

FINANCIAL LITERACY CHALLENGES AND ENTREPRENEURIAL SUSTAINABILITY AMONG ASNAF MICRO-ENTREPRENEURS IN KUALA LUMPUR

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Abstract: Financial literacy is a critical determinant of entrepreneurial sustainability, particularly among low-income communities involved in micro-enterprise activities. In Malaysia, zakat institutions have increasingly shifted from consumptive aid toward productive zakat initiatives to empower asnaf recipients through entrepreneurship. However, asnaf micro-enterprises in Kuala Lumpur continue to face severe sustainability challenges driven by high living costs, market competition, and financial management deficits. This study adopts a conceptual qualitative approach to examine the financial literacy challenges affecting the entrepreneurial sustainability of asnaf micro-entrepreneurs, analyzed through the theoretical lenses of the Aqli-Naqli framework and Maqasid al-Shariah (specifically wealth preservation, hifz al-mal). The synthesized findings reveal that asnaf entrepreneurs experience critical operational bottlenecks, including weak cash flow tracking, survival-oriented budgeting, absent record-keeping, commingling of personal and business funds, and reactive decision-making. These deficits directly contribute to liquidity distress, seed capital depletion, and early-stage business failure. The paper concludes that financial capital assistance alone is insufficient without structured financial literacy, behavioral transformation, digital adaptability, and continuous post-capital mentorship. Zakat institutions and policymakers must adopt an integrated capability development framework to transform asnaf recipients from aid dependence to economic self-reliance.

Keywords: Financial literacy, entrepreneurial sustainability, asnaf entrepreneurs, productive zakat, urban poverty

1.0 Introduction

Entrepreneurship has emerged as a critical driver of economic growth and development, particularly in developing economies where poverty remains a significant challenge. Within such regions, micro-enterprises serve as a crucial pathway for marginalized communities, such as asnaf groups (zakat recipients), to access resources, acquire basic life necessities, and improve their overall standard of living, thereby facilitating their exit from poverty (Muhamat

et al., 2013; Widiyanto & Ismail, 2010). In Malaysia, zakat institutions have increasingly emphasised entrepreneurship development programmes as a mechanism to facilitate the transition of asnaf recipients from welfare dependence to economic self-reliance and to create sustainable livelihoods (Abdullah et al., 2025).

Traditionally, zakat distribution focused primarily on consumptive assistance such as food aid, temporary financial support, and welfare assistance (Hasibuan et al., 2024). However, contemporary zakat institutions in Malaysia, including the Majlis Agama Islam Wilayah Persekutuan (MAIWP) and Lembaga Zakat Selangor (LZS), have gradually shifted towards productive zakat initiatives through entrepreneurship development programmes (Abdullah et al., 2025), business capital assistance (Hasibuan et al., 2024), and entrepreneurial training (Mohamad Halim et al., 2025). Meanwhile, Abdul Razak et al. (2024) reported that zakat institutions provide business resources, capital support, training initiatives, and early-stage entrepreneurial assistance to the asnaf group via the Asnaf Incubator Program. All these shifts demonstrate the increasing commitment of zakat institutions to empower asnaf recipients through entrepreneurship development initiatives that promote long-term economic sustainability.

Despite the increasing emphasis on productive zakat initiatives, the sustainability of asnaf-owned micro-enterprises remains a significant concern (Mohamed Esa et al., 2025; Muyassarrah et al., 2024). Although financial assistance plays an important role in supporting entrepreneurial activities, funding alone is rarely sufficient to ensure sustainable business success. Many recipients continue to face challenges related to limited entrepreneurial knowledge, inadequate financial capability, and weak business management skills (Mohamed Esa et al., 2025; Muhamat et al., 2013; Rahim et al., 2026; Rahman & Samad, 2019). Consequently, many asnaf entrepreneurs experience business instability, low profitability, poor financial management practices, and a higher risk of business failure during early development stages (Muhammed et al., 2025; Rahim et al., 2026).

These challenges become more pronounced within the urban poverty context of Kuala Lumpur. While offering substantial market opportunities, Kuala Lumpur is accompanied by high living costs, rising operating expenses, intense market competition, and economic uncertainties (Ismail et al., 2026; Zailani et al., 2024). Capital assistance alone is insufficient when recipients lack financial management capabilities (Adnan et al., 2021; Rahman & Ahmad, 2011). Empirical evidence focusing specifically on the financial literacy challenges faced by asnaf micro-entrepreneurs in urban environments remains limited (Muhammed et al., 2022; Topimin & Hashim, 2020). Addressing this gap, this study examines the financial literacy challenges affecting entrepreneurial sustainability among asnaf micro-entrepreneurs in Kuala Lumpur by addressing three core research questions: What major financial literacy challenges are faced by asnaf micro-entrepreneurs? How do these challenges affect entrepreneurial sustainability? and What strategies strengthen financial literacy and support sustainable entrepreneurship among asnaf recipients?

2.0 Literature Review

2.1 Productive Zakat and Asnaf Entrepreneurship

Zakat institutions in Malaysia have shifted from short-term relief towards productive zakat initiatives aimed at long-term socio-economic empowerment (Esa et al., 2025; Muyassarrah et al., 2024). Institutions like LZS and MAIWP provide capital assistance, training, and business

support to facilitate self-reliance (Ibrahim et al., 2025; Muhamat et al., 2013). However, many asnaf enter entrepreneurship out of necessity rather than opportunity, operating under severe financial vulnerability, limited business experience, and high urban living costs in Kuala Lumpur (Ismail et al., 2026; Zailani et al., 2024). Studies confirm that productive zakat success requires more than capital; long-term sustainability necessitates continuous learning, financial management competencies, and holistic capability development (Abdullah et al., 2025; Adnan et al., 2021; Rahim et al., 2026; Wan Khairi et al., 2025).

2.2 Concept and Dimensions of Financial Literacy

Financial literacy extends well beyond basic mathematical capability or simple calculation skills; it represents an active synergy of cognitive awareness, knowledge, skills, attitudes, and daily financial behaviors that collectively guide sound decision-making and enhance economic well-being (OECD, 2020). Conceptualized as a vital form of human capital, it equips business owners with the cognitive capacity to process economic information, assess risks, and execute effective resource management (Lusardi & Mitchell, 2014). Rather than a singular trait, financial literacy operates as a multidimensional construct driven by four interrelated components:

- a. Financial Knowledge: Forms the cognitive foundation regarding essential concepts such as budgeting, debt structures, interest rates, and risk evaluation (Chowa et al., 2012).
- b. Financial Behavior: Reflects the practical application of knowledge in daily routines through active expense tracking, disciplined debt management, and systematic record-keeping (Perry & Morris, 2005).
- c. Financial Attitude: Encompasses an individual's underlying values and psychological orientation toward money, directly dictating spending restraint and long-term planning (Rai et al., 2019).
- d. Financial Decision-Making: Empowers business owners to navigate economic volatility and make sound trade-offs under uncertainty (Saurabh & Nandan, 2018)

2.3 Financial Literacy Challenges Among Asnaf Micro-Entrepreneurs

Despite active interventions by zakat institutions, asnaf micro-enterprises consistently encounter severe operational bottlenecks rooted in widespread financial illiteracy. A primary constraint lies in informal cash flow management, where business owners rely directly on daily sales to fund ongoing operations without maintaining contingency buffers (Ramzi, 2022; Topimin & Hashim, 2020). This daily operational posture narrows budgeting into short-term "survival planning," largely excluding capital forecasting or profit reinvestment strategies (Awang et al., 2016; Ishak et al., 2025). Compounding the issue, systematic bookkeeping remains exceptionally rare within this micro-enterprise ecosystem. Heavy reliance on mental accounting or fragmented handwritten notes prevents accurate performance tracking and structurally isolates entrepreneurs from formal commercial financing (Muhammed et al., 2025; Yeop Johari et al., 2023). Furthermore, acute household poverty often leads to the commingling of personal and business funds, where working capital and seed grants are diverted toward immediate family necessities (Larasaty et al., 2021; Noor & Zaini, 2024). Ultimately, financial decision-making becomes highly reactive, leaving business owners without structured cost analysis or risk mitigation frameworks to absorb broader macroeconomic shocks (Amin, 2022; Sabu et al., 2025).

2.4 Entrepreneurial Sustainability Dimensions

Within productive zakat frameworks, entrepreneurial sustainability extends far beyond initial business creation; its primary objective is facilitating a transformative socio-economic transition where zakat recipients (*mustahiq*) graduate into self-reliant, economically resilient zakat contributors (*muzakki*) (Esa et al., 2025). Achieving this long-term financial independence requires cultivating a holistic business ecosystem structured around four core dimensions such as business survival and continuity, profitability, business resilience and long-term viability.

Early-stage venture creation represents an exceptionally fragile phase. Business survival and continuity demand continuous post-capital mentorship, structured guidance, and systematic institutional monitoring to help entrepreneurs navigate initial operational hurdles without prematurely exhausting their zakat seed funds (Rahim et al., 2026; Wan Khairi et al., 2025). Closely linked to survival, profitability reflects an enterprise's operational efficiency and market adaptability. Securing healthy profit margins depends heavily on rigorous cost-tracking discipline alongside the adoption of digital marketing tools and modern channels to expand market reach (Hamid et al., 2024; Sulaiman et al., 2024).

Beyond immediate financial returns, business resilience enables micro-enterprises to absorb macroeconomic shocks, adapt to shifting consumer demands, and recover from unexpected crises. For marginalized *asnaf* entrepreneurs operating in saturated urban markets, resilience is cultivated by blending technical financial capabilities (*Aqli*) with strong spiritual-behavioral discipline (*Naqli*), embedding core Islamic values such as perseverance, honesty, and trust in God (*tawakkal*) to endure economic hardship (Amin, 2022; Syahid et al., 2024). Ultimately, long-term viability aligns directly with the Shariah objective of wealth preservation (*hifz al-mal*) under *Maqasid al-Shariah* (Awang et al., 2016). A venture achieves genuine viability when it generates sufficient retained earnings to scale operations, sustain family livelihoods, and function permanently independent of welfare aid (Abdullah et al., 2025).

3.0 Research Methodology

This study adopts a conceptual and literature-based qualitative approach, relying on a systematic synthesis of secondary data gathered from established scientific databases, including Scopus, Web of Science, and Google Scholar. To guarantee methodological rigor and data integrity, explicit inclusion and exclusion criteria were established for the literature retrieval process:

- a. Inclusion Criteria: (1) Peer-reviewed journal articles, conference proceedings, and policy reports published between 2020 and 2026; (2) Studies explicitly examining financial literacy, *asnaf* micro-entrepreneurs, productive zakat, or urban micro-enterprises; (3) Geographically relevant literature centered on Malaysia or urban poverty dynamics in Southeast Asia.
- b. Exclusion Criteria: (1) Non-peer-reviewed grey literature, master's theses, and opinion blogs; (2) Articles published prior to 2020 (unless foundational); (3) Studies focusing strictly on large corporate structures or non-business zakat consumption.

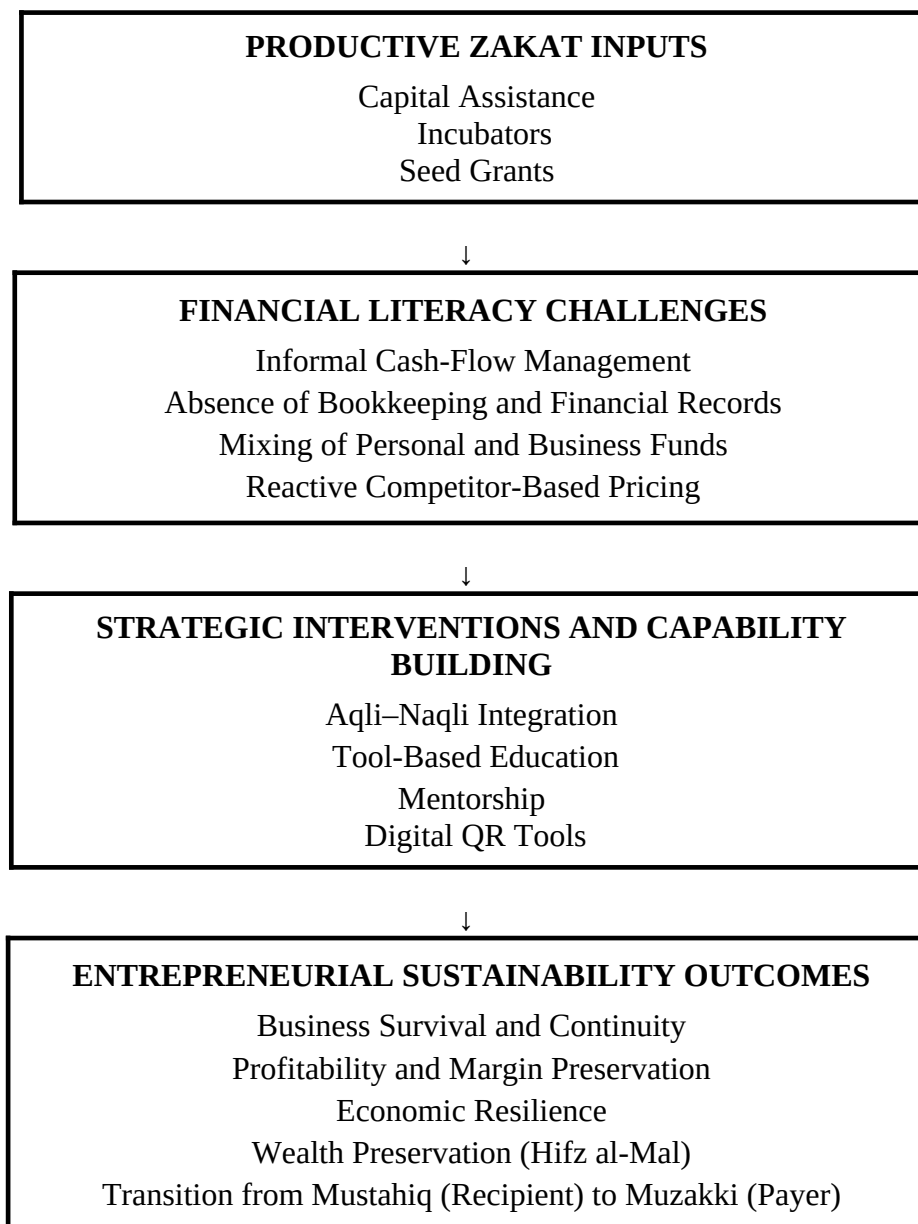


Figure 1: Conceptual Framework Linking Productive Zakat Inputs, Financial Literacy Interventions and Entrepreneurial Sustainability among Asnaf Entrepreneurs

The literature search executed specific Boolean search strings, including: TITLE-ABS-KEY (("financial literacy" OR "financial competence") AND ("asnaf" OR "productive zakat" OR "zakat recipient") AND ("sustainability" OR "micro-enterprise") AND ("Kuala Lumpur" OR "Malaysia")). The initial retrieval yielded 112 records. Following duplicate removal and title/abstract screening against the inclusion/exclusion criteria, a final synthesized sample of N = 45 contemporary peer-reviewed papers (2020–2026) were thoroughly reviewed, coded, and analyzed using qualitative thematic synthesis to directly address the study's core research questions.

4.0 Findings

The synthesized findings are structured to systematically address the three core research questions established in Section 1.0. Subsection 4.1 addresses RQ1 by detailing the structural financial literacy challenges; Subsection 4.2 addresses RQ2 by evaluating their specific impacts on operational sustainability; and Subsection 4.3 addresses RQ3 by synthesizing strategic capability-building interventions identified in the literature.

4.1 Major Financial Literacy Challenges Faced by Asnaf Micro-Entrepreneurs

Financial management constraints among asnaf micro-entrepreneurs are deeply structural, creating severe operational bottlenecks in their daily trade. A primary issue lies in informal cash flow management, where business owners rely almost exclusively on daily sales receipts to cover immediate expenses without maintaining contingency reserves (Ramzi, 2022; Topimin & Hashim, 2020). This hand-to-mouth operational posture forces budgeting into short-term "survival planning," where pressing daily household needs consistently override capital forecasting or profit reinvestment (Awang et al., 2016; Ishak et al., 2025).

Compounding this problem, formal bookkeeping is virtually absent across the sector. Heavy reliance on memory or rough handwritten notes obscures actual profit margins and structurally isolates entrepreneurs from applying for formal banking credit (Muhammed et al., 2025; Yeop Johari et al., 2023). Furthermore, acute household poverty leads directly to the commingling of personal and business funds. When domestic emergencies arise, working capital and zakat seed grants are routinely diverted toward family living expenses, draining the firm's liquidity (Larasaty et al., 2021; Noor & Zaini, 2024). Ultimately, financial decision-making remains highly reactive. Rather than performing systematic cost analyses, entrepreneurs usually set product prices by copying local competitors, leaving their businesses defenseless against urban inflation and market volatility (Amin, 2022; Sabu et al., 2025).

4.2 Impact on Entrepreneurial Sustainability

These financial literacy deficits directly undermine the long-term sustainability of asnaf micro-enterprises across multiple operational dimensions (Lusardi & Tufano, 2015; Mayr et al., 2021). Weak financial tracking and unmonitored spending cause the rapid depletion of initial zakat seed capital, leading to high failure rates during the volatile early stages of venture creation (Rahim et al., 2026). Without systematic record-keeping, profit margins remain stagnant, making it difficult for entrepreneurs to build operational buffers against economic shocks or urban inflation in Kuala Lumpur (Hamid et al., 2024; Sulaiman et al., 2024).

Instead of scaling into self-sustaining business ventures, many asnaf entrepreneurs remain constrained within a continuous cycle of welfare dependency (Muhamat et al., 2013). This recurring business discontinuity directly diminishes the long-term socio-economic return of productive zakat interventions (Esa et al., 2025). From an Islamic economic perspective, early enterprise collapse directly undermines the Shariah objective of wealth preservation (*hifz al-mal*) and obstructs the primary mandate of productive zakat; graduating aid recipients (*mustahiq*) into economically independent zakat contributors (*muzakki*) (Awang et al., 2016; Ibrahim & Ghazali, 2023).

4.3 Strategic Interventions Identified in Literature

To translate capital assistance into long-term enterprise survival, the synthesized literature highlights four standardized, interconnected intervention strategies:

- a. **Practical and Tool-Based Education:** Theoretical lectures yield negligible behavioral change unless transitioned into hands-on practical education. Empowerment initiatives must focus on accessible tools, including basic mobile bookkeeping applications and tailored cash-tracking templates that asnaf entrepreneurs can integrate directly into daily operations (Muhammed et al., 2022).
- b. **Continuous Post-Capital Mentorship:** Practical instruction alone is insufficient without continuous post-funding mentorship. Because isolated training workshops produce short-lived results, zakat institutions need to institutionalize ongoing field support, structured post-capital monitoring, and regular business coaching to guide entrepreneurs through early operational stumbles (Rahim et al., 2026; Wan Khairi et al., 2025).
- c. **Integration of Aqli and Naqli Values:** Equally critical is the integration of technical financial competencies (Aqli) with spiritual-ethical values (Naqli). Building holistic resilience requires nurturing personal spending discipline, ethical business practices, and spiritual fortitude (tawakkal), enabling marginalized owners to withstand intense urban market competition in Kuala Lumpur (Amin, 2022; Syahid et al., 2024).
- d. **Digital Financial Empowerment:** Lastly, modern capability development demands digital financial empowerment. Equipping micro-enterprise owners with digital payment tools such as QR platforms, basic e-commerce capabilities, and digital financial management apps streamlines administrative tasks while expanding their customer reach within competitive urban markets (Nuryati & Bahri, 2022; Sabu et al., 2025)

5.0 Discussion and Conclusion

5.1 Practical Implications for Productive Zakat

The synthesized literature demonstrates a clear consensus: capital distribution alone cannot secure sustainable entrepreneurial success among vulnerable groups (Esa et al., 2025; Muhamat et al., 2013). For asnaf micro-business owners, financial literacy is not merely about technical accounting or keeping a ledger. It represents the daily behavioral discipline required to control spending, maintain positive financial attitudes, and allocate scarce resources within a shifting market environment.

This reality is especially critical in high-cost urban areas like Kuala Lumpur. Here, micro-enterprises confront intense competition alongside steep overhead expenses and economic volatility. To address this, zakat empowerment programs must move past the traditional model of isolated cash grants. Instead, institutions like MAIWP and LZS need to embed continuous capability development directly into their distribution policies. Practical financial education, basic digital payment adoption, and long-term field coaching should become mandatory components of any start-up funding. Specifically, zakat authorities such as MAIWP and LZS should adopt three strategic policy mandates:

- a. **Pre-Disbursement Financial Capability Screening:** Transition from purely income-based eligibility checks to incorporating a financial readiness profile to identify specific coaching needs before disbursing seed capital.

- b. Tranced Capital-Mentorship Policy: Release financial capital in structured tranches tied to active participation in field mentoring and submission of basic monthly cash records, ensuring capital preservation.
- c. Institutionalized QR Payment Onboarding: Partner directly with Islamic financial technology providers to onboard asnaf micro-entrepreneurs onto static DuitNow QR platforms upon grant handover, establishing an automated digital transaction trail from day one.
- d. By developing human capability alongside financial capital, zakat authorities can actively protect their investments (hifz al-mal). More importantly, this integrated approach enhances business survival rates and drives genuine socio-economic mobility for the asnaf community.

5.2 Conclusion

This paper evaluated the primary financial literacy barriers confronting asnaf micro-business owners in Kuala Lumpur through a literature-based review. Productive zakat programs supply crucial seed capital to jumpstart micro-enterprise activities. However, recurring financial management gaps, namely poor cash tracking, absent bookkeeping, fund commingling, and reactive pricing, continue to jeopardize enterprise survival.

Securing long-term viability among asnaf entrepreneurs requires moving past standalone financial aid. Zakat agencies and policymakers must adopt an integrated capacity-building approach that combines practical financial instruction, digital tool adoption, behavioral discipline, and ongoing field coaching. These coordinated interventions give urban micro-entrepreneurs the operational foundation needed to exit welfare reliance, fulfilling the core mandate of productive zakat by transitioning aid recipients (mustahiq) into economically self-sufficient zakat payers (muzakki)

6. Limitations and Future Research

This study is subject to limitations inherent to its conceptual, literature-based design relying on secondary data. Contextual nuances across diverse micro-business sectors in Kuala Lumpur may not be fully captured. Future research should conduct empirical quantitative or qualitative investigations directly with urban asnaf micro-entrepreneurs to evaluate real-time financial behaviors. Additionally, empirical evaluations assessing the long-term effectiveness of digital literacy modules and post-capital mentoring programmes implemented by zakat authorities are highly recommended.

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