

Islamic Financial Education as a Preventive Instrument in Mitigating Riba-Based Credit Transactions: An Empirical Study

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ABSTRACT

This study aims to examine the effect of literacy on community decision-making in engaging in credit-based buying and selling transactions containing elements of riba in Geragai District, Tanjung Jabung Timur. The research focuses on members of the local community as its primary subjects. A quantitative approach was employed using a simple random sampling technique, resulting in a total of 50 respondents. Data were analyzed using a t-test and simple linear regression with the assistance of Microsoft Excel. The findings reveal that literacy has a positive and statistically significant influence on community decisions to engage in credit transactions involving riba. This indicates that higher levels of literacy are associated with more informed and rational decision-making regarding such financial practices. The study highlights the importance of improving literacy particularly in the context of financial and Islamic perspectives to guide communities toward more appropriate economic behavior.

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1. INTRODUCTION

The development of contemporary economic activities reflects increasingly complex dynamics, particularly in the practice of credit-based financial transactions (Jiang & Yuan, 2025). Credit has become one of the most widely utilized instruments by society to fulfill both consumptive and productive needs, especially under conditions of financial constraints (Bezemer, Ryan-Collins, Van Lerven, & Zhang, 2023). However, alongside the ease of access to credit facilities, a fundamental issue arises regarding the compatibility of such transactions with the principles of Islamic economics, particularly those related to the prohibition of riba. From a Sharia perspective, riba refers to any unjustified increment taken without legitimate compensation, rendering it not only theologically prohibited but also potentially leading to economic injustice within society.

Islam encourages trade and commercial activities as lawful (halal) and productive forms of muamalah (Jumino & Hendrianto, 2024), provided they adhere to principles of justice, transparency, and

mutual consent among the parties involved (Wazin; Suryanto, 2023). Nevertheless, empirical realities indicate that credit-based transactions often involve third parties, such as financial institutions, whose mechanisms incorporate additional payments resembling interest. This condition transforms what is essentially a permissible transaction into a problematic one due to the presence of *riba*. Such practices have become increasingly widespread in response to growing public demand for high-value goods that are difficult to obtain through cash payments.

On the other hand, the relatively low level of public literacy particularly Islamic financial literacy emerges as a crucial factor influencing economic behavior (Chaliha, Hajarika, Bhuyan, & Neog, 2024). Literacy extends beyond the ability to read and comprehend information; it also encompasses the capacity to analyze, evaluate, and make informed decisions based on that information (Abella et al., 2024). Within the framework of Islamic economics, Islamic financial literacy plays a vital role in enabling individuals to understand the distinction between lawful (*halal*) and unlawful (*haram*) financial transactions, including differentiating between permissible credit arrangements and those containing elements of *riba*.

The lack of public understanding regarding the concept of *riba* and Sharia-compliant credit mechanisms has led many individuals to engage in economic practices that deviate from Islamic principles (Sudarwanto, Kharisma, & Cahyaningsih, 2024). This situation is not solely driven by limited knowledge but is also influenced by pressing economic needs and the limited availability of accessible Sharia-compliant financing alternatives (Shahariman, Asari, Sulaiman, & Marzuki, 2024). Consequently, even when individuals are aware of the presence of *riba* in credit transactions, they may still proceed due to constrained choices.

This phenomenon is also evident in Geragai District, Tanjung Jabung Timur Regency, which serves as the setting of this study. Based on the socio-economic conditions of the local community, credit-based transactions are commonly practiced, particularly in the purchase of goods such as motor vehicles and household appliances. With a relatively large population and diverse educational backgrounds, the level of public literacy becomes an important variable to examine in relation to economic decision-making, especially in transactions potentially involving *riba*.

Empirical data indicate that the majority of respondents in this study fall within the productive age range, with educational backgrounds predominantly consisting of senior high school and undergraduate graduates. This suggests that, in principle, the community possesses the capacity to understand financial information. However, variations in literacy levels reveal a gap in the comprehension of Islamic financial concepts. This condition implies that formal education alone does not necessarily guarantee adequate understanding of Sharia-based economic practices.

This study employs a quantitative approach using simple linear regression analysis to examine the influence of literacy on community decisions in engaging in credit transactions containing elements of *riba*. The findings demonstrate that literacy has a positive and statistically significant effect on such decisions. In other words, higher levels of literacy are associated with greater capacity to understand and evaluate economic aspects, including the risks and implications of financial transactions.

Based on these considerations, this research is essential as a contribution to the development of Islamic financial literacy within society. Furthermore, the findings are expected to serve as a foundation for policymakers, educational institutions, and Islamic financial organizations in designing more effective educational programs aimed at enhancing public awareness of Sharia-compliant economic practices. Ultimately, improving literacy is expected to reduce the prevalence of *riba*-based credit transactions and promote a more just and sustainable economic system.

2. METHODS

This study employs a quantitative approach with a descriptive research design (Pandey, Madhusudhan, & Singh, 2023), aiming to examine the relationship and influence of literacy as the independent variable on community decision-making in engaging in credit transactions containing elements of *riba* as the dependent variable (Ghanad, 2023). The quantitative approach is selected based on

a positivist paradigm that emphasizes objective measurement of variables and statistical data analysis. Furthermore, the descriptive design is utilized to provide an empirical overview of the level of community literacy and their behavior in conducting credit transactions in Geragai District, Tanjung Jabung Timur Regency.

The population of this study consists of all individuals residing in Geragai District who are aged 18 years and above and are assumed to possess basic financial understanding. The sampling technique applied is simple random sampling, which allows each member of the population an equal probability of being selected without considering specific strata or classifications. Based on this technique, a total of 50 respondents were selected as the sample, which is considered representative for capturing the characteristics of the population within the context of this study.

The research variables are divided into two categories: the independent variable (X), namely community financial literacy, and the dependent variable (Y), namely decision-making related to credit transactions involving *riba*. Literacy is operationalized through several indicators, including knowledge, experience, and analytical ability in processing financial information. Meanwhile, the dependent variable is measured through indicators such as understanding, preference, knowledge, risk perception, and attitudes toward credit transactions. The primary research instrument is a structured questionnaire based on a five-point Likert scale, ranging from strongly disagree to strongly agree, designed to systematically capture respondents' perceptions and attitudes.

Data collection techniques in this study include observation and questionnaire distribution. Observation is conducted to obtain preliminary insights into the socio-economic conditions of the community, while the questionnaire serves as the main instrument for collecting primary data. Prior to data collection, the instrument was tested for validity and reliability to ensure its accuracy and consistency in measuring the intended variables. The validity test results indicate that all items meet the required correlation threshold, while the reliability test using Cronbach's Alpha shows values exceeding 0.60, confirming that the instrument is both valid and reliable (Thomas & Zubkov, 2023).

Data analysis is carried out through several stages, including descriptive statistical analysis, classical assumption testing, and hypothesis testing. Descriptive statistics are used to present the characteristics of respondents and the distribution of research variables. Classical assumption tests, including normality and heteroscedasticity tests, are conducted to ensure that the data meet the requirements for regression analysis. Subsequently, hypothesis testing is performed using a partial t-test and simple linear regression analysis to determine the effect of literacy on community decisions in engaging in credit transactions containing *riba*. All data analyses are conducted using Microsoft Excel, ensuring that the results are systematically processed and scientifically accountable.

3. FINDINGS AND DISCUSSION

The research instrument was tested for validity and reliability to ensure its appropriateness as a measurement tool. The results of the validity test indicate that all statement items for both the literacy variable (X) and the decision-making variable related to *riba*-based credit transactions (Y) have correlation coefficient values (r -calculated) exceeding the r -table value of 0.2353 at a 5% significance level. This finding confirms that all instrument items are valid and capable of accurately measuring the intended constructs. Furthermore, the reliability test results using Cronbach's Alpha show values of 0.868 for the literacy variable and 0.919 for the decision-making variable. Both values exceed the minimum threshold of 0.60, indicating a high level of internal consistency. Therefore, the research instrument can be considered both valid and reliable for measuring the variables accurately and consistently.

The sample in this study consists of 50 respondents drawn from the community of Geragai District, Tanjung Jabung Timur Regency. Based on demographic characteristics, the majority of respondents fall within the 20–25 age range, indicating the dominance of the productive age group in this study. In terms of gender, the respondents include both males and females in relatively balanced proportions, although males are slightly more dominant. Regarding educational background, most respondents are

graduates of senior high school and undergraduate programs, suggesting that they possess a relatively adequate level of formal education. In terms of occupation, respondents are predominantly entrepreneurs, students, and private-sector employees. This diversity indicates that credit transaction practices are not limited to a specific socio-economic group but rather represent a widespread phenomenon within the broader community.

Descriptive analysis of the literacy variable indicates that the overall level of community literacy falls within the moderate category, with a relatively varied distribution. The mean score for the literacy variable is 17.54, with a standard deviation of 3.26, suggesting variability in respondents' levels of understanding. While some respondents demonstrate adequate literacy, particularly in basic knowledge aspects, limitations remain in their ability to analyze and evaluate financial information comprehensively, especially in relation to the concept of *riba*. For the decision-making variable regarding *riba*-based credit transactions, the mean score is 18.42 with a standard deviation of 3.72. This indicates that community engagement in such transactions remains relatively high. In general, individuals tend to continue engaging in credit transactions despite varying levels of awareness regarding the risks and Sharia implications. This condition reflects a gap between knowledge and actual economic behavior within the community.

Hypothesis testing was conducted using simple linear regression analysis and a partial t-test to examine the effect of literacy on decision-making related to *riba*-based credit transactions. The results show that the calculated t-value (9.225) is significantly higher than the t-table value (1.676) at a 5% significance level with 48 degrees of freedom (df). Additionally, the obtained significance value is far below 0.05. These findings indicate that literacy has a positive and statistically significant effect on community decision-making in engaging in credit transactions involving *riba*. In other words, higher levels of literacy are associated with improved economic decision-making. Individuals with greater literacy tend to better understand risks and implications, making them more rational and selective in their choices. The alternative hypothesis (H1), which states that literacy influences decision-making in *riba*-based credit transactions, is accepted, while the null hypothesis (H0) is rejected. These results underscore the critical role of literacy particularly Islamic financial literacy in shaping more informed, rational, and Sharia-compliant economic behavior.

The findings of this study affirm that literacy, particularly Islamic financial literacy, plays a significant role in influencing community decision-making in engaging in credit transactions containing elements of *riba*. These results empirically reinforce the fundamental assumption in economic behavior theory that the quality of individual decision-making is largely determined by the level of knowledge and understanding possessed. Individuals with higher levels of literacy tend to be more capable of accessing, comprehending, and critically evaluating information, thereby making decisions that are not solely based on immediate needs but also consider risks and long-term implications, including normative aspects from a Sharia perspective.

The positive and significant influence of literacy on transactional decisions indicates that improvements in literacy affect not only the cognitive dimension but also the affective and conative aspects of individuals. This implies that literacy contributes to shaping attitudes and behavioral tendencies within an economic context. Within the framework of Islamic economics, Islamic financial literacy functions not merely as a tool for understanding the distinction between *halal* and *haram*, but also as a mechanism for internalizing ethical values in economic activities. Thus, individuals with higher literacy levels not only recognize that *riba* is prohibited but also develop a moral awareness that guides them to avoid it in practice.

This study also reveals an interesting paradox: despite respondents demonstrating a moderate level of literacy, the prevalence of *riba*-based credit transactions remains relatively high. This suggests that increased literacy has not yet fully translated into consistent behavioral change. In other words, there exists a gap between knowledge (knowing) and action (doing), commonly referred to in the literature as the knowledge-behavior gap. This condition indicates that economic decision-making is

influenced not only by cognitive factors but also by external determinants such as economic pressures, access to alternative financing, and prevailing social norms within the community.

From a socio-economic perspective, community engagement in riba-based credit transactions can also be understood as a form of adaptation to structural constraints. In many cases, individuals are confronted with limited choices: either to fulfill their needs through conventional credit or to forgo those needs altogether. Limited access to easily available Islamic financial institutions, coupled with the lack of competitive and innovative Sharia-compliant financing products, reinforces the community's dependence on conventional credit systems. Therefore, the decision to engage in riba-based transactions does not necessarily reflect ignorance but may instead represent a rational response to existing constraints.

The findings indicate that relatively high levels of formal education do not automatically guarantee strong Islamic financial literacy (Kusmantari, 2024). This suggests that formal education systems have not yet comprehensively integrated Islamic financial literacy into their curricula. As a result, individuals may possess strong academic capabilities while lacking adequate understanding of Sharia-based economic practices. This finding underscores the importance of strengthening educational curricula to incorporate not only general cognitive competencies but also contextual literacy relevant to everyday economic life. The strong influence of literacy (Al-Awlaqi & Aamer, 2023), as evidenced by the statistical test results (with a t-value significantly exceeding the critical value), indicates that literacy is a significant predictor in explaining variations in community decision-making. This implies that literacy-based interventions hold substantial potential for influencing economic behavior. However, given that this study employs a simple linear regression model, there remains the possibility that other influential variables have not been fully captured, such as religiosity, income level, social environment, and access to Islamic financial services.

In the context of Islamic economics, these findings can be positioned as empirical evidence that educational approaches through literacy enhancement constitute a relevant strategy for reducing economic practices that are not aligned with Sharia principles (Masrizal, Sukmana, & Trianto, 2024). Nevertheless, such an approach cannot stand alone. A more integrative strategy is required, combining educational efforts with regulatory frameworks and the strengthening of Islamic financial institutions. Without adequate systemic support, improvements in literacy may not be sufficient to generate substantial behavioral change. This study contributes both theoretically and practically. Theoretically, it reinforces the relationship between literacy and economic behavior within the framework of Islamic economics. Practically, the findings highlight the urgency of prioritizing Islamic financial literacy in public policy and community empowerment programs. Moreover, effective synergy among government, educational institutions, and Islamic financial organizations is essential to create an ecosystem that fosters more rational, ethical, and Sharia-compliant economic behavior.

4. CONCLUSION

This study concludes that Islamic financial literacy plays a crucial and statistically significant role in shaping community decision-making regarding credit transactions involving elements of riba. The empirical findings demonstrate that higher levels of literacy are associated with more rational, critical, and informed economic behavior. Individuals with greater literacy tend to better understand the risks, implications, and ethical considerations of financial transactions, thereby enhancing their capacity to evaluate whether such practices align with Sharia principles. This confirms that literacy is not merely a cognitive asset but also a behavioral determinant that influences economic choices within a religious and ethical framework. This study also identifies a critical paradox: despite a moderate level of literacy among respondents, the prevalence of engagement in riba-based credit transactions remains relatively high. This indicates the presence of a knowledge-behavior gap, where awareness and understanding do not consistently translate into practice. Such a gap suggests that economic decisions are not solely determined by literacy but are also shaped by structural and contextual factors, including economic necessity, limited access to Sharia-compliant financial services, and prevailing social norms. Therefore,

improving literacy alone is insufficient without addressing broader systemic constraints. From a theoretical perspective, this study contributes to the development of Islamic economic behavior theory by empirically validating the relationship between literacy and decision-making within a Sharia context. It extends existing literature by demonstrating that Islamic financial literacy influences not only knowledge acquisition but also the internalization of ethical values and behavioral tendencies. From a practical perspective, the findings emphasize the urgency of strengthening Islamic financial literacy through targeted educational programs, curriculum integration, and community-based interventions. The novelty (research contribution) of this study lies in its integrative approach that combines literacy analysis with real-world behavioral outcomes in the specific context of riba-based credit transactions at the community level. Unlike prior studies that predominantly focus on general financial literacy or theoretical discussions of riba, this research provides empirical evidence linking Islamic financial literacy directly to actual economic decision-making behavior. Additionally, this study highlights the existence of the knowledge-behavior gap within Islamic financial practices, offering a more nuanced understanding of why individuals may continue to engage in non-Sharia-compliant transactions despite possessing adequate knowledge. This study underscores that enhancing Islamic financial literacy is a necessary but not sufficient condition for mitigating riba-based economic practices. A more comprehensive and integrative approach is required one that combines literacy improvement with institutional support, regulatory frameworks, and the expansion of accessible Sharia-compliant financial alternatives. Such efforts are essential to fostering a more ethical, just, and sustainable economic system aligned with Islamic principles.

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