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## LOW LITERACY AND PUBLIC PARTICIPATION IN SHARIA FINANCIAL INSTITUTIONS: A QUALITATIVE STUDY IN JAMBESARI DARUSSHOLAH VILLAGE

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### **Abstract :**

Jambesari Village is classified as a village with a relatively low level of literacy and community participation. Although some members of the community are aware of the existence of Islamic financial institutions, many do not yet have an in-depth understanding of these institutions, including their basic principles and operational systems. This study aims to analyze the level of Islamic financial literacy, the factors contributing to low community participation, and strategies to enhance both literacy and participation. This research employs a descriptive qualitative method, with data collected through interviews, observations, and documentation. Data analysis is conducted using the Miles and Huberman model, which includes data reduction, data display, and conclusion drawing. The results of this study indicate that the low level of community literacy and participation in Islamic financial institutions is caused by a lack of socialization and limited access to Islamic financial institutions in the village. Therefore, strategies or efforts are needed to improve community literacy and participation, which can be implemented through long-term socialization programs and the expansion of access to Islamic financial services in the village, so that the level of community literacy and participation can increase.

**Keywords :** *Islamic Financial Literacy, Community Participation, Islamic Financial Institutions, Rural Community.*

### **Abstrak :**

Desa jambesari termasuk desa yang tingkat literasi dan partisipasi masyarakat tergolong rendah. Meskipun sebagian masyarakat telah mengetahui keberadaan lembaga keuangan syariah, tetapi banyak yang belum mengetahui secara mendalam lembaga keuangan syariah seperti prinsip-prinsip dasar dan sistem kerja. Dalam penelitian ini bertujuan untuk menganalisis tingkat literasi keuangan syariah, faktor-faktor penyebab rendahnya partisipasi masyarakat, serta strategi untuk meningkatkan literasi dan partisipasi masyarakat. Penelitian ini menggunakan metode kualitatif deskriptif dengan teknik pengumpulan data melalui wawancara, observasi serta dokumentasi. Analisis data menggunakan temuan dari Miles and huberman yang meliputi reduksi data, penyajian data, serta penarikan kesimpulan. Hasil dari penelitian ini menyatakan bahwa sebab dari rendahnya literasi dan partisipasi masyarakat ke lembaga keuangan syariah disebabkan oleh kurangnya sosialisasi serta

akses ke lembaga keuangan syariah di desa. Karena itulah perlu strategi atau upaya untuk meningkatkan literasi dan partisipasi masyarakat yang dapat melalui program sosialisasi jangka panjang serta perluasan akses layanan keuangan syariah di desa agar tingkat literasi dan partisipasi masyarakat dapat meningkat.

**Kata Kunci:** Literasi Keuangan Syariah, Partisipasi Masyarakat, Lembaga Keuangan Syariah, Masyarakat Desa.

## INTRODUCTION

Public understanding of Islamic finance in some villages remains low. This is because people lack a thorough understanding of the basic principles of Islamic finance. This makes many hesitant to participate in Islamic financial institutions. Villagers are more familiar with conventional banking services due to their more frequent participation. One factor hindering the progress of Islamic financial institutions, especially in villages, is the low level of literacy regarding a comprehensive understanding of Islamic finance (Vidyaningrumnama, Nugroho, & Sugiarti, 2023). They stated that increasing the market share of Islamic finance requires increased public literacy. This is because people will not be tempted to use Islamic financial services if they are unaware of the benefits and advantages they offer.

Previous research has shown that increasing the market share of Islamic banking requires sustained efforts and the involvement of all stakeholders in the Islamic economy (Ridwan, 2024). Low public literacy prevents the growth potential of Islamic financial institutions, particularly in rural areas, from optimally developing. Communities that do not understand the working systems and fundamentals of Islamic finance tend to maintain conventional transaction patterns that have become commonplace. A lack of understanding of sharia principles such as mudharabah, musyarakah, murabahah, and ijarah makes it difficult for the public to distinguish between Islamic and conventional financial institutions. According to research (Segati, 2019) and a journal (Titin, 2024), people still assume there is no difference between Islamic banks and conventional banks. Consequently, people believe that Islamic banks operate the same as conventional banks. This situation has resulted in low trust and a lack of public interest in participating in Islamic financial institutions. In fact, Islamic microfinance institutions play a strategic role in promoting financial literacy and inclusion in rural communities, despite challenges such as limited resources and a lack of public understanding.

Efforts to increase literacy and participation require effective strategies to reduce low levels of literacy in the community, particularly through direct outreach. Research (Ersianti, Layana, & Setiadi, 2024) explains that programs that utilize community-based training with a participatory approach have proven effective in improving Islamic financial literacy and contributing to the economic welfare of rural communities. Despite the existence of community-based programs, more effective and permanent follow-up support is needed to truly improve Islamic financial literacy across the board, not just in select villages. The main factors contributing to this lack of literacy include a lack of

education and outreach, limited access, and the existing level of education, which leads to a predominance of conventional products, which are perceived as easier to access (Leny Sukmawati & Subkhan Alimuddin, 2025).

According to the 2024 National Survey on Financial Literacy and Inclusion (SNLIK), the Islamic financial literacy index was 39.11% and the Islamic financial inclusion index was 12.88%, significantly lower than Indonesia's overall financial literacy index of 65.43% and financial inclusion index of 75.02%. In other words, the Islamic financial literacy index fell by approximately 26.32%, and the Islamic financial inclusion index by approximately 62.14%. This indicates that the Islamic financial literacy and inclusion indexes are still significantly lower than those of conventional finance. This indicates that the majority of Indonesians, particularly in rural areas, do not yet understand and utilize Islamic financial products optimally.

Based on this situation, this study focuses on analyzing the level of literacy and community participation in Islamic financial institutions and the factors influencing them in Jambesari Darus Sholah Village. The novelty of this research lies in its literacy approach, which is not only interpreted as knowledge but also as the habits and interactions of the community with Islamic financial institutions within the rural social and cultural context.

## RESEARCH METHOD

This research uses a descriptive qualitative approach, aiming to describe the events being studied and to gain a deeper understanding of the level of public literacy and participation in Islamic financial institutions (Creswell, 2014 in Pratiwi & Ariawan, 2017). This approach was chosen because it provides an opportunity to explore and deepen the public's understanding of Islamic finance. Data sources were drawn from primary and secondary data. Primary data were obtained from interviews and direct field observations, while secondary data were obtained from documentation and a review of relevant and valid literature related to the core research topic.

**Data Validity Techniques:** Data validity was maintained through triangulation of sources and techniques, comparing information from various informants and combining the results of interviews, observations, and documentation (Hutagalung & Lubis, 2025). The data generated in this study utilized 30 informants, indigenous residents of Jambesari village, across various occupations and educational levels. In determining the information, it must meet predetermined criteria, for example, knowledge of Islamic financial institutions, prior customer experience at Islamic institutions, and previous bank transactions.

Data analysis was conducted using the findings of Miles and Huberman, which outline three stages: data reduction, data presentation, and conclusion drawing (Qomaruddin & Sa'diyah, 2024). Data reduction involves focusing on or simplifying relevant data that aligns with the research objectives. Data

presentation narrates the description to facilitate researchers' understanding of the phenomena being studied. Conclusions are then drawn by verifying the data obtained from interviews and observations with the applicable theory.

## **FINDINGS AND DISCUSSION**

### **The Level of Sharia Financial Literacy of the Jambesari Village Community**

The research results indicate that the level of Islamic financial literacy among the people of Jambesari Darus Sholah Village is relatively low. Most informants stated they were aware of the existence of Islamic banks, but did not yet understand the basic principles underlying their operations. Public understanding is still limited to the term "Islamic bank" without understanding the contract, profit-sharing system, and the differences between Islamic banks and conventional banks. Research (Rika et al., 2024) also found that people often equate all Islamic and conventional institutions with similarity without differentiating between them. This is due to low literacy and a lack of information available to the village community, which makes it difficult for them to distinguish between Islamic and conventional banks, and many residents rely on conventional banking services.

These findings align with research (Hanova et al., 2019), which states that a low understanding of Islamic principles impacts the community's lack of interest in using Islamic financial services. The lack of information and education received by village communities is a primary factor contributing to this low literacy rate.

### **Factors Causing Low Literacy and Community Participation**

There are four main factors that cause low literacy and public participation in Islamic finance, namely;

#### **1. Lack of Understanding of Islamic Financial Principles**

The public's lack of understanding of Islamic financial principles has led to hesitation in using Islamic financial institutions' services. People tend to feel uncertain about systems they don't fully understand, thus opting to continue using conventional banking services. This is supported by Defrianto's research (Hutagalung & Lubis, 2025), which highlights the lack of understanding of basic concepts such as the prohibition of usury, Islamic contracts, and profit-sharing. Furthermore, the public is also unfamiliar with Islamic products. Furthermore, research by Setiawan & Aini (2023) suggests that the public has doubts about the services provided by Islamic financial institutions due to a lack of outreach, direct education, and access.

#### **2. Habits of Using Conventional Financial Institutions**

Observations indicate that using conventional banking has become an ingrained habit in the lives of the people of Jambesari Village. Ease of access, availability of facilities, and prior experience discourage people from switching to Islamic financial institutions, which they perceive as less

familiar. This finding is supported by research by Buono, Noviarita, & Iqbal (2023), which found that familiarity and lack of understanding are reasons for not switching to new services.

### **3. Limited Access and Socialization**

Limited access to Islamic financial institutions and minimal outreach activities in rural areas are significant factors contributing to low community participation. The lack of physical presence of Islamic financial institutions and the paucity of educational programs prevent the public from receiving adequate information about the benefits and advantages of Islamic finance. Research (Buono et al., 2023) found that Islamic financial institutions tend to under-represent themselves in public outreach efforts to increase public understanding, and there is a lack of development of access to Islamic financial services, especially in rural areas. Research (Mariana et al., 2024) also explained that factors hindering literacy include low and ineffective outreach, the minimal role of educational institutions, and limited access to Islamic financial services.

### **4. Perception of Benefits and Risks**

In research (Dini, 2024) in view of the benefits and risks of many people have different views about Islamic financial institutions, people see that Sharia in its performance or processes are more complicated, and provide low profits, This is often based on previous experiences and inaccurate information that gives rise to misunderstandings. This misunderstanding is caused by people's habit of using conventional banks which causes people to conclude that conventional banks are easier and more profitable than Islamic banks, conventional banks also have a lot of access that makes it easier for people to participate in transactions to conventional banks, while Islamic banks still lack access to reach a wider community.

### **The Impact of Low Literacy on Community Participation**

The impact of low literacy in Islamic finance directly impacts public participation in Islamic banking services. A lack of in-depth understanding of Islamic principles tends to create doubt and distrust in the community, leading to a reduced desire to participate. This further strengthens the dominance of conventional financial institutions. Research by Mariana et al. (2024) found that low public literacy regarding Islamic products and principles contributes to low levels of participation in Islamic financial institutions.

### **Strategies for Increasing Islamic Financial Literacy and Participation**

Strategies that can be used to increase public literacy and participation in Islamic financial institutions require long-term outreach and education regarding Islamic finance, the development of accessible services, especially in rural areas, and the utilization of platforms and social media as a means of easier information dissemination. These strategies can increase public literacy and participation in Islamic financial institutions. Research (Mariana et al.,

2024) also suggests that Islamic financial outreach and education supported by local communities, religious leaders, and the use of digital platforms. The presence of religious shops and local communities will strengthen public trust and encourage participation.

Furthermore, research by (Anggraini, Widiyanti, Galuh, Wardani, & Prawatya, 2024) confirms that reducing literacy requires Islamic financial outreach to increase public understanding. Utilizing digital platforms and social media will facilitate outreach to communities, especially in rural areas. This strategy is expected to increase public literacy regarding Islamic finance and encourage participation in the use of Islamic financial services.

## CONCLUSION

The research results concluded that the level of literacy and participation in Islamic financial institutions in Jambesari village remains low. The community's habit of using conventional banking services contributes to low participation in Islamic banking. Furthermore, this low literacy rate is also due to a lack of public awareness and limited access to Islamic financial services. Although many people are aware of Islamic financial institutions, most lack a clear understanding of their basic principles and working systems. To improve public literacy, long-term outreach, expanded access, and strengthened public trust in Islamic financial institutions are essential.

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