

## UNDERSTANDING SHARIA FINANCE CONCEPTS FOR EFFECTIVE OF SIMPLE FINANCIAL MANAGEMENT

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**Abstract:** Islamic finance, as a financial system grounded in Islamic legal principles, is characterized by its distinct features that differentiate it from conventional financial systems, including prohibitions on *riba* (usury), *gharar* (uncertainty), and *maysir* (gambling). This study employs a descriptive qualitative approach, focusing on analyzing how an understanding of the basic principles of Islamic finance can enhance an individual's ability to manage simple finances effectively and efficiently. The research findings suggest that a sound understanding of Islamic finance contributes to more prudent financial decision-making, better budget management, and long-term financial stability. Regardless of the sophistication of financial tools or the amount of money possessed, a lack of resolve to control spending leads to persistent consumerism, preventing the effective implementation of Islamic financial management principles.

**Keywords:** Financial concepts, islamic finance, financial management.

### Introduction

Money plays a central role in human life as a medium of exchange used in various economic transactions. Broadly, money impacts almost every aspect of human existence, from physical needs to social relationships and mental well-being. The function of money enables individuals to meet their life needs and facilitates social activities (Sundari et al., 2022). However, it is crucial to remember that while money can enhance comfort and open many opportunities, true happiness often stems not only from wealth but also from other values such as affection, health, and life satisfaction.

Effective money management is a critical skill in modern life. It not only pertains to fulfilling daily needs but is also tied to long-term financial stability and emotional well-being. With knowledge and discipline in managing finances, individuals can achieve life goals, navigate financial challenges, and build a better future. Wise financial management provides greater control over one's life, helps avoid financial difficulties, and improves overall quality of life, including mental health. Financial stress and anxiety can harm physical health, lead to poor sleeping habits, and affect family harmony (alodokter, 2022).

In Islam, financial management is not solely focused on material aspects but also integrates moral and ethical values in every financial transaction. Islamic finance emphasizes caution, fairness, and a balance between worldly and spiritual needs. Muslims are taught to manage their wealth wisely, avoid greed, live simply, and always remember the hereafter in every expenditure. Transparency and accountability are also highly valued in Islamic financial practices (Ulyani et al., 2023). Thus, every Muslim is expected to manage their wealth responsibly and in accordance with Islamic principles, avoiding *riba* and wasteful spending while ensuring honesty and transparency in all transactions. Islam encourages giving charity, paying *zakat*, and avoiding excessive debt. By adhering to these principles, Muslims can manage their finances effectively.

This article aims to explore public understanding of the concept of Islamic finance and how it can enhance the effectiveness of personal financial management in a simple context. The study is important for providing insights into how the principles of Islamic finance can be applied in everyday life while identifying challenges faced by the public in implementing this financial system.

### Literature Review

As social beings, humans have an inherent drive to secure their survival. Every effort made by individuals is fundamentally aimed at fulfilling their worldly needs. However, when it comes to economic and financial management, there must be a foundation that aligns with societal and religious norms (Jannah, 2022). One financial concept that has garnered increasing attention in recent times is Islamic finance. Islamic finance is a system based on Islamic legal principles, with the aim of achieving social and economic justice without causing harm to any party (Mohammad Ghozali, 2018). This system employs different mechanisms and instruments compared to conventional finance, making it essential for individuals and organizations seeking to manage their finances according to Islamic principles to understand its fundamental tenets.

#### a. Sharia Financial Management

Islamic financial management is a financial system that operates in accordance with Islamic sharia principles. Here are some basic principles in managing money based on sharia: (Visser, 2019):

##### - **Tawhid (Trust in God) in Money Management**

That is the recognition that everything that belongs belongs to God. Therefore, money management in Islam is not only seen as an economic activity, but also as a form of worship to Allah. Every transaction or financial decision must be made with the intention of seeking Allah's pleasure and obeying His commands.

##### - **Balance between Worldly Needs and the Hereafter**

Islam teaches that earthly life and the hereafter are interrelated. Therefore, money management in Islam must pay attention to these two dimensions in a balanced manner between meeting the needs of life in this world and charity that benefits the ummah as a provision for the hereafter.

##### - **Thrifty and Not Wasteful (Israf)**

Islam teaches to live in a simple, frugal and non-extravagant way. **Israf** (waste) is expenditure that is not in accordance with needs or excessive. Islam avoids a consumptive lifestyle that is only to satisfy personal desires and desires. Indonesia is ranked fourth in the most consumptive population in the world, as the largest Muslim population, Indonesia is not the top five halal food producing countries (kumparanbisnis, 2022).

##### - **Transparent and Honest in Transactions**

Honesty and transparency are two very important principles in money management in Islam. Islam teaches that every transaction must be done in good faith and without deception, so that both parties involved in the transaction will feel fair and not harmed.

##### - **Managing Debt Wisely**

Debt can be done in Islam, but only in urgent circumstances and for legitimate purposes. Taking debt should be done responsibly and only for productive needs. Debt can be used to buy a house, a vehicle, or start a business that can make a profit. However, debting for unproductive consumption or a lavish lifestyle is strictly forbidden in Islam. Islam strongly emphasizes that debts should be paid on time. A

Muslim should go to great lengths to pay off his debts and avoid delaying payments without a valid reason.

- **Prohibition Against Riba (Interest)**

One of the important principles in money management according to sharia is **to avoid riba** (interest). Riba is an additional fee received or paid in a money loan transaction that is not in accordance with the principles of justice in Islam. As an alternative to the riba system, Islam offers a variety of financial instruments that are fair and do not involve interest, such as **murabahah** (buying and selling with an agreed profit margin), **mudarabah** (business cooperation), and **musharakah** (partnership to share profits and risks).

- **Zakat and Alms**

One of the financial obligations in Islam is **to pay zakat**, which is the obligation to give part of the property to those in need. Zakat is a way to clean up wealth and get closer to Allah. In addition to zakat, Islam also encourages its people to give alms and provide assistance to those in need.

b. Simple and Effective Financial Management

Simple personal financial management focuses on management principles that are easy to understand and apply by individuals, this management involves several aspects, such as:

- Budgeting

Create a monthly budget to manage expenses and income with the aim of achieving financial balance.

- Savings and investments

Allocating part of the income to save and invest to face future needs.

- Debt management

Keeping debt from exceeding the limit of solvency and ensuring that debt is used for productive things.

Managing money well and effectively has an impact on the creation of "financial freedom", not only for a luxurious life but for the creation of a comfortable life (Doda & Fortuzi, 2015). Managing Finances Islamically for the Realization of Good Money Habits means that the property owned by a Muslim is basically a mandate from Allah that must be spent or distributed responsibly (Masruroh, 2015).

c. Public Understanding of the Concept of Sharia Finance

Public knowledge about Islamic finance in Indonesia still varies. Some studies show that although many people are familiar with the terms "Islamic banks" or "Islamic financial products", their understanding of basic concepts such as the prohibition of usury, halal investment, and zakat is often limited. People tend to think that Islamic finance is only limited to Islamic banking, even though its principles can be applied in various aspects of finance, including personal financial management.

Some of the researchers include (Mahri et al., 2023) stated that the ability to manage finances among students is still considered very low, The results of this study explain that the higher the level of Islamic financial literacy, financial attitudes, the amount of pocket money, and the level of religiosity, the higher the level of Islamic financial management ability among students. The results of other studies show that Islamic financial literacy is a significant determinant in improving Islamic financial management. In other words, the higher the student's financial literacy, the better the possibility of students in managing

their finances in a sharia manner. This shows that the higher the student's knowledge about finance, the more managerial skills in sharia will increase (Anita et al., 2023). In the family sample, the role of housewives in managing family finances is very important. Mistakes in family financial management can be fatal, namely not achieving financial goals (Nurhaida et al., 2023). Some of the studies above show that the failure of the community to manage money is due to the lack of financial knowledge and literacy and the neglect of the basic principles of money management based on Islamic values.

d. **The Relationship Between Understanding Sharia Finance and the Effectiveness of Financial Management**

Several studies show that a good understanding of the concept of Islamic finance can increase the effectiveness of personal financial management. A deep understanding of sharia principles can help individuals to make wiser financial decisions, such as choosing investment products that are in accordance with sharia principles or avoiding usury-based debt. However, in practice, the application of sharia principles in simple financial management often faces various challenges, ranging from lack of financial literacy to the unclarity of sharia financial products in the market.

**Method**

This study uses a descriptive qualitative approach with the aim of describing the public's understanding of Islamic finance and its effectiveness in simple financial management, by using a deductive analysis method through several stages so that the final results are drawn specifically conclusions. After drawing conclusions, the next stage is to develop the design of a model with research and development methods that produce certain products and test the effectiveness of those products (Suggestion, 2015). The stages of this method are:

1. **Problem Identification**

This stage is an initial observation, collecting data and information related to financial statistical data of the Indonesian population.

2. **Determination of Supporting Data**

This section is a stage of collecting additional data related to the financial literacy skills of the community and tools that can be used for simple financial management.

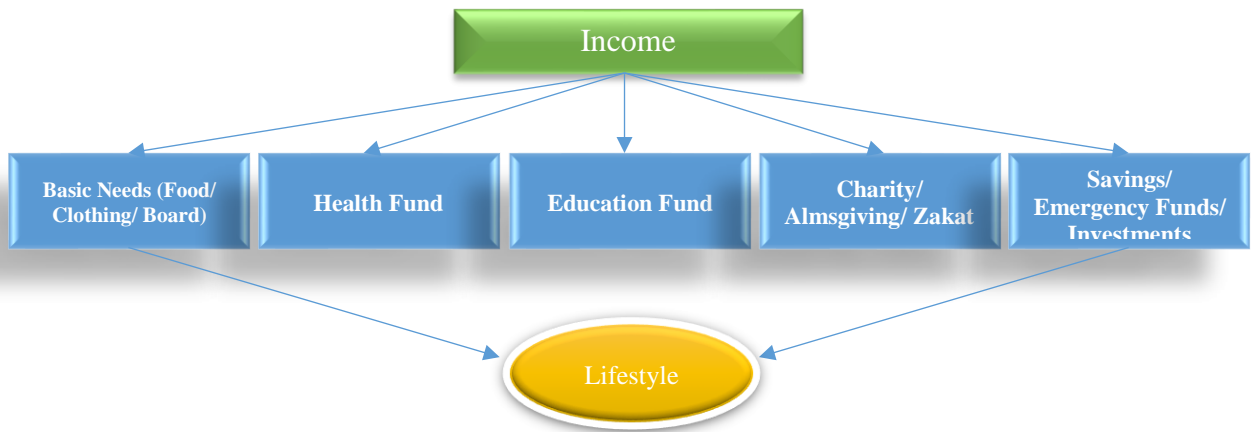
3. **Data Analysis**

The data analysis in this study was carried out through descriptive analysis, with the ultimate goal that the analysis leads to the determination of concrete steps related to the problem.

**Result and Discussion**

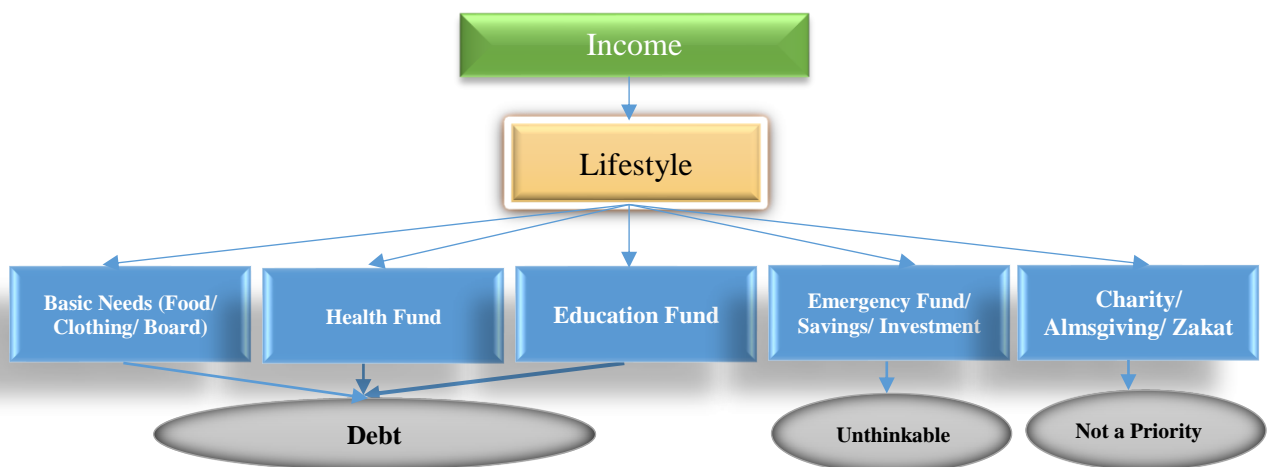
The ability to manage money is one of the skills that must be possessed by all human beings, adolescents and adults, men and women because in this age group, the ability to analyze the level of needs is mature. Managing money unwisely has an impact on personal life difficulties and will make it difficult for others, but being able to manage money well will result in mental health and peace of mind. Data obtained from the central statistics agency states that 18 million Indonesians have debt in online loans (pinjol), in the productive age range (Radio Republik Indonesia, 2024).

The habit of debt is the impact of a person's consumptive so that they do not have an emergency fund to anticipate impromptu needs so they take shortcuts to quick loans without collateral, supported by technological advances and a lack of financial literacy, it is a factor that makes it difficult for the millennial generation to manage their finances (Millennial et al., 2022).



**Figure 1.** Future-Oriented Financial Management Images

The figure above shows that to be able to manage future-oriented finances in accordance with Islamic teachings and sharia guidance, the money managed must balance between the needs of this world and the hereafter, the fulfillment of basic needs and investment is fulfilled and the deeds of worship are carried out. Islam also provides guidance on the use of money that is not excessive, extravagant is a sign that someone does not have a future orientation to protect himself. In the image above, it is explained that when income has been allocated to important posts of life, then someone uses the rest for lifestyle.



**Figure 2.** Images of Financial Use Without Future Projections

Based on the diagram above, it shows the habit of using money that is oriented to lifestyle, so that to fulfill the mandatory needs of the world and charity for the hereafter is neglected, it is solved by debt through many parties and many ways.

In accordance with previous research, there are several applications to manage daily finances, including the siApik application (Saehu et al., 2021) and a simple Excel accessible on Android (Hariani MD et al., 2021). The explanation contained in the discussion above is that most millennials are unable to manage their own finances due to several factors including lack of financial literacy, environmental influences, the influence of easy digital shopping platforms, and the habits of parents.

## Conclusion

Sharia finance offers a more ethical and fair approach to financial management, which can have a positive impact on the effectiveness of simple financial management. With principles that emphasize justice, sustainability, and social responsibility, Islamic Finance can help individuals or families manage their finances more wisely, efficiently, and in accordance with moral values.

No matter how sophisticated the financial management tools available at this time, they will not be able to control consumptive and wasteful behavior except for strong intentions and determination from themselves. Departing from one's own financial freedom, it will have an impact on environmental peace and the progress of the country.

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