**The importance of financial literacy for the community of Arjosari Village, Kedungwaru II Hamlet**

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**Abstract**

Financial literacy is an important factor in improving community welfare, especially in rural areas. Arjosari Village, Kedungwaru II Hamlet, as one of the developing villages, faces various challenges in financial management, such as low understanding of investment, savings, and debt management. This research aims to analyze the importance of financial literacy for village communities in improving economic welfare and provide solutions to enhance their financial understanding. The method used includes literature study and interviews with local communities. The research findings show that low financial literacy makes people more vulnerable to financial risks, such as falling into debt from loan sharks and lacking savings for the future. While people have indirectly applied financial principles in their daily lives, many do not understand fundamental concepts such as budgeting and the importance of having an emergency fund. Factors such as attitudes towards finance, income levels, peer influence, and the role of financial technology (fintech) significantly impact people's financial behavior. Increasing financial literacy can positively affect economic welfare by encouraging better financial management, increasing income, and improving access to health services, education, and housing. Therefore, implementing sustainable financial education programs, community-based training, and providing easy access to formal financial services are crucial for enhancing the financial independence and welfare of Arjosari Village's community.

**Keywords:** financial literacy, village community, financial management, economic welfare

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1. **Introduction**

Financial literacy is an individual's ability to understand and manage finances wisely. Rural communities often face various economic challenges related to low understanding of financial literacy. Arjosari Village, especially Kedungwaru II Hamlet, the majority of the population works in the agricultural sector and small businesses. However, many of them do not understand the importance of good financial planning.

Lack of financial literacy can cause people to experience prolonged economic difficulties. This can have an impact on low family welfare, difficulty in getting access to safe capital, and increasing the risk of debt traps from informal institutions that charge high interest rates. Therefore, this study aims to explore the importance of financial literacy for rural communities and propose various strategies to improve their understanding of managing finances. (Ariani 2024)

Good financial literacy can provide benefits for rural communities in improving their economic welfare. By understanding the basic principles of financial management, people can make wiser financial decisions and avoid detrimental financial risks. For this reason, community-based education and training are needed to increase public awareness and understanding of the importance of financial literacy.

Financial literacy is often understood in various ways in the literature. Some define it as specific knowledge about finance, while others see it as the skill in applying that knowledge. Others consider it as a person's subjective understanding of finance, good financial habits, or experience in managing finances. In general, financial literacy reflects the extent to which a person understands and manages their finances wisely, making it a key factor in effective personal financial management. (Andriyani and Sulistyowati 2021).

Financial management behavior, according to Weston and Brigham in Mien and Thao's research, refers to how a person makes decisions in managing finances to align with personal needs and company goals. This is closely related to the effectiveness of fund management. More broadly, financial management behavior also includes how individuals manage their finances based on psychological factors and habits they have.

One of the main aspects of financial management is the budgeting process. The budget plays an important role in ensuring that a person can meet their financial obligations in a timely manner by managing the income received in a certain period. This behavior reflects an individual's ability to manage daily finances, including planning, budgeting, monitoring expenses, managing, and saving funds properly. In the context of students, for example, financial management reflects how they plan and control spending to match their needs and financial goals that have been set.

In addition, the way a person uses money does not only depend on needs, but is also influenced by various other factors. For example, life experiences, lifestyle, long-term financial plans, and financial responsibilities that must be met, both in the short and long term. Even biological factors such as gender can also influence a person's financial management patterns. Thus, understanding and habits in managing finances greatly determine an individual's financial well-being in the future. (Dewi and Darma 2021).

Economic welfare is a branch of economics that uses microeconomic techniques to determine the allocative efficiency of macroeconomics and the interrelated consequences of income distribution1. Economic welfare can include the welfare of individuals, communities, and countries. (Hidayah 2021)

Indicators of welfare include: 1) good health; 2) positive economic growth; 3) high level of education; 4) adequate quality of life; 5) fulfillment of basic human needs (food, drink, clothing, shelter, health, education, security); 6) employment level; 7) housing and environmental conditions; and 8) poverty level. Society is an important component in economic development patterns, and the success of economic development is measured by the increasing level of community welfare. (Khoirunnisa and Saelangi 2022)

1. **Research Design and Method**

This study uses a qualitative approach with literature study and interview methods. The literature study was conducted by analyzing various sources related to financial literacy, household financial management, and its impact on the welfare of rural communities. Meanwhile, interviews were conducted directly with the people of Arjosari Village, Kedungwaru II Hamlet, to gain a deeper understanding of their financial conditions and the challenges faced in financial management.

1. **Results and Discussion**

***Financial Literacy Level of Arjosari Village Community***

Based on the results of observations, it was found that the level of financial literacy of the community is still relatively low. Most people do not have clear financial planning and use more of their income for consumptive needs without setting aside funds for savings or investment.

The community also tends to have a poor understanding of the basic concepts of financial management, such as budgeting, financial recording, and the importance of having an emergency fund. Lack of access to financial information and education is one of the main factors causing low financial literacy in this village.

For example, several families in this village are often trapped in small banks due to a lack of understanding of the financial risks and high interest rates applied by informal financial institutions. They also tend to trust the informal financial system more than official banking, which often offers safer and more profitable products and services. Lack of understanding of financial literacy has a direct impact on the economic welfare of the community. Difficulty managing income causes many families to have no reserve funds. Many families rely on loans from loan sharks or informal financial institutions with high interest rates, which actually burdens their economy even more. Awareness of saving and investing is still very low, so that people do not have financial protection when facing emergencies or business opportunities. In addition, many people are still not accustomed to using digital banking services and financial applications that can help them manage their finances better.

The results of Khairunnisa et al.'s research (2024) show that low financial literacy in rural areas is caused by limited access to infrastructure, education, and financial information. Meanwhile, research conducted by Sumantri (2024) emphasizes that good financial literacy can encourage economic development in rural communities and improve their welfare through better financial management. In a broader context, financial literacy also plays a role in increasing financial inclusion, where people who have a good understanding of finance are more likely to use formal financial services such as savings and loans with lower interest rates.

To improve people's financial literacy, various strategies are needed that can be applied in everyday life. Community-based financial education programs need to be carried out continuously. Training materials can include how to prepare a household budget, the importance of saving, and simple investment steps that are appropriate to the conditions of rural communities. The formation of small groups such as educational *arisan* or village cooperatives can be an effective way to share knowledge about better financial management. The government and financial institutions need to facilitate access to banking services with easier conditions and lower interest rates, so that people no longer depend on loan sharks. The introduction of digital-based financial applications can help rural communities manage their finances more effectively. With this technology, people can easily record their finances, save automatically, and access broader financial information. Schools in villages can be partners in improving financial literacy from an early age. By including financial management materials in the school curriculum, the younger generation can be better prepared to face economic challenges in the future.

***Financial Management of the Arjosari Village Community***

From the results of observations and some information obtained, the author found that the people of Arjosari Village, precisely in Kedungwaru Hamlet two (2), have indirectly implemented financial management for daily needs. Although limited to managing daily needs with the condition of the community which is dominated by farmers or gardeners, the community also manages their finances so that the fields or gardens they care for can still produce maximum harvests, which of course is a source of their finances. However, it is undeniable that the community is still unfamiliar with the basic concepts of financial management, such as budgeting, financial recording, and the importance of having an emergency fund.

Referring to the research (Jamal, Haeruddin, and Ahmad 2023) in the study concluded that financial literacy has a significant influence on the way individuals manage their finances. People who have a good understanding of finance tend to show more responsible behavior in terms of budgeting, investment, and financial risk management. From previous research and some information regarding the financial management behavior of the Arjosari Village community, Kedungwaru 2 Hamlet, there is a relationship between how they apply financial management, both in making decisions in transactions, budgeting and the level of financial literacy that the community knows.

Of course, many factors influence the financial management behavior of the community, such as: 1) Financial Attitude, financial attitude influences how a person manages their financial behavior and makes decisions related to financial management; 2) Financial Knowledge, financial knowledge is the mastery of various things about the world of finance, including income, expenses, savings, loans, and investments. Good financial knowledge is an important factor in managing finances (Behavior, MSMEs, and Cities 2024); 3) Financial Experience, financial experience, both past and recent, can be used as capital to manage finances; 4) Locus of Control, internal locus of control has a negative and insignificant effect on financial management behavior; 5) Income, income can influence financial management; 6) Peers, peers can influence financial management behavior; 7) Use of Fintech, the use of fintech has a significant influence on financial management; and, 8) Personality, personality can influence financial management behavior (Syaifuddin, et al., 2024)

***Economic Welfare***

Economic welfare is the main goal of any development effort, including improving financial literacy. In the context of the Arjosari Village community, improving economic welfare can be seen from several interrelated indicators. First, increasing community income can be achieved through better financial management. High financial literacy allows individuals to manage their resources efficiently, which in turn can increase income from agricultural businesses, small businesses, or other sources of income. Research shows that financial literacy has a positive effect on financial well-being, which includes the ability to better manage family finances (Sulkiah, 2023).

Second, access to quality health and education services is an important aspect of economic well-being. People with better incomes can access better health services and better education, which contributes to improving their quality of life (Munir, 2024). Government programs such as the Family Hope Program (PKH) have proven effective in increasing community access to basic services, which leads to improved economic welfare.

Third, decent housing conditions are also an important indicator of economic welfare. With increased income, people can improve their housing conditions, making them more livable and healthier. Research in various regions shows that increasing financial literacy and good financial management contribute to improving people's housing conditions (Budastra et al., 2022; Sulkiah, 2023).

Furthermore, reducing poverty levels is the main goal of improving financial literacy. With a better understanding of financial management, people can make wiser financial decisions, which can reduce the risk of debt traps and increase the economic capacity of families. Research shows that good financial literacy is directly related to reducing poverty levels in various communities (Budastra et al., 2022; Sulkiah, 2023).

Overall, improving financial literacy plays an important role in realizing the economic welfare of the Arjosari Village community. With a better understanding of financial management, people can improve their quality of life and achieve better welfare. Therefore, efforts to improve financial literacy must be an integral part of the economic development program in the village.

1. **Conclusions**

This study emphasizes the importance of financial literacy for the people of Arjosari Village, especially in Kedungwaru II Hamlet, in an effort to improve their economic welfare. The research findings show that low understanding of financial management makes people more vulnerable to financial risks, such as being trapped in debt from loan sharks and lack of savings for the future. Although people have indirectly applied the principles of financial management in their daily lives, many of them do not understand basic concepts such as budgeting and the importance of having an emergency fund. Various factors, including attitudes towards finance, experience, income levels, and the influence of peers and financial technology (fintech), play a role in influencing people's financial management behavior.

Increasing financial literacy can have a positive impact on people's economic welfare by encouraging better financial management, increasing income, and improving access to health services, education, and housing conditions. Therefore, it is very important to implement sustainable financial education programs, community-based training, and provide easy access to formal financial services so that village communities can become more financially independent and achieve better levels of welfare.

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