

CHALLENGES AND OPPORTUNITIES IN MICROFINANCE: INTEGRATING WAQF WITH AMANAH IKHTIAR MALAYSIA'S SUPPORT FRAMEWORK

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ABSTRACT

This study explores the challenges faced by microentrepreneurs in Malaysia, focusing on beneficiaries of Amanah Ikhtiar Malaysia (AIM). It aims to assess the sustainability of their businesses, access to financing, and the effectiveness of AIM's support services. Microentrepreneurs in Malaysia struggle due to financing limitations, operational constraints, and time pressures. Conventional banks often overlook these segments due to perceived risks. While microfinance institutions like AIM offer support, their reach is sometimes limited by repayment challenges and funding constraints. The study also investigates the potential integration of Islamic social finance, specifically *waqf* with AIM's existing framework to strengthen support for microentrepreneurial development. A qualitative research design was adopted to gather both primary and secondary data. Primary data were collected through a semi-structured interview with a regional AIM officer, focusing on AIM's mechanisms, challenges, and opportunities for integration with *waqf*. Secondary data were derived from academic journals, institutional reports, and related literature. Findings indicate that AIM provides

structured microfinancing and training programs, successfully achieving a high loan repayment rate of 98%. However, challenges remain, including low entrepreneurial literacy, digital skill gaps, and overreliance on loans. AIM is addressing these through strategic partnerships and digital transformation initiatives. This study highlights the role of Islamic social finance in enhancing the long-term sustainability of microfinance and poverty eradication programs in Malaysia.

Keywords: Microfinance, Amanah Ikhtiar Malaysia, Islamic Social Finance, Waqf, Microentrepreneurs

1. INTRODUCTION

A microentrepreneur is a very small business, usually operated by one person (the owner) or a small group of individuals. It typically requires a small amount of capital to start and run, and it often serves a local or niche market (Mat Daud, et al, 2023). Despite their small scale, these businesses play a crucial role in economic development by creating job opportunities, increasing household incomes, and supporting local markets (Grisworld, 2025). In developing countries such as Malaysia, microentrepreneurs form a significant part of the economy. However, they face numerous challenges in sustaining and expanding their businesses, such as limited access to financing, minimal digital marketing exposure, low technological adoption, and a lack of formal business support (Grisworld, 2025). Advertising and promotional tools are often expensive, leaving many of these businesses' unknown to wider markets, further hindering their competitiveness and scalability. To address these challenges, Microfinance Institutions (MFIs) such as Amanah Ikhtiar Malaysia (AIM) have been established. Founded on 17 September 1987 under the Trustees (Incorporation) Act 1952 [Act 258], AIM operates as Malaysia's largest microcredit institution, offering interest-free loans (Qard Hasan) primarily to low-income individuals, especially women (Amanah Ikhtiar Malaysia, 2025). While AIM has made notable progress, the sustainability of its impact remains a key concern. Islamic social finance instruments, particularly *waqf*, have emerged as potential complements to microfinance models. *Waqf* refers to the endowment of assets for charitable or public benefit, where the asset's usufruct is dedicated in perpetuity to specified beneficiaries. Although commonly perceived as a charitable tool, *waqf* serves as an investment in long-term community development and economic empowerment. According to SME Corporation Malaysia (2023) and the Department of Statistics Malaysia (DOSM), micro,

small, and medium enterprises (MSMEs) represent 96.9% of total business establishments, or 1,101,725 firms in 2023, up from 907,065 firms in 2015. This reflects an average annual growth rate of 2.5% over eight years.

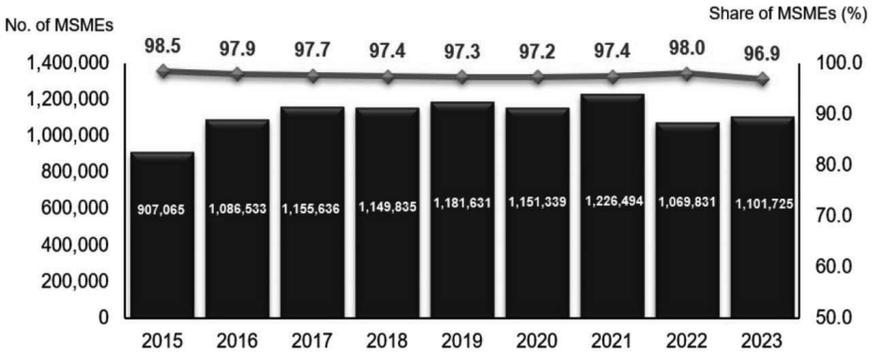


Figure 1: Total Number of MSMEs

The services sector accounted for 83.9% of MSMEs (924,170 firms), followed by construction (9.3%), manufacturing (5.4%), agriculture (1.2%), and mining and quarrying (0.2%). Microenterprises comprise the majority, 69.8% or 767,421 firms, underscoring the need for improved access to financing, training, and institutional support.

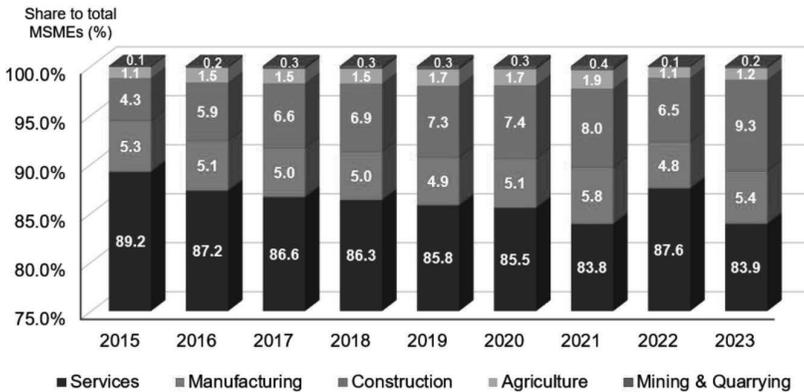


Figure 2: Number of Economic Sectors Involved

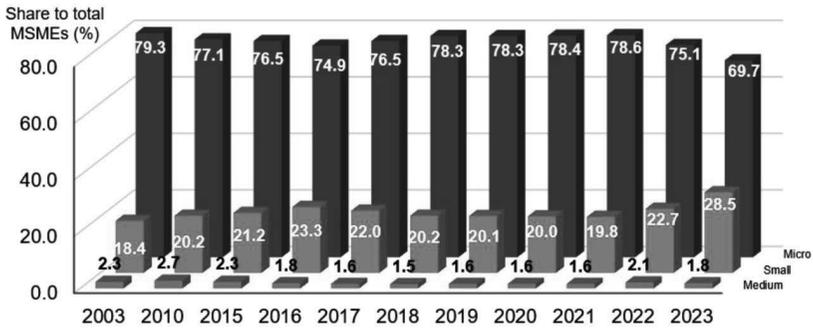


Figure 3: Number of MSMEs by Category

One significant initiative is the Wakaf Halal PKS programme by Yayasan Waqaf Malaysia (YWM), launched in collaboration with Halal Development Corporation Berhad (HDC). This programme aims to:

1. Provide business asset support to micro and small halal-certified entrepreneurs;
2. Strengthen entrepreneurial competencies through training;
3. Encourage halal certification via professional mentoring.

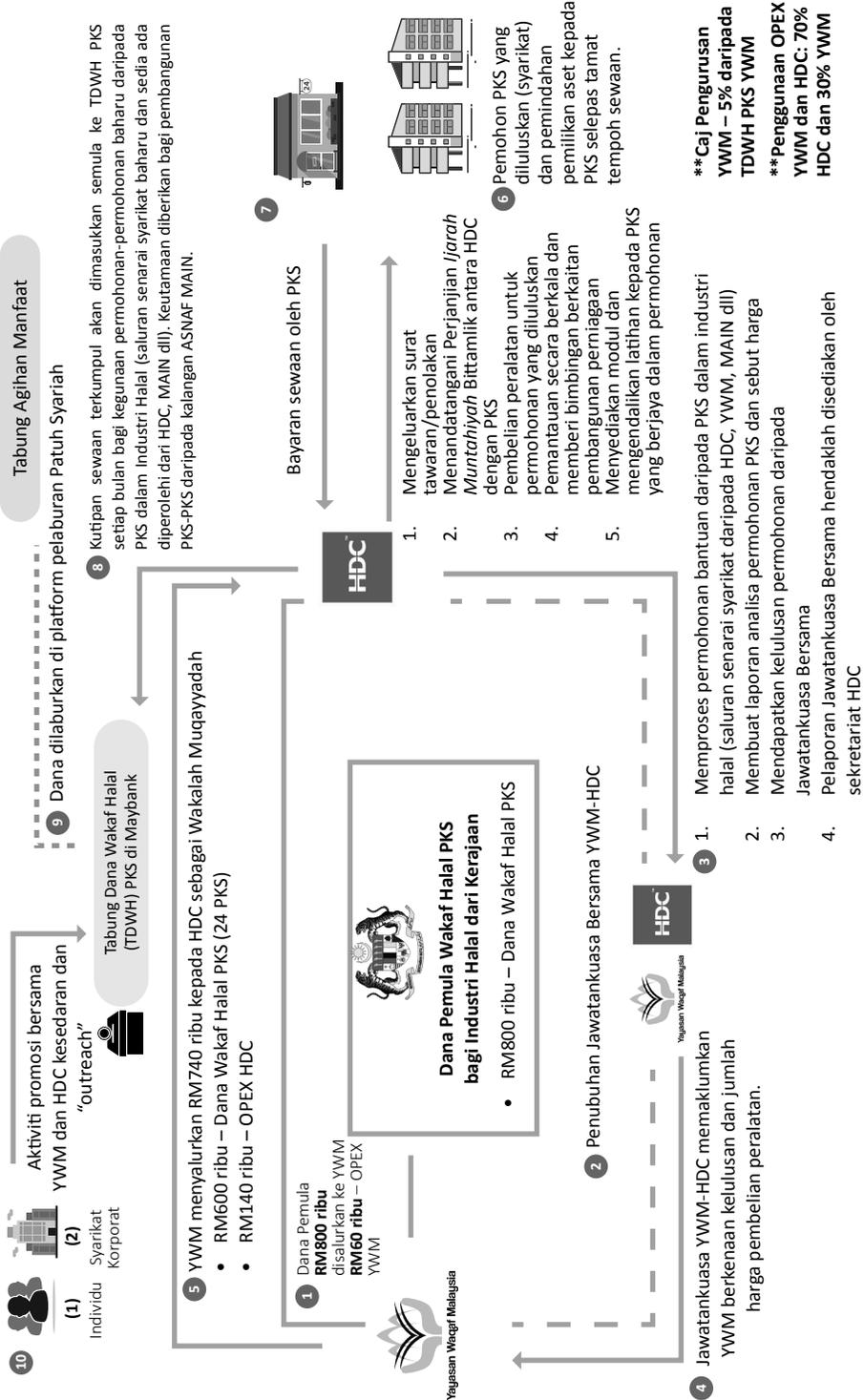


Figure 4: Overview of the Wakaf Halal PKS Programme

a. Total Collection of Malaysia Cash Waqf for 2022

Bil.	Produk Wakaf	Jumlah Kutipan (RM)
1.	Tabung Wakaf Tunai Khas Perkhidmatan Air	895,008.61
2.	Wakaf Tunai Am	1,865,991.00
3.	Sijil Wakaf Tunai Kesihatan	30,615.00
4.	Tunai Wakaf Bank Rakyat – Yayasan Waqaf Malaysia	537,654.59
5.	Sijil Wakaf Bangunan	22,550.00
6.	Sijil Wakaf Tunai Pendidikan	29,130.00
7.	Tabung Wakaf Masjid Hijau	151,518.49
8.	Sijil Wakaf Tunai Pembangunan Ekonomi	10,430.00
9.	Wakaf Prihatin	5,659.05
10.	Wakaf Tunai Pendidikan YWM – PINTA	3,429.80
11.	Tabung Cakna Armalah	118,809.15
12.	Program iTEKAD CIMB Islamic Entrepreneur 2.0	162,620.99
13.	Dana Wakaf Bencana	53,029.27
14.	Wakaf Halal PKS	1,951.01
15.	Wakaf Makmal Bahasa Digital Bergerak	10,632.19
	Jumlah Keseluruhan	3,899,029.15

Figure 5: Total Income Generated by Wakaf Halal PKS

With RM4 million allocated by the Ministry of Finance, this *waqf*-based model supplies business equipment (e.g., dough mixers, poultry processors) on a lease basis worth up to RM25,000 per entrepreneur (Wakaf Halal PKS, 2022). The programme’s sustainability is maintained by recycling rental payments back into the waqf fund, a revolving model demonstrating effective resource mobilisation. This practical application of *waqf* supports the study’s objective to explore integration between Islamic social finance and microfinance institutions like AIM. The structured use of *waqf* assets presents a scalable solution for bridging financial and resource gaps among microentrepreneurs. Small and micro businesses play a vital role in employment generation and socio-economic stability (Jamak et al., 2022). Despite their potential, many microentrepreneurs in Malaysia struggle due to financing limitations, operational constraints, and

time pressures (Sheikh Heile, 2011). Conventional banks often overlook these segments due to perceived risks. While microfinance institutions like AIM offer support, their reach is sometimes limited by repayment challenges and funding constraints. Simultaneously, *waqf*, a promising Islamic social finance instrument, remains underutilised due to legal, administrative, and awareness issues (Haneef et al., 2013). The lack of structured collaboration between *waqf* institutions and MFIs creates a gap in sustained support for microentrepreneurs. This study seeks to address how *waqf* can be better mobilised and integrated with microfinance models to strengthen financial inclusion.

2. LITERATURE REVIEW

2.1 Microentrepreneurs in Malaysia

Microentrepreneurs in Malaysia have continued to expand rapidly and now play an essential role in global and local economies. Typically emerging from low-income households and engaging in small-scale trade and services, these entrepreneurs generate employment and contribute significantly to national economic growth (Munoz et al., 2014). Microenterprises are widely recognized as the backbone of economic development and serve as vital mechanisms for addressing socio-economic inequalities. Despite their importance, microentrepreneurs often struggle to survive or grow due to numerous challenges. A consistent finding in microenterprise research is that access to appropriate financial products and the financial capability of entrepreneurs jointly determine firm sustainability. Recent empirical work and reviews argue that microfinance alone rarely suffices to improve firm outcomes unless combined with financial-literacy training and governance improvements (González-Prida et al., 2025; Osuma, 2025). Systematic reviews emphasize that product design e.g., flexible repayment schedules, small-sum working-capital products — and complementary non-financial services (training, mentoring) improve uptake and productive use of credit (Padilla-Angulo et al., 2023). Resilience has become prominent after the pandemic: microenterprises rely heavily on informal networks, rapid product pivots, and short-term financing to survive shocks, but these strategies are insufficient for deep liquidity crises (Kronblad et al., 2024; Padilla-Angulo et al., 2023). Systematic literature reviews and bibliometric studies indicate that microfirms' survival frameworks emphasize adaptive capabilities (e.g., diversification, digital sales channels) yet underscore the fragility of microbusiness balance sheets: many firms that survive short shocks ultimately close due to cumulative losses and lack

of access to formal relief. The literature therefore calls for policy packages that combine emergency liquidity, market linkages, and capacity building rather than one-off cash transfers alone. Financial literacy interventions have been found to improve decision-making and reduce maladaptive coping strategies; however, heterogeneity in program design and weak evaluation methods remain limitations. In Malaysia, many are officially registered with the Companies Commission of Malaysia or licensed by local authorities. However, they face barriers such as limited access to bank loans, lack of marketing resources, technological limitations, and insufficient skilled labour (Psaila, 2007; Hashim, 1999). Additionally, low business literacy and minimal access to professional mentorship further hinder their capacity to scale and contribute meaningfully to national development.

2.2 The Role of Microfinance Institutions (MFIs)

Microfinance institutions (MFIs) serve as critical vehicles for reducing financial exclusion by providing small loans and essential financial services to underserved populations. Globally, MFIs exist in various forms, from informal community-based systems and cooperatives to donor-funded NGOs and regulated financial institutions. In Asia, regulatory frameworks vary widely, involving agencies such as the Central Bank, Register of Societies, Ministry of Finance, and Securities Commission. In Malaysia, microcredit provision has existed for decades. Early success was often attributed to close monitoring and strong borrower relationships, which helped detect repayment risks promptly. Collaboration between MFIs and government development agencies also proved instrumental, particularly in reaching rural communities. However, some government-led programmes struggle with ineffective implementation, top-down strategies, and weak policy support. Political interference and poor monitoring systems further hinder success. To enhance impact, Malaysian MFIs must improve delivery systems and expand outreach to underserved communities. Additionally, strategic collaboration with Islamic social finance mechanisms such as *waqf* offers new avenues for sustainable microfinance development.

2.3 Waqf as an Islamic Finance Instrument

Waqf, a cornerstone of Islamic social finance, has long served as a mechanism to promote community welfare. Traditionally, *waqf* involves the voluntary, perpetual endowment of assets — such as land, buildings, or movable property — for the benefit of the public (Sairally, 2024a).

Historically, it funded mosques, cemeteries, schools, and essential infrastructure. In recent decades, however, Islamic finance has shifted from a sole focus on Shariah compliance to broader objectives that encompass social impact (Kuanova et al., 2021).

Modern *waqf* instruments include cash waqf, waqf shares, waqf banks, waqf sukuk, and waqf real estate investment trusts (Sairally, 2024a). Among these, cash waqf has gained prominence due to its flexibility. Instead of donating physical assets, individuals contribute cash, which is pooled and invested. The returns fund public goods and social services (Ahmad et al., 2021). Technology has further enhanced transparency, accountability, and public participation in *waqf* management. Malaysia's myWakaf initiative demonstrates effective collaboration between State Islamic Religious Councils (SIRCs) and Islamic banks in mobilising waqf funds for development (Othman et al., 2022). Cash waqf is increasingly being directed to fund micro and small halal businesses in Malaysia, Indonesia, Kuwait, and Bangladesh. Despite this progress, many waqf institutions remain underdeveloped due to weak governance, unclear legal frameworks, and limited fundraising capacity (Shaikh et al., 2017). While literature acknowledges the potential of *waqf* to support microentrepreneurs, empirical studies on its integration with MFIs remain scarce. Although scholars have proposed several conceptual frameworks (Kuanova et al., 2021), few have examined practical collaboration with institutions like Amanah Ikhtiar Malaysia (AIM). This study aims to fill this gap.

2.4 Integration of Waqf and Microfinance

The integration of *waqf* and microfinance is gaining attention as a sustainable strategy for poverty alleviation and inclusive development. Both frameworks share a common goal: to empower underprivileged communities (Haneef et al., 2015). MFIs are effective in reaching rural populations and delivering social support but often face financial limitations due to high operating costs. Conversely, waqf institutions possess abundant financial potential yet lack the operational systems and expertise to execute development initiatives effectively (Journal of Fatwa Management and Research, 2023). This creates a functional mismatch — MFIs have strong delivery capacity but limited funds, while *waqf* institutions have funds but limited outreach capabilities. Scholars have proposed integrating cash waqf as a funding source for MFIs. This approach allows professionally managed *waqf* funds to support income-generating activities for microentrepreneurs (INCEIF,

2023). A notable example is the Integrated Cash Waqf Micro-Enterprises Investment (ICWME-I) model by Mohd Thas Thaker et al. (2020), which merges cash waqf financing with human capital development programmes. Although promising in theory, real-world implementation remains limited. Despite cash waqf initiatives by Islamic banks, collaborations with major MFIs like AIM are scarce. Therefore, this study aims to explore how such integration can be operationalised in Malaysia, particularly by examining how waqf-based funding can complement AIM's existing microfinance model to enhance entrepreneurial sustainability.

3. RESEARCH METHOD

This study adopts a qualitative research design to explore the integration of *waqf* and microfinance through the case of Amanah Ikhtiar Malaysia (AIM). The qualitative approach is suitable for investigating institutional practices and perceptions, enabling rich, descriptive insights aligned with the exploratory nature of the study. Two types of data were collected: primary and secondary. Primary data was obtained through a semi-structured interview with a representative from AIM. The interview focused on AIM's support mechanisms for microentrepreneurs, follow-up strategies, institutional challenges, and the perceived potential of Islamic social finance tools such as *waqf*. Secondary data was sourced from academic journals, institutional reports, and publications relevant to *waqf*, microfinance, and microentrepreneur development. These documents provided the theoretical and contextual framework necessary to support and validate the findings derived from primary data. The data is analysed using descriptive and content analysis.

4. RESULTS

This section presents the key findings from the semi-structured interview conducted with a regional executive officer from Amanah Ikhtiar Malaysia (AIM). The interview was designed to explore AIM's current support for microentrepreneurs, the challenges faced by the institution, and the potential role of waqf in complementing AIM's financial support system.

4.1 Background of Amanah Ikhtiar Malaysia

Amanah Ikhtiar Malaysia (AIM) is a non-governmental organisation (NGO) established based on the adaptation of the Grameen Bank model

from Bangladesh, pioneered by Professor Muhammad Yunus. Grameen Bank, also known as the “village bank”, introduced microcredit financing to empower the poor by providing collateral-free loans for income-generating entrepreneurial activities. Since its establishment over 36 years ago, AIM has evolved through three strategic phases: initially serving the poorest communities, then the poor, and subsequently the low-income group. These phases reflect AIM’s progressive commitment to eradicating poverty through entrepreneurship. To date, AIM remains Malaysia’s only large-scale NGO that champions poverty reduction through micro-entrepreneurship and has garnered international recognition for its effective microfinance programmes.

4.2 Financial Tools/Mechanisms Applied by AIM

AIM provides small-scale financing to microentrepreneurs, known as *Sahabat Usahawan*¹. Financing amounts range from RM1,000 to RM30,000, with weekly repayments scheduled over a one to two year period depending on loan size. Alongside financial aid, AIM offers entrepreneurial training through collaboration with agencies such as INSKEN², KEMAS³, and Kolej Komuniti. Further support is provided through the *Program Beriktihar Menambah Rezeki* (PBMR), an initiative offering advisory services in cooperation with agencies like the Department of Fisheries and financial institutions. These services are tailored to the nature of each entrepreneur’s business. AIM’s core mission is to improve the standard of living for the poor and low-income communities through sustainable microfinance.

4.3 Demographic Coverage of AIM Beneficiaries

Initially, AIM’s efforts focused on the rural poor. Over time, AIM launched the *Urban Microcredit Programme*, targeting urban poverty. Today, AIM’s services cover nearly the entire country, including Sabah and Sarawak, and support is provided regardless of ethnicity, as long as applicants meet AIM’s eligibility criteria. This broad reach is aligned with AIM’s vision to empower all qualified low-income individuals.

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- 1 “Sahabat Usahawan” refers to the microentrepreneurs or members (participants) of AIM’s microcredit programmes.
 - 2 INSKEN (Institut Keusahawanan Negara/National Entrepreneurship Institute) Established by the Government of Malaysia under the Ministry of Entrepreneur Development and Cooperatives (KUSKOP).
 - 3 KEMAS (Jabatan Kemajuan Masyarakat/Community Development Department) Agency under The Ministry of Rural and Regional Development (KKDW).

4.4 Success Rate of Microentrepreneurs under AIM

AIM's success can be assessed through repayment rates and improvements in clients' standard of living. The institution has achieved a repayment rate of 98%, demonstrating strong financial discipline among its clients. Furthermore, many *Sahabat Usahawan* have shown increased capacity to acquire assets such as homes and vehicles, a significant improvement from their pre-AIM status. These outcomes are consistent with the findings of Gibbons and Kasim (as cited in The Green Book for the Poorest Families), who noted that the poor, when provided with capital, can escape poverty through entrepreneurial activities. AIM's consistent support has helped many of its clients break the poverty cycle.

4.5 Challenges and Limitations Faced by AIM

Amanah Ikhtiar Malaysia (AIM) continues to face several persistent challenges in fulfilling its mission of empowering microentrepreneurs. Among the most pressing issues are low levels of entrepreneurial literacy, overreliance on loans, and limited digital and technological competencies among its *Sahabat Usahawan* (members). Many beneficiaries possess only basic business knowledge and lack structured training in areas such as financial management, marketing, and innovation, which constrains their ability to scale up operations or diversify income sources. This knowledge gap contributes to a tendency to rely primarily on microcredit as a survival tool rather than a springboard for sustainable business growth. In addition, the digital divide remains a significant barrier; a large proportion of AIM clients are from rural and semi-rural areas, where digital illiteracy and poor infrastructure limit adoption of e-commerce, online marketing, and digital payment systems. Such shortcomings not only reduce competitiveness in an increasingly technology-driven market but also leave many microentrepreneurs vulnerable to market disruptions, as seen during the COVID-19 pandemic. Another challenge lies in the fragmented landscape of entrepreneurship support programmes in Malaysia. While multiple agencies such as SME Corp, TEKUN Nasional, and MARA offer various forms of assistance, limited coordination often leads to duplication of efforts, inefficiency, and confusion among beneficiaries. This reduces the effectiveness of interventions and prevents microentrepreneurs from accessing comprehensive support packages that combine finance, skills development, and market facilitation. Recognising these limitations, AIM has begun forging strategic collaborations with higher education institutions,

research centres, and industry players to design targeted training, mentorship, and capacity-building programmes. These partnerships aim to build entrepreneurial literacy, improve digital readiness, and provide more holistic support tailored to the evolving needs of beneficiaries. At the same time, AIM is actively pursuing digital transformation initiatives to modernise its operations and improve service delivery. Efforts include promoting the use of online platforms for financing applications, monitoring repayment schedules, and reporting business progress. The adoption of such systems not only enhances transparency and efficiency but also gradually familiarises members with digital tools, encouraging them to integrate similar technologies into their own business models. Moreover, AIM is exploring the use of fintech solutions, mobile applications, and data-driven monitoring systems to better track the performance of microentrepreneurs and identify those in need of additional support. Collectively, these measures reflect AIM's recognition that the long-term sustainability of microenterprises depends not solely on access to microcredit, but also on capacity development, digital empowerment, and integrated institutional support that align with Malaysia's broader agenda of inclusive economic growth.

5. DISCUSSION

5.1 Exploring the Status and Challenges of Microentrepreneurs In Malaysia

The literature and interview findings consistently highlight the structural challenges facing microentrepreneurs in Malaysia, such as limited financing, poor digital literacy, and minimal access to strategic training or market exposure. The interview with AIM's officer also confirmed issues such as business planning deficiencies, overdependence on microloans, and inadequate digital capacity among *Sahabat Usahawan*. While AIM's support structure is robust and has led to positive outcomes, this study supports previous literature suggesting that financial aid alone is insufficient. Instead, a multi-agency and multi-dimensional approach is required, incorporating education, infrastructure, and government support to ensure microentrepreneur sustainability.

5.2 Examining the potential role of waqf in supporting AIM

The literature presents waqf as a viable mechanism for supporting financial inclusion and socio-economic development. Instruments such as *cash waqf*

can be channelled into productive activities like providing equipment or business training. However, the empirical component of this study (the interview) did not yield specific waqf-related data, as AIM's respondent shared only general documents. Nonetheless, the academic discourse, particularly the ICWME-I model by Mohd Thas Thaker et al. (2020), demonstrates that integrating cash waqf with human capital programmes yields promising outcomes. Similarly, studies by Zauro et al. (2020) support the feasibility of waqf-MFI integration for microentrepreneurial development. This indicates the need for more practical collaborations between waqf institutions and MFIs like AIM to build financially inclusive ecosystems.

6. CONCLUSION

This study examined the challenges faced by microentrepreneurs in Malaysia, particularly those under the Amanah Ikhtiar Malaysia (AIM) scheme, and explored the potential role of Islamic social finance — specifically waqf — in enhancing their development. Findings show that although AIM's microfinance model has achieved high repayment rates and contributed to improved livelihoods, persistent structural challenges remain, including low entrepreneurial literacy, digital skill gaps, and an overdependence on loans. In this context, waqf can serve as a complementary mechanism rather than a substitute for microcredit. Its application in microentrepreneur development may take several forms: (i) financial support through waqf-based venture funds or revolving capital to reduce overreliance on debt, (ii) capacity building by dedicating waqf revenues to training, mentoring, and digital literacy programs, (iii) infrastructure provision such as shared business facilities, digital hubs, or marketplaces funded by waqf assets, and (iv) social protection via waqf allocations for microentrepreneurs facing economic shocks or business downturns. By integrating such waqf-based instruments into AIM's framework, the institution could shift from a primarily credit-driven model toward a more holistic and sustainable support system. This integration would not only enhance AIM's long-term impact in poverty alleviation but also align with the Maqasid Al-Shariah objectives of promoting social justice, financial inclusion, and community welfare. Ultimately, the incorporation of waqf into microfinance offers a pathway to strengthen microentrepreneurial resilience, reduce vulnerability to debt cycles, and ensure that empowerment efforts are sustainable and transformative rather than short-lived.

6.1 Theoretical and Practical Implications

Theoretically, this research contributes to the growing body of literature on Islamic social finance, particularly in the context of microentrepreneurship. It supports the argument that financial institutions should not only be Shariah-compliant but also socially impactful.

Practically, this study provides a foundation for partnerships between organisations like AIM and waqf bodies such as Yayasan Waqaf Malaysia. It encourages policymakers to formalise the integration of waqf into national development strategies, particularly for rural and low-income entrepreneurs.

6.2 Limitations of the Study

This study relied on a single qualitative interview, which limits the generalisability of the findings. Broader institutional insights, including those from waqf authorities and additional stakeholders, would provide a more holistic perspective. Furthermore, the interviewee did not directly address the potential of waqf integration, resulting in a heavy reliance on secondary literature. Future research should include empirical case studies involving actual waqf-MFI collaborations to assess scalability and impact.

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