

## iTEKAD: An Ecosystem Approach in Scaling Up Social Finance

*'We will adopt a nurturing approach to support financial institutions' explorations to better integrate social finance within their businesses.'* – Financial Sector Blueprint 2022–26

### Mainstreaming social finance is a continuous journey

One of the visions under the Financial Sector Blueprint 2022–26 is for financial institutions to increasingly align its intermediation activities with positive social impact – aligned with the ESG principles. In 2023, we saw greater efforts by various stakeholders to integrate social finance into the financial system. Notable social finance programmes include iTEKAD, myWakaf and myZakat.

iTEKAD emerged as a key social finance initiative by the financial sector. At its inception in 2020, there were only 57 participants, but now, it has assisted over 6,000 participants in 17 business sub-sectors across the country. iTEKAD programmes by financial institutions have supported low-income microentrepreneurs in generating sustainable earnings (Diagram 1).

*'... the three elements of a successful social finance system can be summarised as follows – it should be inclusive, impactful and integrated.'*

Governor Abdul Rasheed Ghaffour at *Majlis Jalinan Kerjasama* iTEKAD, 22 August 2023

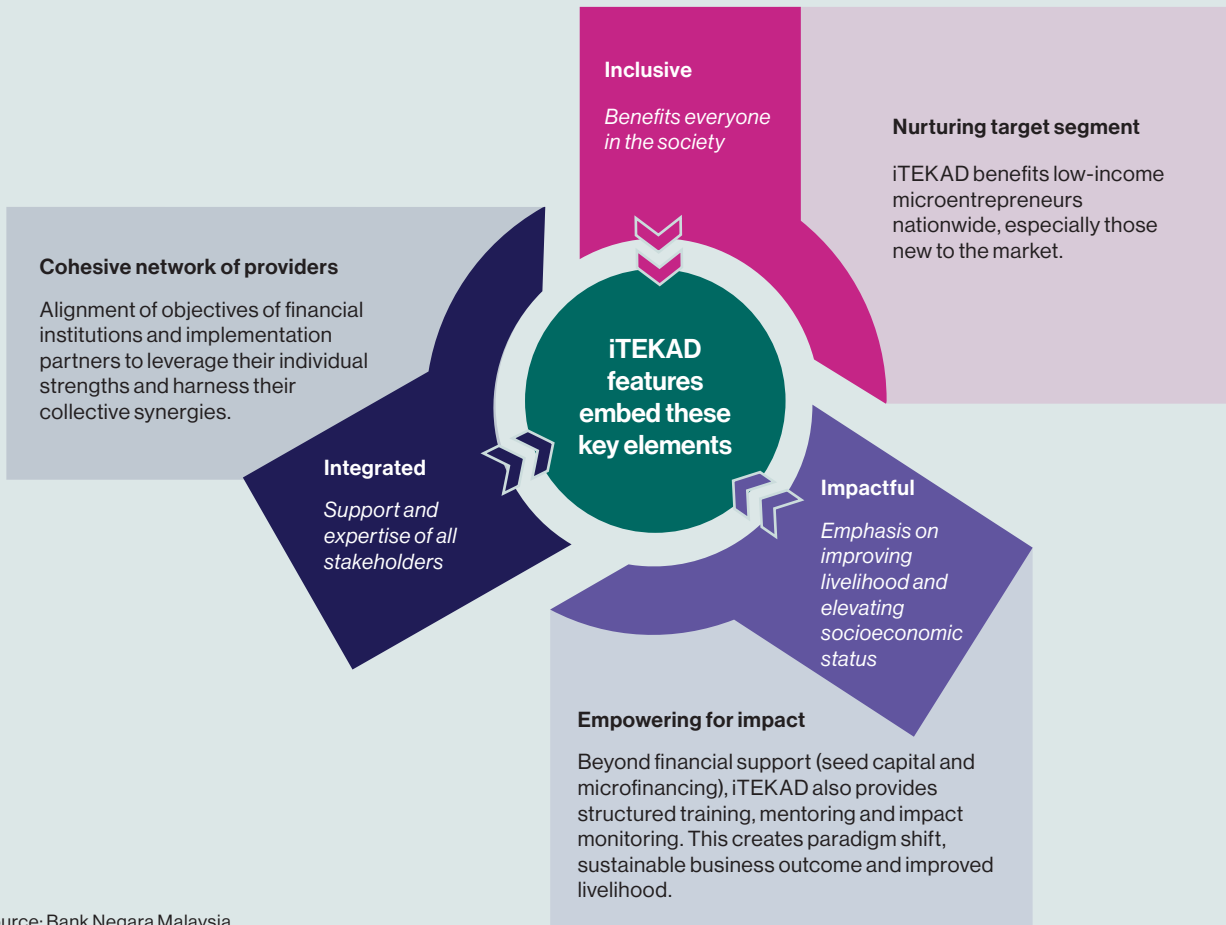


*Prime Minister YAB Dato' Seri Anwar Ibrahim and Governor Abdul Rasheed Ghaffour on stage with iTEKAD financial institutions and implementation partners during Majlis Jalinan Kerjasama iTEKAD.*

*Prime Minister YAB Dato' Seri Anwar Ibrahim, Deputy Finance Minister I YB Datuk Seri Ahmad Maslan and Governor Abdul Rasheed Ghaffour visited kiosks of iTEKAD microentrepreneurs.*



**Diagram 1: Elements of a Successful Social Finance System and its Application in iTEKAD**



Source: Bank Negara Malaysia

### Creating an enabling ecosystem to grow iTEKAD

Availability of a blended funding structure, regulatory support, wider awareness on iTEKAD, enable better market access and alignment of objectives by stakeholders’ interest form the critical building blocks to successfully scale up iTEKAD (Diagram 2). These building blocks address the needs of microentrepreneurs in their business journey.

iTEKAD is currently offered by 13<sup>1</sup> financial institutions with over 70 implementation partners.<sup>2</sup> This wide network of partners allows each iTEKAD programme to grow within the ecosystem. For example, low-income microentrepreneurs may have risk profiles that limit them from getting financing under traditional credit scoring method. Working with implementation partners allows financial institutions to consider alternative data when assessing eligibility of participants<sup>3</sup> into iTEKAD programmes.

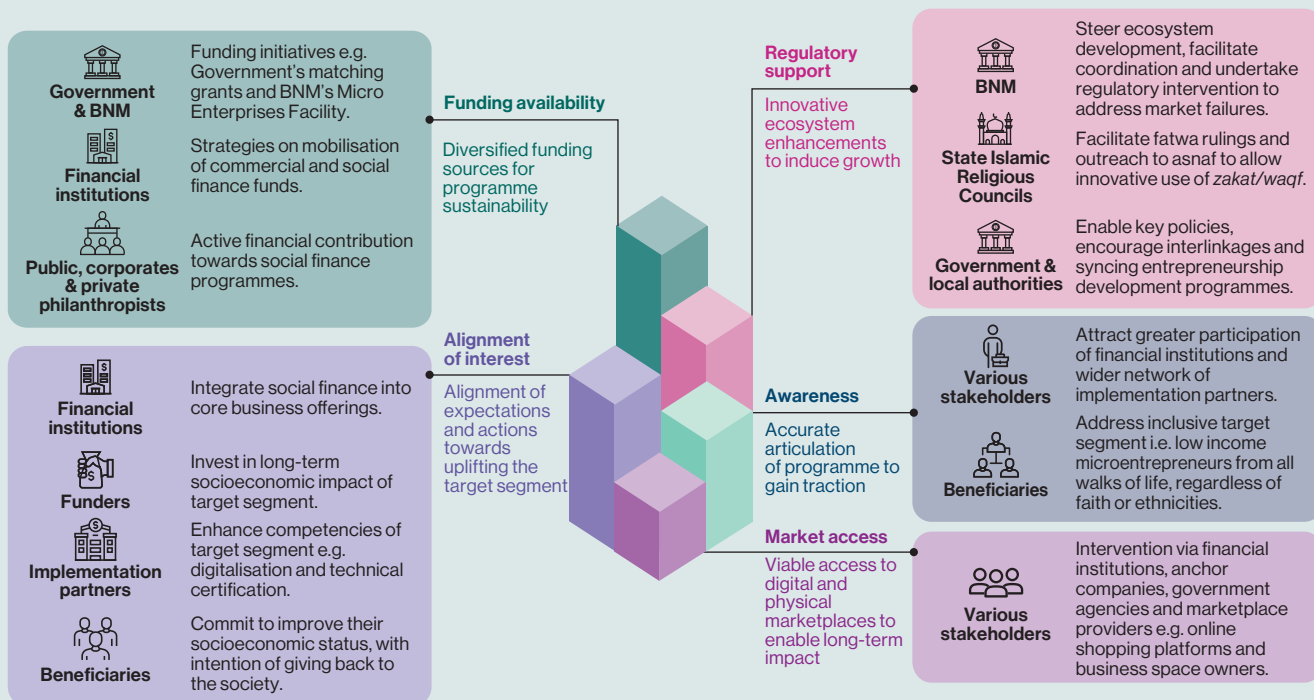
Bank Negara Malaysia (BNM) advocates an ecosystem that is flexible for financial institutions to choose implementation partners and run iTEKAD programmes efficiently. They can support iTEKAD’s growth by offering different value propositions based on each partner’s capacity and strength. This includes fintech solutions as a tool to track business transactions, end-to-end assistance in setting up pre-franchise businesses and leveraging *waqf* land for agricultural activities. These partnerships are also prelude towards social finance collaborations in other sectors including supporting housing solutions, healthcare and education to those who need it.

<sup>1</sup> Data as at February 2024.

<sup>2</sup> Implementation partners refer to any organisations and/or institutions that work with financial institutions to roll out iTEKAD programmes. These include, but not limited to State Islamic Religious Councils (SIRCs), fintech solution providers and NGOs.

<sup>3</sup> Potential participants of iTEKAD programmes are low-income individuals who aspire to become microentrepreneurs and/or already have existing businesses. According to SME Corp. Malaysia, microenterprises have sales turnover of less than RM300,000 or less than 5 full-time employees. To date, iTEKAD participants are selected based on recommendation by SIRCs and members/communities of the implementation partners.

Diagram 2: Building Blocks Supporting the iTEKAD Ecosystem



Source: Bank Negara Malaysia

### Support from all stakeholders remain key

Stakeholders' involvement within the building blocks of the iTEKAD ecosystem is crucial to further scale up iTEKAD. While financial institutions and implementation partners coordinate iTEKAD at programme-level, equally important is the support from others in the ecosystem. These include government agencies, State Islamic Religious Councils (SIRCs), corporates, non-governmental organisations (NGOs), fintech providers, social enterprises and foundations.

These parties have played a key role in making it easier and cheaper to onboard more B40 or asnaf microentrepreneurs into iTEKAD. For example, SIRCs, government agencies and other implementation partners work together with financial institutions to identify potential participants. Financial institutions also work with fintech providers, NGOs and corporates to come out with new and innovative solutions and effectively channel social finance funds.

Moving forward, financial institutions together with relevant stakeholders can further support the ecosystem in scaling up the programmes. This could be done through various approaches including the following:

**i. Embed financial education and protection**

iTEKAD can also provide training on financial education. This builds good financial management skills and habits among the participants. Takaful or insurance coverage can also provide the protection needs of iTEKAD participants.

**ii. Promote greater integration within the ecosystem**

Developing a shared infrastructure to link up diverse platforms in the ecosystem can reduce barriers to introducing new iTEKAD programmes and facilitate expansion of the existing ones. This will also improve process flow and information sharing through:

- a data repository to identify potential iTEKAD participants;
- effective crowdsourcing of funds based on programme needs; and
- transparent and timely updates of programme impact.

**iii. Explore potential use of capital market instruments**

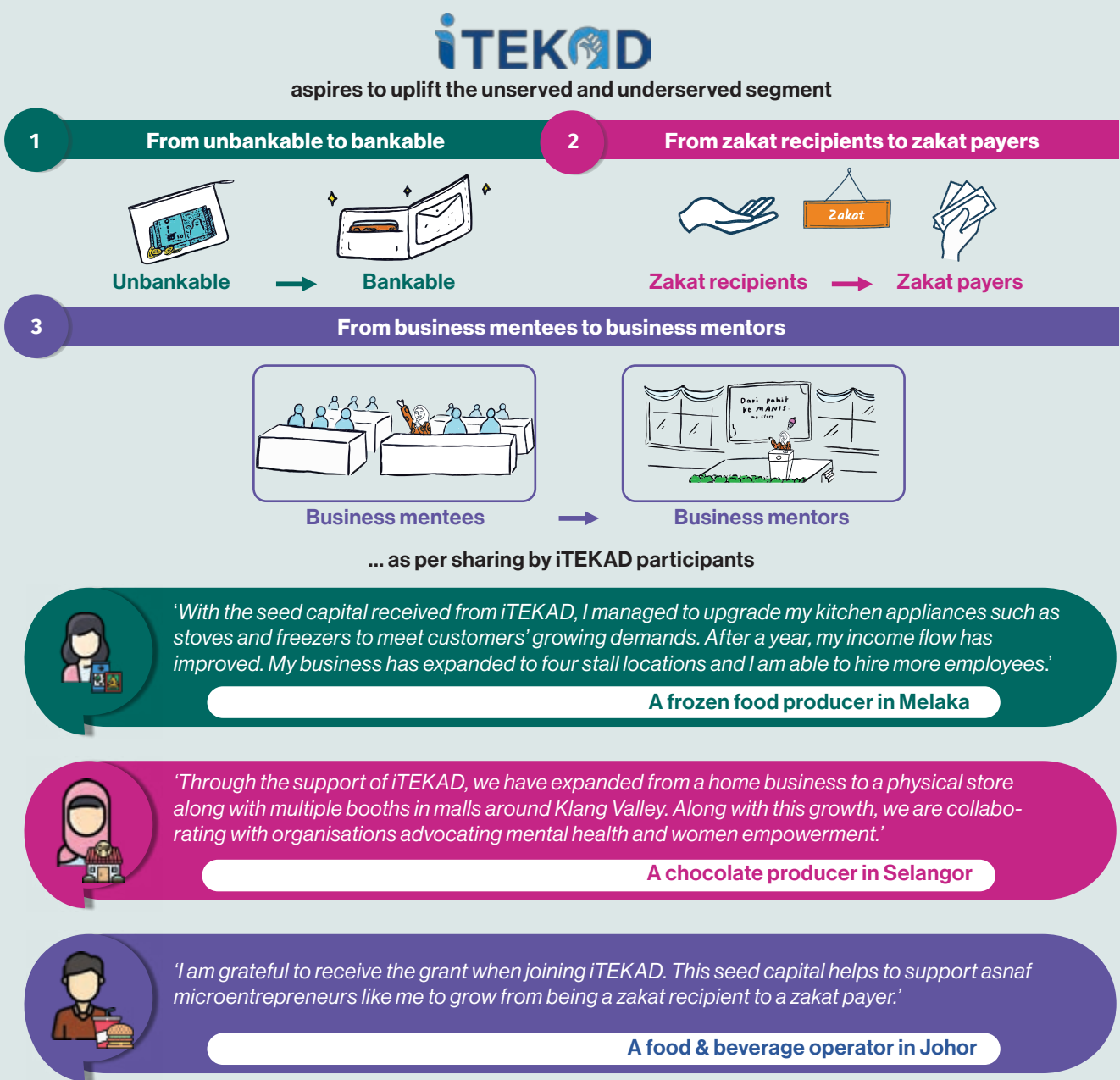
Issuance of sukuk and social impact bonds can support larger funding needs of iTEKAD and other social finance initiatives. This may include tapping on funds outside of Malaysia.

**iv. Instil the mindset of giving back to the community**

Successful microentrepreneurs who benefitted from iTEKAD can continue the virtuous cycle by helping others. These include creating job opportunities and inspiring other participants through sharing business know-hows. BNM, financial institutions and implementation partners can facilitate this exchange by featuring these successful microentrepreneurs at various platforms (Diagram 3).

Aligned with the ecosystem approach, active contributions from various stakeholders are key to enhance these four dimensions and scale up social finance.

**Diagram 3: Reinforcing the Virtuous Cycle of Social Finance**



Source: Bank Negara Malaysia, financial institutions and Bank Negara Malaysia's video 'Three (3) Things You Should Know About iTEKAD', which can be viewed at <https://youtu.be/Rq1369wQjgQ>