

Bridging Trust and Practice: Sharia Financial Literacy Among Migrant Worker Families in East Java

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Abstract

Remittances from Indonesian migrant workers (PMI) play a crucial role in sustaining household welfare and contributing to national development. However, the developmental impact of remittances depends largely on how families allocate and manage them, which is influenced by financial literacy. This study examines the financial literacy of PMI families in Ngantru, Tulungagung, East Java, with a focus on sharia financial literacy and its implications for remittance use and the Sustainable Development Goals (SDGs). Using a qualitative descriptive approach, data were collected through in-depth interviews, Participatory Rural Appraisal (PRA), and document reviews involving 15 PMI households. Findings reveal that while PMI families demonstrate strong trust in Islamic finance and consistently prioritize education with remittance funds, their financial knowledge and practical skills remain limited. The majority of remittances are directed toward consumption and education, with only a small portion allocated for savings or productive investment. This indicates a cognitive-behavioral gap: positive attitudes toward saving and sharia compliance are not matched by financial behaviors. These practices contribute to SDG 1 (No Poverty) and SDG 4 (Quality Education), but have weaker impacts on SDG 8 (Decent Work and Economic Growth) due to limited entrepreneurial investment. The study underscores the importance of enhancing sharia financial literacy, strengthening outreach of Islamic financial institutions, and designing remittance-linked financial products tailored to migrant families. Policymakers, financial institutions, and community organizations must collaborate to ensure that remittances serve not only immediate household needs but also long-term empowerment and sustainable development.

Keywords: *Financial literacy; Islamic financial literacy; Remittances; Migrant workers; Sustainable Development Goals (SDGs); Islamic finance inclusion*

Introduction

Labor migration has long been an important driver of Indonesia's economy. The remittances sent home by Pekerja Migran Indonesia (PMI) provide not only critical household income but also potential contributions to local and national

development. According to Bank Indonesia (2022), remittance inflows from PMI reached more than USD 9.4 billion in 2021, positioning Indonesia among the top 10 global recipients. These remittances sustain consumption, fund education, and support small businesses, particularly in migrant-sending regions such as East Java, Central Java, and West Nusa Tenggara. Yet, despite their scale, remittances have not always translated into long-term welfare improvements, partly due to limited financial literacy among migrant families.

Financial literacy has been widely acknowledged as a determinant of how households manage income, savings, debt, and investment. For PMI families, literacy is not merely about basic budgeting but also about the capacity to allocate remittances productively, avoid exploitative lending, and build resilience. The Indonesian Financial Services Authority (Otoritas Jasa Keuangan [OJK]) has highlighted persistent literacy gaps: the 2019 National Survey on Financial Literacy and Inclusion (SNLIK) found financial literacy at 38.03% and sharia financial literacy at only 8.93% (OJK, 2020). This indicates that the majority of Indonesians—and especially PMI families in rural areas—lack adequate skills and knowledge to optimize financial decisions.

Within this context, sharia financial literacy is particularly relevant. Islamic finance has expanded significantly in Indonesia, offering instruments such as sharia savings, microfinance, and insurance that align with the cultural and religious values of PMI families, most of whom are Muslim. However, empirical studies reveal that while trust in Islamic financial institutions is relatively high, actual literacy and utilization of sharia products remain limited (Ascarya & Rahmawati, 2020; Laily, 2021). This mismatch raises questions about how PMI families perceive, understand, and apply financial literacy in managing their remittances.

Scholarly research on PMI remittances has largely emphasized macroeconomic contributions, migration policies, or gendered impacts of migration (Raharto, 2017; World Bank, 2018). Fewer studies have examined the micro-level financial management practices of PMI households, especially through the lens of sharia financial literacy. A number of surveys point to tendencies of remittances being consumed for daily needs, debt repayment, and housing rather than for savings or investment (IOM, 2020; Wulandari et al., 2022). This creates a research gap: how far does financial literacy—particularly Islamic financial literacy—shape remittance management and sustainable household welfare among PMI families?

This research addresses the gap by analyzing the financial literacy of PMI families in Ngantru Subdistrict, Tulungagung, East Java—one of Indonesia's

migrant-sending regions. It investigates three interrelated aspects: (1) the level of literacy and awareness of sharia financial instruments; (2) the actual patterns of remittance use across consumption, savings, and productive activities; and (3) the alignment of these practices with Sustainable Development Goals (SDGs), particularly SDG 1 (No Poverty), SDG 4 (Quality Education), and SDG 8 (Decent Work and Economic Growth).

The significance of this study is both practical and theoretical. Practically, understanding financial literacy in PMI families can inform targeted interventions by government, financial institutions, and NGOs to strengthen household resilience and reduce vulnerability to financial shocks. Theoretically, the study contributes to the intersection of migration studies, financial literacy, and Islamic economics by bringing together insights from behavioral finance and sharia financial inclusion.

Moreover, situating the findings within the SDGs framework highlights the global relevance of migrant remittances for sustainable development. When managed wisely, remittances can move households beyond subsistence and create pathways to education, entrepreneurship, and empowerment. However, when constrained by low literacy and lack of access to appropriate financial services, remittances risk perpetuating cycles of dependency and missed opportunities.

This article proceeds as follows. The literature review discusses theoretical and empirical work on financial literacy, Islamic finance, remittances, and migrant household welfare. The methodology section outlines the qualitative approach using Participatory Rural Appraisal (PRA), interviews, and documentation. Findings present the actual financial literacy levels of PMI families and their remittance allocation patterns. The discussion interprets these findings in light of sharia financial inclusion, migration policy, and SDGs. The conclusion summarizes contributions and proposes policy implications for empowering migrant households through literacy and inclusion strategies.

By focusing on financial literacy of PMI families as a determinant of remittance use, this study underscores the importance of building not only financial access but also financial capability—particularly through sharia-compliant instruments—to ensure that migration contributes meaningfully to sustainable development.

Literatur Review

Financial Literacy and Household Welfare

Financial literacy refers to the knowledge, skills, and attitudes needed to make informed financial decisions (Lusardi & Mitchell, 2014). At the household level, literacy influences budgeting, savings, investment, and debt management. Higher financial literacy is associated with better resilience to economic shocks, improved savings behavior, and greater participation in formal financial systems (OECD, 2018). Conversely, low literacy can result in over-indebtedness, financial vulnerability, and inefficient resource allocation (Potrich et al., 2016).

In Indonesia, financial literacy remains a challenge. According to the National Survey of Financial Literacy and Inclusion (SNLIK), the literacy index rose from 29.7% in 2016 to 38.03% in 2019, while financial inclusion reached 76.19% (OJK, 2020). The discrepancy suggests that while access has improved, knowledge and capability lag behind. This is particularly acute in rural and migrant-sending areas, where households often lack familiarity with financial products, legal protections, and long-term planning strategies (Laily, 2021).

Islamic Financial Literacy

For Muslim-majority societies like Indonesia, sharia-compliant finance is not only an economic option but also a cultural and religious preference. Islamic financial literacy (IFL) involves understanding products such as *mudharabah* (profit-sharing), *murabahah* (cost-plus financing), zakat, and waqf, as well as principles prohibiting *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling). Studies show that IFL can enhance trust in Islamic financial institutions, but limited awareness hinders utilization (Ascarya & Rahmawati, 2020).

Despite rapid growth of the Islamic finance industry in Indonesia, literacy gaps persist. The OJK (2020) survey indicated that while general financial literacy reached 38.03%, sharia financial literacy was only 8.93%. Empirical research highlights that many individuals support Islamic finance in principle but are unaware of available products or struggle to distinguish them from conventional instruments (Huda et al., 2019). For PMI families, strengthening IFL could ensure that remittances are channeled into savings, investments, and insurance that are both culturally acceptable and developmentally beneficial.

Remittances and Household Decision-Making

Remittances constitute a significant financial inflow for developing countries. Globally, remittances to low- and middle-income countries reached USD

626 billion in 2022, surpassing foreign direct investment (World Bank, 2022). At the micro level, remittances improve household consumption, reduce poverty, and enhance access to education and healthcare (Ratha et al., 2019). However, their developmental impact depends heavily on how they are used.

Several studies reveal that remittances in Indonesia are often directed toward consumption and housing, with limited allocation for savings or investment (Raharto, 2017; IOM, 2020). This pattern reflects both cultural norms of remittance use and low financial literacy among recipients. While remittances can stabilize household income, their potential for long-term development is constrained when funds are not invested productively.

Migrant Workers' Families and Financial Challenges

PMI families face unique financial challenges. Many are rural-based, with limited exposure to formal financial institutions, and are more vulnerable to informal lending practices (Wulandari et al., 2022). Women often manage remittances, yet gendered constraints may affect financial decision-making and bargaining power within households (IOM, 2020). Additionally, the temporary nature of migration creates pressures for immediate consumption, while long-term financial planning is often neglected.

Studies on PMI households suggest that literacy programs can significantly improve remittance management. For example, migrants' families who received training in budgeting and savings were more likely to open formal savings accounts and invest in small businesses (Amalia & Herianingrum, 2021). However, such programs remain limited in scope and reach.

Remittances and Sustainable Development Goals (SDGs)

The United Nations recognizes remittances as a critical enabler of the Sustainable Development Goals. SDG 10 specifically targets reducing transaction costs of remittances, while remittances also contribute indirectly to SDG 1 (No Poverty), SDG 3 (Good Health), SDG 4 (Quality Education), and SDG 8 (Decent Work and Economic Growth) (UNDP, 2021).

In Indonesia, remittances from PMI have been shown to support SDG-related outcomes. For example, households often allocate remittances for children's education (SDG 4) and for small-scale entrepreneurial activities that create local employment (SDG 8). Nevertheless, the effectiveness of these contributions is constrained by low literacy and lack of access to affordable, reliable financial services (World Bank, 2018).

Research Gap

Existing studies on remittances and migrant households emphasize macroeconomic contributions, transaction costs, and migration policies. While there is growing recognition of the importance of financial literacy, empirical studies at the micro level—especially those focusing on Islamic financial literacy—remain scarce. Few investigations have systematically examined how literacy levels among PMI families shape remittance use, and how this links to broader development goals.

This research seeks to fill that gap by focusing on PMI families in Ngantru, Tulungagung. By analyzing their financial literacy, especially sharia financial literacy, alongside remittance use and alignment with SDGs, the study contributes to both academic discourse and policy practice. It highlights how enhancing literacy can transform remittances from short-term consumption support into tools for long-term empowerment and sustainable development.

Methodology

This study employed a qualitative descriptive approach to examine the financial literacy of migrant workers' (PMI) families and their utilization of remittances in relation to sustainable development. The qualitative design was chosen to capture the lived experiences, perceptions, and practices of PMI households, which cannot be fully understood through quantitative measures alone.

Research Site and Informants

The research was conducted in Ngantru Subdistrict, Tulungagung Regency, East Java, one of Indonesia's migrant-sending regions. The location was purposively selected due to its high concentration of PMI families and its reliance on remittance inflows for household income. Informants were identified using purposive sampling, focusing on families who had been receiving remittances from PMI members for at least two years. A total of 15 households participated, representing diverse socio-economic backgrounds, with women frequently serving as financial decision-makers.

Data Collection Methods

Data were collected through three primary techniques:

1. **In-depth interviews** with PMI family members, focusing on knowledge of financial products, patterns of remittance allocation, and perceptions of sharia-compliant instruments.

2. **Participatory Rural Appraisal (PRA)** activities, such as mapping household expenditures and ranking financial priorities, to elicit community-level perspectives.
3. **Document review**, including remittance receipts, savings records, and reports from local cooperatives or financial institutions.

These methods enabled triangulation, enhancing the validity of findings by cross-verifying data from different sources.

Data Analysis

The data were analyzed using thematic analysis. Interview transcripts and PRA notes were coded into categories: (1) financial literacy levels, (2) remittance allocation patterns, and (3) alignment with SDGs (poverty reduction, education, and economic empowerment). The framework of financial literacy (OECD, 2018) and Maqashid Shariah principles guided interpretation, while links to SDGs provided a broader developmental perspective.

By combining household narratives with structured analysis, this methodology provided insights into both the cognitive and behavioral dimensions of financial literacy and its practical implications for household welfare and development.

Results And Discussions

Findings

Levels of Financial Literacy

The study revealed that financial literacy among PMI families in Ngantru remained limited, particularly in the domain of **Islamic financial literacy**. While most respondents were aware of basic financial practices such as saving, budgeting, and repaying debt, only a few demonstrated an understanding of more advanced financial planning or investment. Awareness of sharia-compliant products was even lower. Many households expressed trust in Islamic finance because it aligns with their religious beliefs, yet they were unable to differentiate between conventional and sharia products in practice. This indicates a cognitive gap between values and knowledge.

Patterns of Remittance Use

Remittances formed a significant share of household income, typically ranging from IDR 2 million to IDR 5 million per month. The allocation of remittances followed three broad patterns:

- **Consumption** – The largest portion of remittances was spent on daily needs such as food, clothing, and utilities. This was viewed as necessary for sustaining the family in the absence of the migrant worker.
- **Education** – Many families allocated remittances to school fees and supplies for children, reflecting aspirations for upward mobility. This was one of the most consistent and prioritized uses of remittances.
- **Savings and Investment** – Only a minority of households reported saving regularly or investing in productive activities such as livestock, land, or small businesses. Even when savings were made, they were often kept in informal systems (arisan, cash at home) rather than formal financial institutions.

Sharia Awareness and Financial Practices

Although Islamic values shaped attitudes toward finance, actual utilization of sharia-compliant services was minimal. A few respondents reported using BMTs (Baitul Maal wat Tamwil) or Islamic cooperatives, but conventional banks and informal networks remained dominant. The hesitation to engage with formal Islamic finance was linked to limited knowledge, perceived complexity of products, and lack of outreach from institutions. This finding highlights the mismatch between high religious trust and low financial literacy.

Contribution to SDGs

The impact of remittance use on the Sustainable Development Goals (SDGs) was evident in several areas:

- **SDG 1 (No Poverty):** Remittances alleviated immediate poverty by meeting household needs and reducing reliance on informal debt.
- **SDG 4 (Quality Education):** Investment in children's education was a consistent priority, suggesting remittances contribute to human capital development.
- **SDG 8 (Decent Work and Economic Growth):** Some remittances were used for small-scale entrepreneurship, though limited in scale and sustainability.

However, the developmental potential of remittances was constrained by the predominance of consumption-oriented spending and low literacy in financial planning. Households recognized the importance of saving and investing but lacked the skills, confidence, and institutional support to implement these practices effectively.

Table 1. Findings Matrix: Financial Literacy and Remittance Use among PMI Families in Ngantru, Tulungagung

Theme	Indicators/Observations	Findings	Implications
Financial Literacy	Knowledge of budgeting, saving, investment	Basic understanding of saving and daily budgeting; limited skills in long-term planning or investment	Low capacity to optimize remittances for wealth-building
Islamic Financial Literacy	Awareness of sharia-compliant products	High trust in Islamic finance values; weak knowledge of actual products and mechanisms	Cognitive gap between religious values and financial practice
Remittance Use – Consumption	Allocation to food, clothing, utilities	Majority of remittances spent on daily needs	Ensures household survival but limits asset accumulation
Remittance Use – Education	School fees, supplies, higher education	Education consistently prioritized by families	Supports SDG 4 (Quality Education) and long-term human capital
Remittance Use – Savings & Investment	Savings in banks, cooperatives, or informal arisan	Few households saved regularly; preference for informal savings	Weak financial security and low multiplier effects of remittances
Engagement with Financial Institutions	Use of banks, BMT, cooperatives	Reliance on conventional banks and informal systems; minimal use of Islamic institutions	Lack of outreach and product literacy among PMI families
Alignment with SDGs	Poverty alleviation, education, entrepreneurship	Reduction of immediate poverty; strong investment in education; small-scale entrepreneurship	Contributions to SDGs 1, 4, and 8 but limited scale and sustainability

From Matrix table above, suggest that PMI families rely heavily on remittances for survival and education, but low financial literacy—particularly sharia literacy—limits the transformation of remittances into long-term assets. There exists a high level of **positive financial attitudes** (trust in Islamic finance, desire to save) but weak **financial behaviors** (irregular saving, minimal investment). This cognitive-behavioral gap underscores the need for targeted literacy programs and institutional outreach to empower PMI households..

Discussion

The findings of this study highlight both the opportunities and constraints faced by PMI families in managing remittances. While remittances have reduced immediate poverty and supported education, low financial literacy—particularly Islamic financial literacy—has limited their potential for long-term development. This section discusses the implications of these findings within the broader context of financial literacy theory, Islamic financial inclusion, and the Sustainable Development Goals (SDGs).

Financial Literacy and Behavioral Gaps

The cognitive-behavioral gap observed in PMI families mirrors findings from global research. Lusardi and Mitchell (2014) emphasize that financial literacy encompasses not only knowledge but also behavior and attitudes. In Ngantru, most households demonstrated positive attitudes, such as valuing savings and education, but lacked the behavioral skills to translate these intentions into structured financial practices. This reinforces OECD's (2018) observation that access alone is insufficient without capability. For PMI families, even when remittances are substantial, inadequate literacy leads to a cycle where funds are consumed rather than invested.

Islamic Financial Literacy and Trust Deficit

The results underscore the paradox of high trust in Islamic finance but low usage of sharia-compliant products. This finding is consistent with Huda et al. (2019), who argue that Islamic financial literacy in Indonesia is lagging despite the country's large Muslim population. PMI families' reliance on conventional banks or informal savings groups reflects limited exposure to Islamic financial institutions (IFIs) and lack of tailored outreach to migrant communities. Bridging this trust-knowledge gap is crucial. Without adequate literacy, PMI households are unable to differentiate between *riba*-based and profit-sharing contracts, undermining their ability to act according to Islamic values while securing financial benefits.

Remittance Utilization and Development Potential

Remittances, as the World Bank (2022) notes, surpass foreign aid and often rival foreign direct investment in scale. However, their developmental potential depends heavily on usage patterns. In this study, education emerged as the most consistent long-term investment, suggesting that families view remittances as a pathway to social mobility. This aligns with SDG 4 (Quality Education). Yet, the predominance of consumption spending and limited productive investment constrains contributions to SDG 8 (Decent Work and Economic Growth). As Raharto (2017) observes, this is a common challenge in migrant households, where immediate needs overshadow future planning.

Governance and Policy Gaps

The limited engagement of PMI families with Islamic financial institutions also reflects systemic governance gaps. While Indonesia has developed a robust Islamic finance sector, much of it is concentrated in urban centers and commercial banks. BPRS (Bank Pembiayaan Rakyat Syariah), BMTs, and cooperatives—institutions closest to PMI families—often lack resources for financial education campaigns. OJK's literacy programs have improved national scores, but rural and migrant-sending areas remain underserved (OJK, 2020). This points to a policy gap where financial inclusion strategies have not been sufficiently localized.

A governance approach is needed that integrates state accountability, institutional outreach, and corporate responsibility. The state can incentivize IFIs to develop remittance-linked products (e.g., savings plans, micro-investment schemes) specifically tailored to PMI families. Financial institutions should not only provide services but also conduct literacy programs in partnership with migrant organizations and local governments. NGOs and community groups could play a facilitative role in ensuring that interventions are culturally appropriate and accessible.

Linking to Sustainable Development Goals

The alignment of PMI remittance practices with SDGs demonstrates both achievements and missed opportunities. On one hand, the prioritization of education and the reduction of immediate poverty showcase positive contributions to SDG 1 and SDG 4. On the other, the underutilization of remittances for entrepreneurship or small business investment limits contributions to SDG 8. This confirms UNDP's (2021) position that remittances are a "hidden engine" for development whose full potential is realized only when supported by enabling policies and institutions.

Theoretical Contribution

By situating PMI families' remittance use within the framework of financial literacy theory and Islamic financial inclusion, this study contributes to both fields. It demonstrates that financial literacy is not just an individual trait but is shaped by structural factors such as access to institutions, availability of Islamic products, and governance outreach. The findings extend Islamic economics scholarship by showing how sharia financial literacy can empower migrant households to align financial practices with religious values while advancing socio-economic development.

CONCLUSION

This study explored the financial literacy of Indonesian migrant worker (PMI) families in Ngantru, Tulungagung, with a focus on how remittances are managed and how these practices align with Sustainable Development Goals (SDGs). The findings show that remittances significantly contribute to household welfare by meeting daily needs, reducing poverty, and financing education. However, limited financial literacy—particularly in understanding and utilizing sharia-compliant financial products—has constrained the potential of remittances to drive long-term economic empowerment.

The analysis revealed a cognitive-behavioral gap: PMI families demonstrate positive attitudes toward saving and strong trust in Islamic finance but lack the practical knowledge and skills to manage funds productively. Most remittances were allocated to consumption and education, with only a small proportion directed toward savings or investments. While this contributes to SDG 1 (No Poverty) and SDG 4 (Quality Education), the limited use of remittances for entrepreneurship reduces their impact on SDG 8 (Decent Work and Economic Growth).

Theoretically, the study contributes to the intersection of financial literacy and Islamic economics by highlighting that literacy is shaped not only by individual capacities but also by institutional outreach and governance structures. Practically, the findings suggest that strengthening Islamic financial literacy programs, expanding outreach of local financial institutions such as BPRS and BMTs, and designing tailored remittance-linked products could help migrant families maximize the developmental potential of their income.

Policy implications include the need for state accountability in promoting financial literacy in migrant-sending regions, corporate responsibility among financial institutions to design inclusive and accessible products, and stronger partnerships with NGOs to deliver culturally relevant education. By bridging literacy gaps and aligning financial practices with Islamic values, remittances can evolve from short-term survival tools into engines of empowerment and sustainable development.

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