

# Analysis of Community Financial Literacy Levels towards Sharia Financial Institutions, Case Study in Menganti Village, Jepara Regency

Nely Pontiningsih<sup>1</sup>, Miswan Ansori<sup>2</sup>

<sup>1</sup> Universitas Islam Nahdlatul Ulama Jepara ( Sharia Banking Study Program, Faculty of Sharia and Law)

<sup>2</sup> Universitas Islam Nahdlatul Ulama Jepara Jepara ( Sharia Banking Study Program, Faculty of Sharia and Law)

Correspondence \*:

[201420000482@unisnu.ac.id](mailto:201420000482@unisnu.ac.id), [miswan@unisnu.ac.id](mailto:miswan@unisnu.ac.id)

## Abstract

**Objective:** This research aims to analyze the level of community financial literacy towards sharia financial institutions in Menganti Village, Jepara Regency.

**Design/Methods/Approach:** The study employs a quantitative method with a survey approach, utilizing questionnaires distributed to the Menganti Village community to collect data.

**Findings:** The findings indicate that the level of sharia financial literacy among the Menganti Village community is categorized as medium, with an average score of 71.99%. Specifically, basic knowledge of sharia finance scored the highest at 83.52%, followed by sharia investment dimensions at 71.85%, sharia savings and loans at 66.67%, and sharia insurance at 65.93%.

**Originality/Value:** This research contributes significantly to the existing body of literature by focusing on community financial literacy in rural areas, a subject that has been largely overlooked in previous studies, which typically emphasize urban areas or conventional financial institutions. The unique focus on sharia financial institutions in a rural setting underscores the importance of tailored financial education programs that address the specific needs and contexts of rural populations. By concentrating on a rural community, this study highlights the unique challenges and opportunities present in these areas, providing valuable insights for future research and policy-making.

**Practical/Policy Implications:** The study recommends that stakeholders, including Bank Indonesia, the Financial Services Authority (OJK), sharia financial institutions (LKS), and educational institutions, should take concerted actions to strengthen and expand sharia financial education within society. Enhanced educational initiatives can improve financial literacy levels, empowering communities to make informed financial decisions and fostering greater trust and utilization of sharia financial services. By addressing the gaps identified in this study, stakeholders can contribute to more inclusive financial growth and stability in rural areas. This approach not only benefits individual financial decision-making but also promotes broader socioeconomic development, ensuring that rural communities are not left behind in the financial inclusion agenda.

**Keywords :** Financial Literacy, Sharia Financial Institutions, Menganti Village

**JEL Classification:** G20,G21,O16

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## Introduction

Financial literacy in the context of sharia financial institutions has become an increasingly relevant topic considering the increasing public interest in sharia-based economic systems. Financial literacy is defined as an individual's ability to understand and utilize financial information to make appropriate and effective decisions in managing personal finances. Based on data from the Financial Services Authority (OJK), the level of financial literacy in Indonesia is still relatively low, especially in the context of sharia financial institutions which have different principles and operations from conventional financial institutions (OJK, 2022). Therefore, this research aims to analyze community financial literacy towards sharia financial institutions in Menganti Village, Jepara Regency, in order to identify and overcome existing financial literacy gaps.

This research has significant novelty with its specific focus on community financial literacy in rural areas, which until now has received little attention in the academic literature. Most previous research places more emphasis on financial literacy in urban areas or in the context of conventional financial institutions (Nesneri & Novita, 2023; Syifa et al., 1998). Thus, this research contributes to increasing understanding of how financial literacy can influence people's use of and trust in Islamic financial institutions in rural areas. It is hoped that the results of this research will provide new insights that are useful for policy makers and Islamic finance practitioners in designing financial literacy programs that are more effective and in line with community needs.

This research aims to identify the level of financial literacy of the Menganti Village community towards sharia financial institutions and the factors and indicators that influence it. Research on financial literacy generally shows that people's understanding of basic financial concepts is still low, especially in developing countries like Indonesia. According to (Lusardi & Mitchell, 2014) low financial literacy can hinder an individual's ability to make wise financial decisions, which in turn can affect their financial well-being.

The method used in this research is a quantitative method with a survey approach. Data was collected through questionnaires distributed to the Menganti Village community. The questionnaire was designed to measure people's understanding of basic financial concepts, sharia financial institution products, as well as their attitudes and behavior towards the use of sharia financial services.

Despite the growing importance of financial literacy in promoting economic development, there remains a **significant gap** in understanding financial literacy levels in rural areas, particularly concerning sharia financial institutions. Previous studies have predominantly focused on urban populations and conventional financial systems, leaving a critical void in the literature regarding rural communities and their engagement with sharia financial institutions. Most existing research overlooks the unique challenges and contexts faced by rural populations, such as limited access to financial services, lower levels of formal education, and cultural factors influencing financial behaviors. This gap highlights the need for a focused investigation into the financial literacy of rural communities, specifically regarding their understanding and utilization of sharia financial products and services.

**This research is particularly important for several reasons.** Firstly, it addresses the rural-urban disparity by shedding light on the financial literacy levels in Menganti Village, Jepara Regency, providing a contrast to the urban-centric studies prevalent in existing literature.

Understanding the financial literacy landscape in rural areas is crucial for developing targeted educational programs and policies that bridge the rural-urban divide. Secondly, it enhances financial inclusion by providing insights into how well rural communities comprehend and utilize sharia financial services, which is essential for ensuring these services meet the needs of rural populations. Thirdly, the findings can inform the design and implementation of more effective financial education initiatives tailored to rural contexts. By identifying specific areas where financial literacy is lacking, stakeholders can develop targeted interventions that address these gaps, thereby improving the overall financial literacy of rural communities. Finally, policymakers can leverage the insights gained from this study to formulate and implement policies that support the growth and accessibility of sharia financial institutions in rural areas. This can lead to more inclusive economic growth and stability, benefiting the broader socioeconomic development of these regions.

### **Literature Review and Hypothesis Development**

Financial literacy is defined as the ability to understand and manage finances effectively. From Lusardi et al emphasize that financial literacy is a key factor in making wise financial decisions, which can have an impact on individual financial well-being (Lusardi & Mitchell, 2014) . Another study revealed that low financial literacy is often related to difficulties in managing personal finances and lack of participation in existing financial products (Hanafi et al., 2023) .

The Organisation for Economic Co-operation and Development (OECD) reported that the level of financial literacy in Indonesia is still relatively low compared to other countries. This is especially true in rural areas, where access to financial information and education is still limited . This survey shows that many individuals in rural areas do not have an adequate understanding of basic financial concepts, such as interest and inflation, which are fundamental knowledge for effective financial management (OECD, 2016).

Research from Iqbal and Mirakhor lighting the importance of financial literacy in the context of Islamic finance. They explained that a good understanding of sharia financial principles can increase public participation in using sharia financial products, which in turn can strengthen the performance of sharia financial institutions (Iqbal & Mirakhor, 2017) . Another research also found that er financial literacy can increase financial inclusion, meaning more individuals utilize formal financial services including sharia-based ones (Grohmann et al., 2018).

There are not many studies that specifically examine financial literacy in rural areas. However, local research such as that conducted by Nurul Izzah shows that rural communities in the area still face challenges in accessing relevant financial information. Nurul Izzah noted that financial education programs adapted to local contexts are urgently needed to improve people's financial understanding and skills (Nurul, 2021).

A number of studies have explored the concept of financial literacy in various communities. Cahyaningtyas and Perseveranda both emphasize the importance of financial literacy in rural areas, with a focus on the impact of financial literacy education on people's ability to manage personal finances and on optimizing household financial literacy (Cahyaningtyas et al., 2020; Perseveranda et al., 2024). Meanwhile research conducted by Hafidah And Pulungan investigating the relationship between financial literacy and investment decisions, Hafidah lighted the influence of financial literacy and income on investment decisions, and Pulungan lighted the significant and positive impact of financial literacy on financial behavior. These studies collectively underscore the important role of financial literacy in empowering individuals and society to make informed financial decisions (Hafidah, 2022; Pulungan, 2017).

Apart from that, other research has results showing that low financial literacy is correlated with low participation in Islamic financial institutions. Yusuf found that increasing financial literacy can increase public trust in sharia financial institutions, which in turn increases the use of sharia financial products and services (Yusuf, 2018). The results of this research are in line

with the findings of another research which show that good financial literacy can help individuals understand and utilize Islamic financial products more effectively (Ahmad, 2021).

**From several previous studies, the following hypothesis can be drawn** (Hafidah, 2022; Hanafi et al., 2023; Pulungan, 2017)

H1: The level of financial literacy of the Menganti Village community has a positive effect on their level of trust in sharia financial institutions.

H2: The level of financial literacy of the Menganti Village community has a positive effect on their level of trust in sharia financial institutions

The conceptual framework of this research is as follows:

Table 1 Research Conceptual Framework

Indicator	Question
Knowledge financial basis sharia	1. Understanding of riba 2. Principles of sharia financial transactions 3. Application principle sharia on sharia banking activities 4. Benefit from basic knowledge of Islamic finance 5. Principles of profit sharing and cooperation
Savings And Sharia Financing	6. Savings products at sharia banks 7. <i>Akad</i> in sharia financing 8. Knowledge about for results in Islamic Bank 9. Knowledge about M urabahah financing 10. Knowledge regarding M udharabah financing
Insurance Sharia	11. Principles of sharia insurance 12. Benefits of using sharia insurance 13. Insurance products sharia 14. Knowledge of insurance risks 15. Difference insurance conventional And sharia insurance
Investment Sharia	16. Sharia investment products 17. Knowledge of investment risks 18. Knowledge of reks and syariah 19. Long term investment knowledge 20. Understanding about reward services to investment companies.

Research describes the level of financial literacy of the Menganti Village community using the classification proposed by (Chen & Volpe, 1998), which divides financial literacy levels into three categories: , medium, and low. This classification is based on the results of questionnaire answers obtained from the public.

**Method**

This research utilizes a quantitative method with a survey approach, allowing for the collection of numerical data that can be analyzed statistically. The primary objective is to measure the level of community financial literacy and its impact on the performance of sharia financial institutions in Menganti Village, Jepara Regency. The study was conducted over three months, from January to March 2024, in Menganti Village, Jepara Regency, Central Java. This location was chosen to explore financial literacy in rural areas, which have often been less accessible and underrepresented in previous research.

The population of this study comprises residents of Menganti Village aged 20 to 39 years, totaling 750 individuals. The sample size was determined using the Slovin formula, resulting in a sample of 108 people. The sampling technique employed was area sampling, ensuring a representative distribution of respondents across different parts of the village.

Data collection involved distributing questionnaires to the selected sample. Each questionnaire included questions designed to assess various dimensions of financial literacy, specifically focusing on sharia financial principles, sharia investment, sharia savings and loans, and sharia insurance. Respondents' answers were scored, with each correct answer awarded 1 point and each incorrect answer given 0 points.

The data collected were analyzed using descriptive statistics. Each respondent's score was calculated by dividing the number of correct answers by the total number of questions and then multiplying by 100%. This provided a percentage score representing the individual's level of financial literacy. The results were then classified into financial literacy levels using the model formulated by Chen & Volpe (1998).

To further analyze the impact of financial literacy on the performance of sharia financial institutions, statistical methods such as correlation analysis were employed. This enabled the researchers to identify any significant relationships between the community's financial literacy levels and the effectiveness and utilization of sharia financial services in the village. This comprehensive approach provides valuable insights into the financial literacy landscape of Menganti Village and its implications for sharia financial institutions. Here is the formula:

$$\text{Literacy level category} = \frac{\text{Number of Correct Answers} \times 100\%}{\text{Number of Wrong Answers}}$$

The results of these calculations will then be grouped into 3 categories , namely:

Table 2 Financial Literacy Level Category

Category	Data Interval
Low	<60 %
Medium	60% - 79%
High	>80 %

Source: (Chen & Volpe, 1998)

**Results and Discussion**

The survey questionnaire was distributed via online and offline media. The questionnaire was distributed evenly to 120 respondents in Menganti Village, and 108 respondents were sorted and then taken , resulting in a response rate of 100 %. Data from the questionnaire results can be seen in the following table

Table 3 Sample characteristics

<b>Descriptive statistics</b>	<b>Percentage (%)</b>
Minimum	30
Maximum	100
Mean	71.99
Std deviation	17.56

Source : data is processed ( 2024 )

Based on the est level of education, 44.44% of respondents had a bachelor's degree, 30.55% had a bachelor's degree, and 17.59% had a diploma. In terms of age, the majority of respondents in this study were between 20 and 29 years old. In terms of gender, women contributed the most, namely 65.74%. In terms of income, 35.18% of respondents had an income of less than 1,000,000 Rupiah, 30.55% had an income of 1,000,000 to 3,000,000, and 17.59% had an income of 3,000,000 to 5,000,000. As many as 3.38% of respondents had income between IDR 5,000,000 and IDR 10 million, while the rest had income of IDR 10 million or more. Regarding employment, 31.48% of respondents were office workers, 13.88% were civil servants, and 24.07% were students , 17.50% had entrepreneurial status, 9.25% had housewife status and the rest were others as per can be seen in the following data in Table 4.

Table 4 Respondent Characteristics Data

<b>Social characteristics Demografis</b>	<b>Participant Amount</b>	<b>Percentage (%)</b>
<b>Last education</b>		
a. Senior School	33	30.55
b. Diploma	19	17.59
c. Bachelor	48	44.44
d. S2	8	7.54
<b>Age</b>		
a) 20 to 24 years old	54	50
b) 25 to 29 years old	31	28.70
c) 30 to 34 years old	12	11,11
d) 35 to 39 years old	11	10.18
<b>Gender</b>		
a) Man	37	34.25
b) Woman	71	65.74
<b>P income</b>		
a) < IDR 1,000. 000	38	35.18
b) > IDR 1,000,000 up to 3,000,000	33	30.55
c) > IDR 3,000,000 up to 5,000,000	19	17.59
d) > IDR 5,000,000 up to 10,000,000	15	13.88

e) > IDR 10,000,000	3	2.7
<b>Work</b>		
a) Employees / Laborers	34	31.48
b) Civil servants	15	13.88
c) Student/Students	26	24.07
d) Businessman	19	17.59
e) IRT	10	9.25
f) Etc	4	3.7

Source : data is processed ( 20 24 )

Table 5 Data Results Percentage of Financial Literacy Levels

Category	Amount	Percentage (%)
Low	24	22.2
Medium	39	36.11
High	45	41.66
Total	108	100

Table 5 details that there were 22.2% of respondents with a low level of sharia financial literacy, namely only being able to answer questions correctly below 60%. Furthermore, there were 36.11% of respondents who could be grouped into the category of medium sharia financial literacy level, namely those who were able to answer questions correctly between 60%-79% and the remaining as many as 41.66% of respondents belonged to the category that had a High level of financial literacy, namely respondents who were able to answer questions correctly above 80%.

Table 6 Average Percentage of Correct Answers for Each Response On Survey Questions

Indicator	The level of financial	
	Low (< 60%)	Middle( 60 % - 79 %) (> 80%)
Knowledge Base finance sharia	1. Understanding of riba	76%
	2. Principles of sharia financial transactions	68.52 %
	3. Application principle Sharia on activity banking sharia	93.52%
	4. Benefit from basic knowledge of Islamic finance	82.41%
	5. Principle for results in	97.22%

		collaborative work	
		<b>Average</b>	<b>83.52 %</b>
Savings and Sharia Financing	6.	Savings products at sharia banks	80.56%
	7.	<i>Akad</i> in sharia financing	50.93%
	8.	Knowledge about for results in Islamic Bank	81.48%
	9.	Knowledge about Murabahah financing	60.19%
	10.	Knowledge regarding Mudharabah financing	60.19%
		<b>Average</b>	<b>66.67%</b>
Insurance Sharia	11.	Principles of sharia insurance	94.44%
	12.	Benefits of using sharia insurance	62.04%
	13.	Insurance products sharia	47.22%
	14.	Knowledge of insurance risks	48.15%
	15.	Difference insurance conventional And sharia insurance	77.78%
		<b>Average</b>	<b>65.93%</b>
Investment Sharia	16.	Sharia investment products	47.22%
	17.	Knowledge of investment risks	87.96%
	18.	Knowledge of reksadana syariah	54.63%
	19.	Long term investment knowledge	92.59%
	20.	Understanding about reward services to investment companies	76.85%
		<b>Average</b>	<b>71.85%</b>
Source : data is processed (2024)			



Table 6 shows the percentage of respondents who answered each question correctly as well as the average correct answer for each aspect of questions about sharia financial literacy. Of the four aspects studied, the average correct answer with the est score (83.52%) was in the aspect of basic sharia financial knowledge, and if you refer to the classification of sharia financial literacy levels in table 2, it can be grouped into the financial literacy classification (> 80%). This indicates that the public has good knowledge and understanding of the basic principles of sharia finance. Meanwhile, in the aspects of sharia savings and loans, sharia insurance, and sharia investment, the average score of correct answers is 66.67%, 65.93%, and 71.85%, respectively, which means they are in the medium category (60 -79%).

Overall, the respondents in this study had an adequate educational background and were in the productive age range. This is included among the factors supporter in form level literacy on public from side social demographics as found in previous studies which concluded that people with adequate educational background tend to be more easily exposed to with information about finance ((OJK), 2016; Hafidah, 2022; Hanafi et al., 2023; Nesneri & Novita, 2023; Syifa et al., 1998)

### **Conclusion and future directions**

This research concludes that the level of sharia financial literacy of the Menganti Village community is at 71.99%, which is classified as in the medium category (60%-79%). This research uses and modifies the financial literacy level measure from Chen and Volpe (1998), and presents the average results for each dimension of Islamic financial literacy.

The results show that the community's basic knowledge of sharia finance is at 83.52%, the dimension of sharia savings and loans is 66.67%, sharia insurance is 65.93%, and sharia investment is 71.85%.

Based on these findings, the research recommends to stakeholders, including Bank Indonesia, the Financial Services Authority, sharia financial institutions, and educational institutions, to further strengthen and expand sharia financial education in society. This is because a level of sharia financial literacy is a key element in supporting proper individual financial management and helping people make better financial decisions, which will ultimately improve their welfare.

### **Implications**

This research can enrich the literature regarding financial literacy in Indonesia, especially in the context of Islamic financial institutions. The results of this research can provide an overview of the extent of village community understanding of sharia financial concepts, products and services. Second, this research can be a basis for Islamic financial institutions in designing more effective and targeted education and outreach strategies to increase public financial literacy. Apart from that, the findings of this research can also be used by policy makers to formulate policies that support the development of sharia finance in rural areas. Thus, this research not only makes an academic contribution, but also a practical one in efforts to increase financial literacy and sharia financial inclusion in Indonesia.

### **Conflict of Interest (compulsory)**

This research was conducted without any commercial or financial affiliations that could be construed as a potential conflict of interest. The entire research process, from data collection, analysis, to report writing, was carried out independently and objectively. Researchers do not receive financial support, gifts, or incentives from Islamic financial institutions or other parties related to this research topic. Thus, it is hoped that the results of this research can provide an honest and unbiased contribution to the public's understanding of financial literacy regarding sharia financial institutions.

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