing making the entire process efficient and transparent. Such access to financial services has helped communities to be self-sustained and gain their dignity without relying on financial assistance.

The local currency sukuk issuance focuses on attracting participation from foreign investors (mainly angel investors) through a profit-sharing structure with the BMT as managers. The sukuk as tokens is governed under domestic Indonesian law and the ERC20 platform facilitates the secondary trades and tracks changes on ownership. This model is efficient from a regulatory and supervisory standpoint as no domestic investors are involved. In addition, the model attracts foreign investments into the country without unnecessary foreign currency exposure to the BMT. However, it does invite some challenges. For example, foreign sukuk investors will have to take on the currency risks themselves (on their exposure to Rupiah currency) with little opportunity to hedge due the minute-size of the transaction. The small size of such transactions however, limit to a great extent the downside risks of such investments.

Appendix 2 SPEAKER PROFILES



MATTHEW JOSEPH MARTIN

Founder and Chief Executive Officer
Blossom Finance

Matthew J. Martin is a pioneer in the application of FinTech for Islamic finance. Combining his passion for Islamic finance with his deep financial technology background, Matthew founded Blossom Finance in 2014 which aims to increase the availability and inclusivity of Islamic finance using blockchain.

Matthew's background includes engineering and product management experience in the digital wallet, payment card, money remittance, mobile payments, and mobile banking sectors at venture capital funded, international tech startups Xoom, Boku, and Monitise. He has advised technology startups on FinTech and blockchain, and spoken to international audiences in the USA, Qatar, Bahrain, UAE, Singapore, Malaysia, and Indonesia. Prior to Blossom, Matthew started his first blockchain related venture in 2013 - when Bitcoin was less than \$100 USD - which allowed instant purchase of Bitcoin in 27 countries using just a mobile phone.

Matthew has studied 8 languages and speaks Indonesian, Farsi, and French at an intermediate level in addition to his native English. Matthew embraced Islam in 2010 and currently lives in Jakarta, Indonesia.

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