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THE ROLE OF ISLAMIC FINANCIAL LITERACY FROM THE PERSPECTIVE OF MAQASID AL-SHARIAH: A CASE STUDY OF COMMUNITY OF NAKA IN KEDAH

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ABSTRACT

The research highlights a limited understanding of *Maqasid al-Shariah* and financial management principles among the rural community, coupled with inadequate digital and financial literacy. Economic hardships, lack of access to modern financial tools, and insufficient emphasis on long-term planning hinder their ability to achieve financial stability and align their practices with Islamic financial goals. Islamic financial literacy, when viewed through the lens of *Maqasid al-Shariah*, offers a holistic and ethical approach to financial management that aligns with the core objectives of Islamic law. *Maqasid al-Shariah* aim to promote the welfare of individuals and society by preserving religion, life, intellect, progeny, and wealth. This study examines how these objectives shape financial literacy within an Islamic framework, emphasizing principles such as the prohibition of Riba (interest), the importance of Zakat (charitable giving), ethical investment, and the avoidance of extravagance and waste. The research employs a qualitative approach, utilizing secondary data collection through desktop research to analyze existing literature on Islamic financial literacy from the perspective of *Maqasid al-Shariah*. Additionally, it incorporates findings from a case study conducted in Naka, Kedah, focusing on the financial literacy and Islamic financial practices of villagers, supported by a pilot test with 27 participants who responded to workshop-survey sessions. By promoting a balanced and just approach to wealth management, Islamic financial literacy guided by *Maqasid al-Shariah* aims to advance financial stability, social equity, and overall well-being, thereby contributing to the holistic development of both individuals and communities. This research contributes by integrating Islamic financial literacy with *Maqasid al-Shariah*, offering a holistic framework for ethical financial management that promotes social welfare, enhances financial

stability, and provides practical insights for empowering underserved communities through targeted education and tools aligned with Islamic principles.

Keywords: Islamic financial literacy, Maqasid al-Shariah, Islamic finance, Wealth management

INTRODUCTION

The concept of seeking knowledge holds a paramount place in Islamic thought and practice. This emphasis is rooted in the very first revelation received by the Prophet Muhammad (PBUH). The initial word revealed was "*Iqra*" (Read). Allah says

"Read in the name of your Lord who created—created man from a clinging substance. Read, and your Lord is the most Generous—who taught by the pen—taught man that which he knew not" (Quran 96:1-5).

The command to "*Iqra*" underlines the importance that Allah places on acquiring knowledge. As the first word revealed to the Prophet Muhammad (PBUH), it signifies the foundational role of knowledge in the Islamic faith. This directive is not confined to religious texts but extends to all forms of beneficial knowledge. By obeying this command, Muslims demonstrate their submission and devotion to Allah's will. The Quran and Hadith encourage believers to seek knowledge to comprehend religious principles, laws, and ethics fully. For instance, the Prophet Muhammad (PBUH) stated,

"Seeking knowledge is an obligation upon every Muslim" (Ibn Majah).

This obligation highlights that a profound understanding of faith is necessary for proper worship and adherence to Islamic teachings. Furthermore, the Quran states,

"Are those who know equal to those who do not know?" (Quran 39:9).

This rhetorical question highlights the elevated status of knowledgeable individuals who can make informed decisions based on justice, compassion, and righteousness. The pursuit of knowledge brings up critical thinking, creativity, and innovation, which are essential for individual growth and societal progress. Scholars such as Al-Ghazali have emphasized the role of knowledge in achieving personal excellence and societal well-being. In addition to this, the Prophet Muhammad (PBUH) said,

"The best of people are those that bring most benefit to the rest of mankind" (Daraqutni).

Thus, seeking and applying knowledge to improve human welfare is a highly valued endeavor in Islam. In Islam, the pursuit of knowledge is considered an act of worship. It brings spiritual rewards and elevates one's status in the sight of Allah. The Prophet Muhammad (PBUH) noted that:

"Whoever follows a path in the pursuit of knowledge, Allah will make a path to Paradise easy for him" (Muslim).

This hadith underlines the spiritual benefits associated with seeking knowledge. By acquiring and applying knowledge, Muslims can make informed decisions that benefit themselves and others, advance ethical conduct, and align with divine guidance. Thus, the Islamic imperative to seek knowledge highlights its vital role in achieving personal growth, societal betterment, and spiritual success. Moreover, the emphasis on acquiring knowledge in Islam is justified by its comprehensive role in enhancing individual lives and societal well-being, aligning with divine commands, and preparing believers for the hereafter.

Rural communities face significant challenges in managing their finances effectively due to a limited understanding of Maqasid al-Shariah and financial management principles. These challenges are compounded by inadequate digital and financial literacy, which restrict access to modern financial tools and hinder informed decision-making. Economic hardships and a lack of focus on long-term financial planning further exacerbate their inability to achieve financial stability, leaving their practices misaligned with Islamic financial goals. This disconnect undermines the holistic and ethical financial framework envisioned by Maqasid al-Shariah, which seeks to preserve key societal and individual interests, including religion, life, intellect, progeny, and wealth. The absence of financial literacy that integrates these principles not only limits the economic potential of these communities but also fails to address their pressing socio-economic needs within an Islamic context.

The primary objective of this study is to explore how Islamic financial literacy, guided by the principles of Maqasid al-Shariah, can empower rural communities to achieve financial stability and align their practices with Islamic values. Specifically, the study aims to identify the barriers to understanding and applying Maqasid al-Shariah principles in financial management among rural populations, assess the role of digital and financial literacy in overcoming these barriers, and develop an actionable framework that incorporates Islamic financial principles such as the prohibition of Riba, the practice of Zakat, ethical investments, and prudent financial planning. By achieving these objectives, the study seeks to provide a practical, faith-aligned roadmap for improving financial well-being and promoting socio-economic resilience in underserved rural communities.

FINANCIAL LITERACY

Financial literacy, defined as the ability to understand and effectively use various financial skills, including personal financial management, budgeting, and investing, has been increasingly highlighted in recent literature as vital for individual and societal economic health. Lusardi and Mitchell (2014) assert that financial literacy is essential for making informed financial decisions, which in turn impacts retirement planning, debt management, and investment choices. Their research indicates that a lack of financial literacy can lead to poor financial decisions, resulting in high debt levels, inadequate savings, and increased vulnerability to economic shocks. Huston (2010) further emphasizes that budgeting and saving are foundational skills within financial literacy, critical for achieving financial stability and security.

Recent studies examine financial literacy into various components, each crucial for comprehensive financial understanding. Lusardi and Tufano (2015) highlight the importance of investment literacy, particularly the understanding of risk diversification and compound interest, as pivotal for wealth accumulation. Similarly, Robb and Woodyard (2011) focus on debt management, stressing that knowledge of different debt types and repayment strategies can significantly reduce financial stress and improve overall financial health. Mottola (2013) reinforces these findings, demonstrating a positive correlation between financial literacy and prudent financial behaviors, such as emergency savings and avoiding high-interest debt, thus underlining the practical benefits of financial knowledge.

The impact of financial literacy extends beyond individual financial behavior to broader economic implications. Fernandes, Lynch, and Netemeyer (2014) found that financial education programs can significantly enhance financial behaviors and outcomes, especially when adapted to specific demographic needs. For instance, integrating financial education into school programs, as advocated by Willis (2008), equips young individuals with essential financial skills early on. Additionally, workplace financial wellness programs, highlighted by Lusardi and Mitchell (2011), have proven effective in improving financial knowledge and behaviors among employees, demonstrating the importance of ongoing financial education throughout different life stages.

Addressing disparities in financial literacy across various demographic groups is crucial for promoting economic empowerment and reducing financial inequality. Chen and Volpe (2002) identified significant gaps in financial literacy among women, minorities, and individuals with lower income and education levels. Mottola (2013) suggests that targeted financial education programs for these groups can help bridge the literacy gap, promoting more equitable financial outcomes. These findings emphasize the need for inclusive and comprehensive financial education strategies to enhance financial literacy across all segments of society.

Specifically, while much has been written on the general importance of financial literacy, there is insufficient focus on the *practical application of Islamic financial literacy* within diverse demographic groups and regions. Current studies lack a detailed examination of how Islamic financial principles—such as Maqasid al-Shariah, Zakat, and the prohibition of Riba—can be effectively adapted to the financial realities of underserved populations, including rural communities, women, and low-income groups. Future research should prioritize understanding these gaps by exploring culturally tailored strategies and tools that incorporate Islamic values into financial education, with a focus on addressing economic disparities and enhancing financial inclusion.

The Importance of Fundamental Responsibility to Have Financial Literacy

Financial literacy is a critical competency that empowers individuals to make informed and effective decisions regarding their financial resources. This skill encompasses understanding fundamental financial concepts such as budgeting, saving, investing, and managing debt. The importance of having financial literacy is underlined by its impact on both individual well-being and broader economic stability.

At an individual level, financial literacy equips people with the knowledge and skills necessary to navigate the complexities of financial markets and products. Lusardi and Mitchell (2014) argue that individuals with higher financial literacy are more likely to plan for retirement, invest wisely, and avoid high-cost debt. This financial acumen not only enhances personal financial security but also reduces stress and anxiety related to financial matters. Financially literate individuals are better prepared to handle economic shocks and unexpected expenses, thereby promoting overall well-being and quality of life.

From a societal perspective, widespread financial literacy contributes to economic stability and growth. Huston (2010) highlights that when individuals make sound financial decisions, it can lead to more efficient allocation of resources, reduced reliance on social safety nets, and increased participation in the economy. For example, informed investors are more likely to support stable and productive enterprises, contributing to economic development and job creation. Moreover, financial literacy can help mitigate systemic risks by reducing the prevalence of financially distressed households, which can otherwise contribute to economic downturns.

The responsibility to acquire financial literacy extends beyond individuals to include educational institutions, employers, and policymakers. Integrating financial education into school curricula, as advocated by Willis (2008), can provide young people with essential financial skills early in life. Employers can contribute by offering workplace financial wellness programs, which have been shown to improve financial behaviors among employees (Lusardi & Mitchell, 2011). Policymakers also play a crucial role by supporting initiatives and regulations that promote financial education and protect consumers from predatory financial practices.

Components of Financial Literacy

Financial literacy encompasses a range of skills and knowledge that enable individuals to make informed financial decisions. The key component of financial literacy is included as follows in Table 1.

Table 1

Key Components of Financial Literacy

No	Components	Description	Reference
1	Budgeting and Money Management	Budgeting: The ability to create and maintain a budget involves tracking income and expenses to ensure that spending does not exceed earnings. Effective budgeting helps individuals manage their finances, allocate funds appropriately, and save for future goals. Money Management includes understanding how to manage day-to-day finances, such as paying bills, managing cash flow, and making informed decisions about spending.	Huston, (2010), and Lusardi, & Mitchell, (2014)
2	Saving and investing	Saving: This involves setting aside a portion of income for future needs or emergencies. Understanding different savings vehicles, such as savings accounts, and the importance of an emergency fund is crucial. Knowledge of investment options (stocks, bonds, mutual funds, real estate) and concepts (risk, return, diversification) is essential for growing wealth and achieving long-term financial goals. Investing also requires understanding the principles of compound interest and market behavior.	Merton, (2014), and Lusardi, & Mitchell, (2014)
3	Debt Management	This includes understanding credit scores, credit reports, and the impact of borrowing on one's financial health. Effective credit management involves using credit responsibly, paying off credit card balances, and avoiding excessive debt.	Huston, (2010),
4	Financial Planning	The ability to set and achieve financial goals, such as saving for retirement, buying a home, or funding education, involves creating a financial plan that outlines steps and strategies to reach these goals.	Lusardi, (2019)
5	Risk Management	This includes understanding how to assess and manage financial risks, such as market volatility, job loss, or medical emergencies, to protect financial well-being.	Remund, (2010)
6	Taxation	Understanding the principles of taxation, including income tax, capital gains tax, and deductions, is important for effective financial planning and compliance with tax laws.	Chardon et al., (2016)
7	Consumer Rights	Awareness of consumer protection laws and rights related to financial transactions, such as the right to dispute errors on a credit report or protect against fraudulent practices, is important for safeguarding financial interests.	Kozup & Hogarth, (2008)

Each of these components contributes to a comprehensive understanding of financial management and equips individuals with the tools necessary to make informed financial decisions and achieve their financial objectives.

Malaysian Statistics on Bankruptcy

As a lack of financial knowledge and skills contributes to poor financial decisions, such as excessive debt, inadequate savings, and improper budgeting, which can lead to bankruptcy. Enhancing financial literacy equips individuals with the ability to manage finances responsibly, plan for uncertainties, and avoid financial pitfalls, thereby addressing the root causes of personal financial difficulties and reducing the risk of bankruptcy. Furthermore, bankruptcy remains a significant concern in Malaysia, reflecting broader economic challenges and individual financial difficulties. Recent statistics highlight the growing prevalence of bankruptcy cases in the country, underscoring the need for enhanced financial literacy and effective debt management strategies.

According to the Insolvency Department of Malaysia, the number of bankruptcy cases has been rising steadily over the past few years. As of 2023, there were approximately 25,000 new bankruptcy cases

registered, showing a marked increase from previous years. This rise has been attributed to various factors, including economic pressures, job losses, and an increase in consumer debt levels. The Malaysian government has acknowledged this trend and is actively working on measures to address the issue.

The demographic distribution of bankruptcy cases reveals that individuals between the ages of 30 and 50 constitute the largest group of bankrupts. This demographic is often in its peak earning years but is also typically burdened with significant financial commitments, such as mortgages and education loans. Furthermore, a significant proportion of bankrupts are entrepreneurs and small business owners, reflecting the risks associated with business ventures and economic downturns.

Geographically, the highest numbers of bankruptcy cases are concentrated in urban areas such as Kuala Lumpur, Selangor, and Penang. This trend is consistent with the higher cost of living and the greater concentration of economic activities in these regions. The financial pressures associated with urban living, combined with high levels of consumer spending, contribute to the increased bankruptcy rates in these areas.

In respon

se to the rising bankruptcy rates, the Malaysian government has implemented several measures aimed at mitigating the issue. Initiatives such as the National Financial Literacy Strategy and various debt management programs have been introduced to improve financial literacy and provide support to individuals struggling with debt. Additionally, the Insolvency Department has been working on reforms to streamline bankruptcy procedures and offer more flexible repayment options to debtors. Table 2 shows the total number of bankruptcy cases registered by branch from the year 2019 until April 2023.

Table 2
Total Number of Bankruptcy Cases Registered by Branch from the Year 2019 Until April 2023

Branch	Year					Total
	2019	2020	2021	2022	2023	
WIL. PERSEKUTUAN	1,122	872	918	823	164	3,899
SELANGOR	3,088	1,900	1,789	1,044	361	8,182
JOHOR BAHRU	1,034	628	544	559	113	2,878
PERAK	709	499	354	272	78	1,912
PULAU PINANG	600	386	373	357	81	1,797
KEDAH	764	381	359	591	75	2,170
MUAR	279	261	158	133	24	855
SABAH	732	569	357	334	77	2,069
KELANTAN	610	324	253	303	57	1,547
MELAKA	361	254	146	125	30	916
NEGERI SEMBILAN	713	444	311	206	66	1,740
TEMERLOH	172	212	78	105	16	583
PAHANG	241	187	178	172	24	802
SARAWAK	356	236	147	129	63	931
TERENGGANU	350	367	139	145	53	1,054
MIRI	208	194	92	73	18	585
SIBU	144	121	54	68	18	405
TAIPING	161	180	69	77	35	522
TAWAU	216	180	130	75	16	617

SANDAKAN	106	107	79	59	16	367
PERLIS	85	49	26	45	7	212
Total	12,051	8,351	6,554	5,695	1,392	34,043

Role of Financial Literacy in Wealth Management

Financial literacy is pivotal in investment management, as it equips individuals with the knowledge to comprehend diverse investment options, evaluate risk, and make informed choices. Recent research highlights that financially literate individuals are more adept at diversifying their investment portfolios and achieving superior returns (Mottola & Utkus, 2020). Furthermore, financial literacy facilitates understanding the principles of asset allocation and the necessity of periodic portfolio rebalancing to align with one's risk tolerance and financial goals (Guiso & Viviano, 2015). This enhanced understanding helps investors optimize their investment strategies and manage their portfolios more effectively.

Furthermore, effective tax planning hinges on financial literacy, enabling individuals to grasp the tax implications of their financial decisions and leverage tax deductions, credits, and deferral strategies to minimize liabilities and maximize returns (Chardon, Freudenberg, & Brimble, 2016). Similarly, financial literacy plays a crucial role in estate planning by providing knowledge about tools and techniques for tax-efficient asset transfer, such as wills, trusts, and charitable giving strategies (Stolper & Walter, 2017). In retirement planning, financial literacy is essential for understanding various savings options, including 401(k) plans, IRAs, and annuities, and for recognizing the benefits of early saving and employer contributions (Lusardi & Mitchell, 2011; Clark, Lusardi, & Mitchell, 2017). Research indicates that individuals with higher financial literacy are more likely to engage in comprehensive retirement planning and accumulate adequate savings (Clark, Lusardi, & Mitchell, 2017).

ISLAMIC FINANCIAL LITERACY

Islamic financial literacy, rooted in the principles of *Maqasid al-Shariah* (the objectives of Islamic law), plays a crucial role in guiding financial behavior and decisions within the framework of Islamic finance. *Maqasid al-Shariah* aims to protect and preserve faith, life, intellect, progeny, and wealth, thus promoting overall well-being and justice. Recent literature emphasizes the importance of aligning financial literacy with these objectives to ensure ethical and effective financial practices. According to Laldin and Furqani (2016), understanding *Maqasid al-Shariah* is essential for achieving the ethical goals of Islamic finance, which include fairness, transparency, and the avoidance of harm (*Maslahah*) and prohibition of interest (*Riba*).

Recent studies highlight the significance of Islamic financial literacy in enhancing individual and societal economic well-being. For instance, Asutay and Harningtyas (2015) argue that Islamic financial literacy encompasses not only the basic financial skills but also the understanding of Islamic financial principles, such as risk-sharing, profit-and-loss sharing, and zakat (charitable giving). Their research suggests that individuals with a high level of Islamic financial literacy are better equipped to make informed financial decisions that align with Islamic values, thereby promoting economic justice and social welfare. Additionally, Abdul Rahim (2010) emphasizes that Islamic financial literacy helps individuals understand the importance of ethical investments and the avoidance of unethical financial practices, such as speculative transactions (*Gharar*) and gambling (*Maysir*).

The impact of Islamic financial literacy on financial behavior and decision-making is profound. Hassan and Aliyu (2018) found that higher levels of Islamic financial literacy are associated with greater adherence to Islamic financial principles and more prudent financial behavior. Their study indicates that individuals with better knowledge of Islamic finance are more likely to engage in halal (permissible) financial activities,

such as participating in Islamic banking and investment products. Furthermore, Bley and Kuehn (2004) highlight the role of Islamic financial literacy in fostering trust and confidence in Islamic financial institutions, which is essential for the growth and development of the Islamic finance industry.

Improving Islamic financial literacy requires targeted educational initiatives that incorporate the principles of *Maqasid al-Shariah*. According to Iqbal and Molyneux (2016), integrating Islamic financial education into school curricula and community programs can significantly enhance financial literacy levels among Muslims. They suggest that educational programs should focus on both the theoretical aspects of Islamic finance and practical financial skills, such as budgeting, saving, and investing according to Islamic principles. Additionally, Laldin and Furqani (2016) advocate for the role of Islamic scholars and financial experts in promoting financial literacy through public lectures, seminars, and online platforms. These initiatives are crucial for empowering individuals with the knowledge and skills to make ethical and informed financial decisions that align with the objectives of *Maqasid al-Shariah*.

Financial Literacy from the Perspective of Quranic Verses

The Quran, as a primary source of guidance for Muslims, provides several verses that implicitly address principles of financial management and ethical conduct in financial dealings. The Quran emphasizes the importance of transparency and fairness in financial transactions. One of the most comprehensive verses related to financial dealings is in *Surah Al-Baqarah* (2:282), which outlines the requirements for documenting debt contracts.

"O you who have believed, when you contract a debt for a specified term, write it down. Let a scribe write [it] between you in justice. Let not the scribe refuse to write as Allah has taught him".

This verse highlights the necessity of clear and just financial agreements, specifying that contracts should be written and witnessed to prevent disputes and ensure accountability (Khan & Al-Din, 2012). This guidance aligns with modern principles of financial literacy, which advocate for meticulous record-keeping and the documentation of financial agreements to avoid misunderstandings and promote fairness (Al-Qaradawi, 2004).

For the ethical management of wealth, the Quran advocates for fair and honest business practices and discourages exploitation and fraud. *Surah Al-Mutaffifin* (83:1-3) condemns those who give less than what is due when measuring or weighing goods, highlighting the ethical obligation to engage in honest transactions (Zarabozo, 2007).

"Woe to those who give less [than due], (1) who, when they take a measure from people, take in full, (2) but when they give by measure or weight to them, they cause loss." (Quran 83:1-3).

This principle supports the broader concept of financial literacy by stressing the importance of integrity in financial dealings, which is essential for sustainable and responsible financial management.

Furthermore, regarding the principles of wealth distribution and social responsibility the Quranic concept of Zakat (charitable giving) is fundamental to Islamic financial teachings and is outlined in several verses, including *Surah Al-Baqarah* (2:277) and *Surah At-Tawbah* (9:60).

"Indeed, those who have believed and done righteous deeds and have established prayer and given zakat will have their reward with their Lord. And there will be no fear concerning them, nor will they grieve." (Quran 2:277)

"Zakat expenditures are only for the poor and the needy, the workers who manage it, those whose hearts are to be reconciled, for freeing captives, for those in debt, for the cause of Allah, and for the traveler. An obligation [imposed] by Allah. And Allah is Knowing and Wise." (Quran 9:60)

These verses mandate that a portion of one's wealth be given to those in need, promoting social equity and financial responsibility (Siddiqui, 2003). This aspect of financial literacy emphasizes not only individual wealth management but also the importance of contributing to the welfare of the broader community.

However, Islamic financial literacy encompasses understanding financial principles and practices that align with Islamic law (Shariah). This extends beyond traditional finance to include knowledge about halal business practices and halal consumerism, which have become increasingly significant in global markets. Where Halal business practices refer to commercial activities conducted in accordance with Islamic principles, ensuring that all aspects of operations, from production to distribution, comply with Shariah guidelines. These guidelines emphasize ethical conduct, fairness, and social responsibility. A critical component of halal business is halal certification, which verifies that products and services are permissible under Islamic law, involving rigorous checks to ensure no haram (forbidden) elements are present (Alserhan, 2011). Ethical financing is also a cornerstone of halal business, necessitating an understanding of Islamic finance principles that prohibit interest (riba) and emphasize risk-sharing. Halal businesses often employ Islamic financial instruments such as mudarabah (profit-sharing) and musharakah (joint venture) to fund their operations (Iqbal & Mirakhor, 2011). Additionally, halal businesses are expected to engage in fair trade practices, ensuring justice for all stakeholders, from suppliers to consumers, by paying fair wages, providing safe working conditions, and guaranteeing product quality (Wilson & Liu, 2010).

Furthermore, Halal consumerism pertains to the consumption of goods and services that comply with Islamic principles, and it is gaining traction not only among Muslims but also among non-Muslim consumers who perceive halal products as wholesome and ethically produced. This growing trend can be attributed to several factors. Firstly, halal products, particularly food items, are perceived to be cleaner and healthier due to the stringent hygiene and safety standards involved in the halal certification process, making them attractive to health-conscious consumers (Rezai, Mohamed, & Shamsudin, 2012). Secondly, the increasing awareness of ethical consumption among non-Muslim consumers aligns with the principles of halal, emphasizing humane animal treatment, fair trade, and sustainable practices, which appeals to a broader audience concerned with ethical sourcing and production (Bonne & Verbeke, 2008). Lastly, the global market for halal products is expanding, with these products becoming more accessible in mainstream markets, leading to greater consumer awareness and acceptance and making halal products a viable option for a diverse consumer base (Wilson & Liu, 2010).

In addition to this, Halal literacy refers to the awareness and understanding of what constitutes halal products and services, enabling consumers to make informed choices that align with their ethical, religious, or health-related values. Consumers with high halal literacy are more adept at discerning and selecting products that meet their standards. Among Muslim consumers, halal literacy is often viewed as a religious obligation; understanding the distinction between halal and haram is crucial for maintaining religious observance in daily life. These consumers rely heavily on halal certification and labeling to guide their purchasing decisions (Rezai, Mohamed, & Shamsudin, 2012). On the other hand, non-Muslim consumers who are "halal literate" are typically drawn to halal products due to their perceived benefits, such as higher quality, ethical production, and enhanced safety standards. For these consumers, the motivation to choose halal products is frequently driven by personal values related to health and ethics rather than religious obligations (Bonne & Verbeke, 2008). This dual consumer base highlights the broadening appeal and significance of halal literacy in the global market.

Why Allah Wants Us to Eat Halal Food

In Islam, dietary laws are necessary for maintaining spiritual, physical, and social well-being. The concept of Halal (permissible) and Haram (forbidden) extends beyond mere dietary restrictions, encompassing a broader framework of ethical and religious principles. One primary reason Allah mandates Halal dietary law is to ensure spiritual purity and obedience to divine commandments. The Quran emphasizes that Muslims should consume only what is Halal and avoid what is Haram as an act of obedience to Allah's commands. For instance, *Surah Al-Ma'idah* (5:3) specifies,

"Forbidden to you are dead animals, blood, the flesh of swine, and that which has been dedicated to other than Allah."

This directive not only serves to distinguish lawful consumption from forbidden but also reinforces the spiritual discipline required to adhere to divine laws (Quran 5:3).

Furthermore, Halal dietary laws also promote physical health and well-being. The prohibition of certain foods, such as pork and blood, is often interpreted as a measure to protect individuals from harmful substances and diseases. For example, *Surah Al-Baqarah* (2:168) advises, *"O mankind, eat from whatever is on earth, [that is] lawful and good."*

Islamic scholars argue that Halal food practices are designed to maintain physical health and prevent the consumption of potentially harmful substances (Ibn Qudamah, 1999). The emphasis on cleanliness and hygiene in the preparation of Halal food further supports the notion that these laws contribute to overall health.

Moreover, Islamic dietary laws are also grounded in ethical and social considerations. The principles of Halal include humane treatment of animals, such as ensuring proper slaughter methods that minimize suffering. This reflects a broader ethical framework that promotes compassion and respect for all living creatures. For instance, the requirement for Halal meat involves specific guidelines for slaughter, emphasizing the humane and ethical treatment of animals (Al-Shafi'i, 2008). Furthermore, adherence to Halal practices advances a sense of community and identity among Muslims, reinforcing social cohesion and collective values.

Additionally, adhering to Halal dietary practices reinforces cultural and religious identity among Muslims. It serves as a means of distinguishing Muslim practices from those of other religious or cultural groups and upholding religious traditions. The observance of Halal dietary laws is a visible expression of faith and adherence to Islamic principles, strengthening the sense of belonging and communal identity within the Muslim ummah (Said, 2013).

METHODOLOGY

The population consisted of 35 staff of Kak Rose and a sample of 27 respondents was chosen based on availability and willingness to engage in the study. The data collection involved two primary methods: Interviews and Mentimeter. Interviews were conducted as part of the data collection process to gather in-depth insights from the respondents. The interviews were semi-structured, allowing for flexibility in probing deeper into participants' responses while ensuring key topics were covered. The interviewees were selected from the sample of 27 respondents, and interviews were carried out in a one-on-one format to ensure confidentiality. The questions were designed to prompt open-ended discussion, enabling the participants to share their experiences, opinions, and viewpoints freely.

In addition to interviews, Mentimeter, an online interactive tool, was used to collect responses to open-ended questions in a more collaborative and real-time manner. This tool was selected due to its user-friendly interface, its ability to gather anonymous responses, and its real-time feedback feature, which allowed participants to contribute their thoughts in a dynamic way. The combination of these two methods—interviews and Mentimeter—provided a well-rounded approach to data collection. The interviews allowed for deeper, more personal insights, while Mentimeter enabled the collection of a broader range of responses in an interactive format. Both methods were used to capture qualitative data that was rich in detail and offered a diverse range of viewpoints on the research topic.

Once the data was collected through both interviews and Mentimeter, the responses were analyzed qualitatively. The data from the interviews were transcribed and coded to identify recurring themes and patterns. Similarly, the responses gathered from Mentimeter were reviewed and categorized to highlight key insights and common trends. This dual-method approach provided a comprehensive understanding of the perspectives of the staff members.

CASE STUDY

This is a case study about financial literacy of the community in Naka, Padang Terap, Kedah. This study is funded by Social Takaful Fund, an outreach community-based project between FWD Takaful Berhad (FWD) and Islamic Business School (IBS) of Universiti Utara Malaysia. Naka is located about 38km from Alor Setar, the capital city of Kedah. Naka comprises many small villages of which the people are mainly rubber tappers and paddy farmers. The income of majority of the villagers is on average, RM20 per day. Despite the hardship, we observed the community network is strong and the villagers are hardworking, enterprising and behold strongly the Islamic principle of ‘*al-ta’awun*’ (helping each other). However, the people here could be categorized as the underserved segments of the Padang Terap population, as Naka is remote: hidden by hilly terrains, rubber plantations and lush greens. One of the villages that we are conducting an -depth study is Kampung Lebai Seman. In this particular village, unknown to many, is a community center where many of the villagers come to work to earn extra income after tending to their farms in the morning. Community entrepreneurial activities such as batik chanting, batik sewing (shirts, bags, door gifts), frozen food, and other organic, environmental-friendly processes are conducted under the guidance of a retired lady entrepreneur. She has innate motivation to help her village folks to have affordable facilities and better living. Her aspirations, IBS’s need for community outreach and FWD’s ESG drive bring together a unique Triple Helix collaboration between Community-Entrepreneur (Compreneur), Academic Institution (UUM_IBS) and a financial institution (FWD).

The project of assessing the villagers’ financial literacy and Islamic financial literacy knowledge started with a small pilot test of 27 participants. This pilot test forms the basis of a larger research framework with an objective to achieve sustainable financial well-being for this community. The responses from the participants were guided by the following items in the workshop-survey session as shown in Table 3 and 4.

Section A: Financial literacy

Table 3.

Responses and keywords from the participants on financial literacy

Responses	Keywords
Seeking knowledge is very important to improve living	Seeking Knowledge
Financial planning is important to me	Financial Planning
I am motivated to learn how to increase my income	Increase Income
I should keep account of my monthly income and expenses	Keep Account
My priority is to meet my basic life needs	Basic Needs
Paying my debt is difficult for me	Paying Debt

I should plan my expenses to save for investment	Plan for Investment
I have a bank account	Bank Account
I use digital payment system	Digital Payment
I do not have sufficient income	Not Sufficient Income

Section B: Islamic Financial literacy

Table 4.

Responses and keywords from the participants on Islamic Financial literacy

Responses	Keywords
It is a fundamental responsibility to learn the rights and the wrongs as a Muslim	Right or Wrong
I allocate part of my income for umrah and haj	Umrah Haj
I do not take zakat payments unless it is very necessary	Not Take Zakat
I allocate part of my income for sadaqah and cash waqf	Sadaqah & Waqf
I give money to my parents	Parents
I know I must settle my debt before I die	Settle Debt
I think about my rewards for the akhirah	Akhirah
I look for Halal logo when buying products from supermarkets	Halal Logo
I want to learn to manage my money to take care of my family and community better	Manage Money
I know the importance of takaful and risk management	Takaful

Using a Mentimeter software, we analyzed the responses from the participants on their knowledge and priorities on financial literacy and Islamic financial literacy as depicted in Figure 1 and Figure 2 respectively.

Financial Literacy - Mentimeter



Figure 1. Findings on Financial Literacy

The findings on Figure 1 indicate that the participants, to a certain extent, are financially literate despite having no basic training in financial management. 4 words emerged as the most voted words from the participants' written response. They are "*basic needs*", "*increase income*", "*seeking knowledge*" and "*keep accounts*". The analysis clearly shows that the participants' main priority in managing their income is to be able to meet life basic needs such as providing food for the family, meeting children's school expenses, paying electricity bills and data phone. Data phones are now a necessity for them as they serve as an important means of communication not only with family members but also with members of the community. Handphones are the most convenient and frequently used appliance for the villagers to share information on any financial aids given by the Malaysian government and agencies to ease community hardship such as *eKasih*, *Sejati Madani*, *e-Tani* and *Bantuan Tunai Rahmah*. However, these aids and

subsidies use digital platforms and participants need to have access to internet and smart phones to register for these facilities. We found that many of the participants from Kg Lebai Seman, Naka is not aware of these facilities. The reasons are lack of access to internet facilities, not having smart phones and lack of digital financial literacy. Not having a bank account is another reason for several participants to be financially excluded from the banking mainstream.

Therefore, “*increase income*” is the second most voted word. Accordingly, financial literacy is naturally interpreted by the participants as any means to increase income. They would like to learn how to generate income but by learning how to utilize the resources which are available in their village or nearby, commercially. This finding gives us a feeling of a strong bond and clanship among the participants with answers like “*we want to work here to earn income, and at the same time, be able to look after our elders*”. “*Seeking Knowledge*” in this context is found to be the technical knowledge and skills which the younger participants interested in such as how to repair motorcycles and bicycles, welding and electrical wiring. They see this literacy as a quick win to earn a high income. A few of the participants stated their desire to acquire computer and digital literacy. However, literacy in terms of managing money is not well-thought when the participants remarked; “*we did not keep accounts of our income and expenditure before*”. At the end of the financial literacy workshop, the participants have the knowledge and the template to record their daily expenses and keep track of their cashflows.

The findings on Islamic financial literacy reveal the participants’ greater knowledge and understanding on Islamic principles and values. The knowledge on “*right or wrong*” is shown in our analysis as the most voted word in Figure 2, indicating that the participants are very concerned to behave according to shariah and the tenets of Islam.

Islamic Financial Literacy - Mentimeter



Figure 2. Findings on Islamic Financial Literacy

We observed the manifestation of shariah compliance on the “*right or wrong*” is very prevalent among the participants in deciding the halal and haram activities. They are very concerned about Halal dietary and halal, haram in food processes and social behavior. Where in Islam, community plays an essential role in guiding individuals to uphold moral and ethical standards. The concept of the *Ummah* (community) emphasizes living as a cohesive unit where, promoting good and discouraging evil are essential duties. Community pressure helps uphold these values by encouraging individuals to adhere to Islamic principles through social accountability and sincere advice (*nasiha*). While the primary motivator is the fear of Allah, maintaining one's standing in the community also deters wrongdoing. This communal support system acts as a moral compass, guiding individuals to live according to Islamic teachings and adopting a just and harmonious society. Moreover, People often make financial choices based on the behaviors and opinions

of those around them, such as family and friends, which can lead to following trends like investments or spending patterns. Cultural expectations and social identity also shape spending habits, prompting individuals to prioritize certain purchases to maintain social status or meet community expectations. Additionally, social networks provide access to financial information, influencing decision-making and trust in financial transactions.

Some of the participants expressed this view “*we do not want to incur debt. if possible, we try to live within our means. This is because in Islam, debt has to be settled by you or your family in case you die*”. The social and religious obligation to settle debts advances a culture where individuals strive to maintain financial stability and avoid overextending themselves. This approach encourages careful financial planning, saving, and spending only on necessities, helping prevent situations that could lead to bankruptcy. Moreover, the community plays a role in supporting individuals to manage their finances responsibly. Social networks and family can offer guidance, support, and advice to help avoid financial pitfalls. Bankruptcy, in this context, is seen as a serious situation to be avoided due to its potential impact on one's family and community. By promoting a culture of financial prudence and community support, the risk of bankruptcy is mitigated, reflecting the broader Islamic values of social responsibility and mutual aid.

The respondents expressed that “*We don't have much money, but we give sadaqah with what we have—bananas, tapioca, herbs, ducks, etc.*” According to an entrepreneur familiar with their practices, this behavior is deeply rooted in their hearts and their gestures are genuinely sincere. If converted into monetary terms, their *sadaqah* could be valued at more than RM30 to RM40. However, in the context of Islamic financial literacy, the value of *sadaqah* is not measured in numbers but in the sincerity and intention behind the act. In Islam, *sadaqah* is seen as a means of purifying wealth and a way to express gratitude for what one has, regardless of its material value. The act of giving, even from limited resources, reflects a commitment to helping others and upholding social welfare. It highlights the importance of the intention behind the act, where the spiritual and communal benefits of *sadaqah* far outweigh its monetary value. This perspective promotes a culture of generosity and social cohesion, emphasizing that true wealth lies in the willingness to share and support one another, not in the accumulation of material goods.

The observation of the participants reveals one striking finding; that they are less concerned about financial risks and are not exposed to *takaful* protection, an Islamic form of insurance based on mutual assistance and cooperation (*ta'awun*). This is one gap in Islamic financial literacy that need to be reinforced to the respondents. While *ta'awun* emphasizes the importance of community support and mutual aid, having savings and planning for future investments are important strategies to face life's adversities. Without adequate financial planning and risk management, individuals may find themselves vulnerable to unforeseen events that could jeopardize their financial stability. Emphasizing the importance of financial literacy, including understanding *takaful* and other financial protection tools, can help individuals build resilience against potential financial challenges. Additionally, by combining the principles of *ta'awun* with proactive financial planning and investment strategies, individuals can achieve a balanced approach that honors Islamic values while ensuring their financial well-being. This approach not only helps individuals safeguard their future but also strengthens their ability to contribute positively to their community, aligning with the broader Islamic principles of responsibility and stewardship.

The findings of this study reveal a significant disparity between the participants' awareness of Islamic principles and their practical application in financial literacy. While the participants demonstrate a clear understanding of basic Islamic values, such as the distinction between *halal* and *haram* activities, this understanding does not consistently translate into comprehensive financial management practices. For example, the participants prioritize meeting immediate needs, such as food and schooling expenses, over long-term financial planning, saving, or investment. Additionally, while the participants express a strong inclination to avoid debt, their lack of exposure to formal financial instruments, such as *takaful* (Islamic

insurance) and structured savings plans, indicates a gap in their ability to mitigate financial risks and plan for the future effectively.

A notable aspect of the findings is the role of community and cultural influences on financial behavior. The participants' financial decisions are heavily shaped by their close-knit community dynamics and shared ethical values, reflecting the Islamic principle of *ta'awun* (mutual assistance). This collective approach advances a supportive environment for adhering to Islamic principles, such as generosity through sadaqah and avoiding interest-based transactions. However, this same communal influence can limit the participants' exposure to broader financial tools and opportunities. For instance, the lack of digital literacy and access to financial technology among the villagers has resulted in their exclusion from government aid programs and financial services that could enhance their economic stability. This highlights the need for initiatives that integrate Islamic values with modern financial tools to bridge the gap between ethical financial behavior and practical financial literacy.

These findings highlight the critical link between financial literacy and the broader objectives of Islamic finance, as outlined in *Maqasid al-Shariah*. Financial literacy rooted in Islamic principles goes beyond individual financial stability to promote social equity and economic justice. The study's insights reveal that addressing the gaps in financial literacy—particularly in underserved communities like Naka—requires a holistic approach that combines ethical education with access to financial resources and technology. By doing so, this research not only identifies the challenges faced by such communities but also aligns them with the broader goal of advancing financial resilience and sustainability within an Islamic framework.

CONCLUSION

To conclude, the study successfully achieved its objective of exploring Islamic financial literacy through the lens of *Maqasid al-Shariah* and identifying its role in enhancing financial stability and ethical financial behavior within underserved communities. The findings demonstrate that while the participants possess a foundational understanding of Islamic principles, significant gaps exist in the practical application of financial management tools and modern financial practices. By highlighting these challenges and providing actionable insights, the study lays a solid foundation for developing targeted interventions that align Islamic financial literacy with broader economic and social well-being objectives. However, achieving comprehensive outcomes will require further efforts to address technological, educational, and systemic barriers to financial inclusion in similar communities.

Additionally, financial literacy holds significant importance from an Islamic perspective, as it is deeply rooted in the *Qur'an* and *Hadith*. Islam emphasizes the responsible management of wealth, promoting principles such as fairness, honesty, and accountability in financial dealings. The *Qur'an* and *Hadith* provide guidance on matters like debt management, investment, and charity, highlighting the importance of financial prudence and planning. Understanding these principles will help individuals make informed financial decisions, ensuring they can manage their resources effectively while upholding Islamic values. By advancing financial literacy, individuals can achieve financial stability and contribute to the welfare of their families and communities, aligning with the broader goals of economic justice and social responsibility in Islam.

Furthermore, in Islam, managing life's commitments is important due to the belief that actions in this world are subject to accountability both here and in the hereafter. Accountability is a fundamental principle in Islamic teachings, permeating all aspects of life, including financial management. Islamic financial literacy highlights the necessity of responsible resource stewardship, advocating for prudent and ethical financial practices. This responsibility incorporates fulfilling obligations such as debts and charitable contributions and ensuring that financial transactions are conducted in accordance with Islamic values of justice and fairness. Accountability in Islamic finance extends beyond the temporal scope to include the hereafter life,

where individuals are held accountable for their financial decisions and their effects on others. By emphasizing accountability, Islamic financial literacy not only will promote financial stability but also align with spiritual duties, demonstrating the connection between worldly actions and their repercussions in the hereafter.

Moreover, financial literacy, particularly Islamic financial literacy, can be a solution to avoiding financial stress, bankruptcy, and achieving sustainable financial and social well-being. By understanding and applying principles such as responsible budgeting, ethical investing, and prudent debt management which are rooted in Islamic teachings, individuals can make informed financial decisions that align with their values. This approach not only will help in managing resources effectively and avoiding financial pitfalls but also contribute to long-term stability and social harmony.

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