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FROM CASH TRANSFERS TO AMAL SHALIH: THE ROLE OF ISLAMIC FINANCIAL LITERACY IN HUMAN CAPITAL DEVELOPMENT

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ABSTRACT

This study examines the role of Islamic financial literacy (IFL) in mediating the relationship between conditional cash transfers and human capital development among beneficiaries of Indonesia's Program Keluarga Harapan (PKH). Using a quantitative cross-sectional design and data from 420 households across three provinces, the study applies Partial Least Squares Structural Equation Modeling (PLS-SEM) to test the proposed model. The findings reveal that while cash transfers have a positive but limited direct effect on human capital development, Islamic financial literacy exerts a stronger and more significant influence. Importantly, IFL mediates more than half of the total effect of cash transfers, transforming financial assistance into productive investments in education, healthcare, and economic resilience. Furthermore, IFL facilitates the conversion of financial resources into *amal shalih*, reflected in ethical financial behavior such as zakat participation, avoidance of riba-based debt, and socially oriented economic practices. This study contributes to the literature by integrating Islamic ethical dimensions into human capital theory and operationalizing *amal shalih* as a measurable economic outcome. The findings suggest that poverty alleviation programs should incorporate value-based financial education to enhance both economic and moral development outcomes.

Keywords: Islamic Financial Literacy; Cash Transfer; Human Capital Development; Amal Shalih, PKH

ABSTRAK

Penelitian ini mengkaji peran literasi keuangan syariah dalam memediasi hubungan antara program bantuan sosial bersyarat dan pengembangan modal manusia pada penerima Program Keluarga Harapan (PKH) di Indonesia. Menggunakan desain survei kuantitatif cross-sectional dengan 420 responden dari tiga provinsi, penelitian ini dianalisis menggunakan Partial Least Squares Structural Equation Modeling (PLS-SEM). Hasil penelitian menunjukkan bahwa bantuan tunai memiliki pengaruh langsung yang positif namun relatif terbatas terhadap pengembangan modal manusia, sedangkan literasi keuangan syariah memiliki pengaruh yang lebih kuat dan signifikan. Lebih dari setengah pengaruh bantuan tunai dimediasi oleh literasi keuangan syariah, yang mampu mengarahkan pemanfaatan dana ke investasi produktif seperti pendidikan, kesehatan, dan ketahanan ekonomi. Selain itu, literasi keuangan syariah juga mendorong transformasi bantuan menjadi *amal shalih*, yang tercermin dalam perilaku keuangan etis seperti pembayaran zakat, penghindaran riba, dan praktik ekonomi sosial. Penelitian ini berkontribusi dengan mengintegrasikan dimensi etika Islam dalam teori modal manusia serta mengoperasionalkan *amal shalih* sebagai indikator ekonomi yang terukur. Temuan ini menekankan pentingnya integrasi edukasi keuangan berbasis nilai dalam program pengentasan kemiskinan.

Kata Kunci: literasi keuangan syariah; bantuan tunai; pengembangan manusia; amal shalih; PKH

INTRODUCTION

Conditional Cash Transfer (CCT) programs have become a central instrument in global poverty alleviation strategies, particularly in developing countries. By providing direct financial assistance to low-income households conditional upon investments in education and health, CCTs aim to break intergenerational cycles of poverty through human capital accumulation. (Rizkiansyah, 2022) In Indonesia, the Program Keluarga Harapan (PKH) represents one of the largest social protection programs, targeting vulnerable households with the expectation that cash transfers will translate into improved educational attainment, health outcomes, and long-term economic resilience. (Dany & Habibah, 2021)

Despite their widespread adoption, a growing body of empirical literature suggests that the impact of CCTs on human capital development is often modest and heterogeneous. While some studies report improvements in school attendance and healthcare utilization, others highlight limited effects on long-term behavioral transformation and economic self-sufficiency. This inconsistency indicates that financial transfers alone may be insufficient to induce sustainable changes in household decision-making. Instead, the effectiveness of such programs depends on complementary factors that shape how beneficiaries allocate and utilize the received funds. (Fisher et al., 2017)

One critical yet underexplored factor is financial literacy. Within the broader literature on development economics, financial literacy has been shown to influence household saving behavior, investment decisions, and risk management capacity. (Rahmatika et al., 2024) However, most existing studies conceptualize financial literacy within a conventional framework, focusing on interest rates, inflation, and formal banking systems. This perspective may not fully capture the socio-religious context of Muslim-majority societies such as Indonesia, where financial behavior is also guided by normative religious principles. (Ismail et al., 2025)

In this regard, Islamic financial literacy (IFL) offers a more contextually relevant framework. IFL extends beyond technical knowledge of financial products to include understanding of Shariah principles such as the prohibition of *riba* (interest), risk-sharing mechanisms, and the ethical allocation of wealth through instruments like *zakat*, *infaq*, and *waqf*. More importantly, IFL integrates cognitive, behavioral, and moral dimensions of financial decision-making, positioning economic actions as part of a broader religious obligation. Consequently, financial decisions are not merely instrumental but are also

oriented toward achieving *amal shalih* righteous deeds that generate both material and spiritual value. (Makhrus et al., 2025)

However, the role of Islamic financial literacy in mediating the relationship between cash transfer programs and human capital development remains largely absent from existing empirical research. (Tiakoly, 2024) While some studies have examined the link between financial literacy and welfare outcomes, few have explored how religiously grounded financial knowledge transforms the utilization of social assistance into productive and ethically driven economic behavior. This gap is particularly significant in the context of PKH beneficiaries, who often operate within informal financial systems and possess limited exposure to structured financial education.

Preliminary evidence from the present study indicates that although PKH participation provides essential financial support, (Adnin Chiesa Syahwanes et al., 2025) its direct impact on human capital development is relatively limited compared to the effect mediated through Islamic financial literacy. Households with higher levels of IFL demonstrate significantly stronger investment in education, preventive healthcare, and economic resilience, suggesting that literacy functions as a catalytic mechanism that enhances the effectiveness of cash transfers. Furthermore, IFL appears to facilitate the transformation of financial assistance into *amal shalih*, reflected in increased participation in zakat contributions, avoidance of *riba* based debt, and engagement in socially productive financial practices. (Restuti et al., 2026)

Building upon these observations, this study seeks to address three interrelated research questions. First, to what extent does participation in PKH influence human capital development among beneficiary households? Second, does Islamic financial literacy mediate this relationship? Third, how does IFL contribute to the transformation of cash transfers into *amal shalih* behavior?

Accordingly, this study aims to develop and empirically test a conceptual model that integrates social protection, financial literacy, and Islamic ethical frameworks within a unified analytical structure. By employing Partial Least Squares Structural Equation Modeling (PLS-SEM) (Artanto et al., 2021) on data collected from PKH beneficiaries across multiple provinces in Indonesia, this research contributes to both theoretical and policy discourses. Theoretically, it advances the literature by incorporating Islamic financial literacy as a mediating construct linking economic assistance to human capital outcomes. Practically, it

offers policy implications for designing more holistic poverty alleviation programs that combine financial support with value-based financial education.

Ultimately, this study argues that the transition “from cash transfers to *amal shalih*” is not automatic but contingent upon the presence of Islamic financial literacy as a transformative mechanism. Without such literacy, cash transfers risk being absorbed into short-term consumption; with it, they can become instruments for sustainable human development and spiritually grounded economic empowerment.

RESEARCH METHOD

This study adopts a quantitative cross-sectional survey design to examine the relationships (Abduh et al., 2022) between conditional cash transfer participation, Islamic financial literacy, human capital development, and *amal shalih* behavior. A cross-sectional approach is considered appropriate given the study’s objective to capture the structural relationships among variables at a specific point in time, particularly within the context of ongoing social assistance programs.

The population of this study consists of beneficiary households of the PKH in Indonesia. To ensure representativeness across different socio-economic and institutional contexts, a multistage stratified sampling technique was employed. Three provinces were purposively selected based on their distinct characteristics: West Java, representing regions with relatively advanced Islamic financial infrastructure; East Java, characterized by high levels of zakat, infaq, and sadaqah (ZIS) collection; and Banten, representing a mixed socio-economic profile.

The sampling frame was derived from the official PKH beneficiary database maintained by the Ministry of Social Affairs as of December 2024. The minimum sample size was calculated using the Lemeshow formula for unknown population proportions, (Hidayat, 2021) with a 95% confidence level and a 5% margin of error, resulting in a minimum requirement of 385 respondents. To account for potential non-response and data attrition, a total of 450 questionnaires were distributed through door-to-door enumeration with the assistance of PKH facilitators and local social assistants (*pendamping*). After data screening and cleaning, 420 valid responses were retained for analysis, yielding a high response rate of 93.3%.

This study employs a structured model consisting of dependent, independent, mediating, and control variables. All latent constructs were measured using multi-item

indicators on a five-point Likert scale ranging from strongly disagree (1) to strongly agree (5), unless otherwise specified. (USMAN & Mgt, 2020)

Human capital development (HCD) serves as the dependent variable and is conceptualized as a second-order construct comprising three dimensions: educational investment, health expenditure patterns, and economic resilience. (Soepriyadi et al., 2012) Educational investment is measured through indicators such as monthly expenditure on children's education, consistency of school attendance, and the purchase of learning materials. Health expenditure patterns capture preventive healthcare visits, nutrition-related spending, and participation in health insurance schemes. Economic resilience reflects savings behavior, the ability to cope with income shocks, and the accumulation of household assets.

The independent variable, PKH participation, is operationalized as a binary variable distinguishing active participants from non-participants or inconsistent participants. This measure is complemented by additional indicators, including the duration of participation (in years) and the amount of transfers received, to capture the intensity of program exposure.

Islamic financial literacy (IFL) is introduced as a mediating variable and measured using an adapted version of a validated four-dimensional scale. The construct encompasses knowledge of Islamic financial products, literacy in Islamic social finance instruments, understanding of Shariah financial principles, and Islamic financial behavior. Each dimension is represented by five items, reflecting both cognitive and behavioral aspects of financial literacy. The scale has demonstrated strong reliability in prior studies, with Cronbach's alpha values exceeding 0.80.

In addition to the primary constructs, this study incorporates *amal shalih* behavior as an extended outcome variable. This construct captures the ethical and socially oriented use of financial resources, including the allocation of funds toward productive purposes, participation in zakat and charitable giving, engagement in *qardbul hasan* arrangements, avoidance of *riba* based debt, support for extended family education, and involvement in community waqf initiatives.

To control for potential confounding effects, several demographic and socio-economic variables are included, namely household size, education level of the household head, age and gender of the household head, number of school-aged children, and provincial location. These variables have been widely recognized in the literature as significant determinants of human capital outcomes.

Data collection was conducted over a twelve-week period from January to March 2026. Primary data were gathered through structured face-to-face interviews to ensure a high level of response accuracy and to accommodate varying literacy levels among respondents. The data collection process involved trained enumerators, primarily graduate students in Islamic economics from UIN Sunan Kalijaga and UIN Maulana Malik Ibrahim Malang, who were equipped with detailed survey guidelines and ethical protocols.

To enhance respondent comprehension, interviews were conducted in local languages, including Sundanese and Javanese, depending on the regional context. Particular attention was given to the administration of the Islamic financial literacy instrument, where enumerators provided simplified explanations of technical terms such as *riba*, *mudharabah*, and *murabahah*. This approach ensured that responses reflected actual understanding rather than mere familiarity with terminology.

Ethical considerations were strictly observed throughout the data collection process. Informed consent was obtained from all participants prior to the interviews, and respondents were assured of the confidentiality and anonymity of their responses. Participation was voluntary, and respondents were informed of their right to withdraw at any stage without consequence.

The data analysis was conducted in three sequential stages to ensure the robustness and validity of the findings. *First*, descriptive statistics and preliminary diagnostic tests were performed using SPSS version 26. These analyses included assessments of data normality, multicollinearity, and common method bias. Harman's single-factor test was employed to detect potential common method variance.

Second, the measurement model was evaluated to assess the reliability and validity of the constructs. Internal consistency reliability was examined using Cronbach's alpha and composite reliability, with threshold values exceeding 0.70 considered acceptable. Convergent validity was assessed through the average variance extracted (AVE), with values above 0.50 indicating adequate convergence. Discriminant validity was evaluated using the Fornell–Larcker criterion and the heterotrait-monotrait (HTMT) ratio.

Third, the structural model was estimated using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS version 4.0. The choice of PLS-SEM is justified by the exploratory nature of the study, the inclusion of a second-order construct (human capital development), and the model's predictive orientation. Bootstrapping with

5,000 resamples was employed to assess the statistical significance of path coefficients, indirect effects, and mediation relationships.

Overall, this analytical approach enables a comprehensive examination of both direct and indirect relationships among variables, thereby providing a robust empirical basis for understanding the role of Islamic financial literacy in transforming cash transfers into human capital development and *amal shalih* outcomes.

FINDINGS AND DISCUSSION

Respondent Profile and Socio-Economic Context

The empirical analysis is based on 420 valid responses collected from beneficiary households of the Program Keluarga Harapan (PKH). The demographic profile reveals that 68.3% of respondents are female heads of household, reflecting the program's design that prioritizes women as primary recipients of cash transfers. This gendered targeting is consistent with prior findings that women tend to allocate resources more effectively toward child welfare and household well-being.

The average household size is 4.7 individuals, with a majority having at least two school-aged children, indicating significant dependency ratios and reinforcing the importance of sustained human capital investment. Educational attainment among respondents remains relatively low, with more than 75% not progressing beyond primary education. This structural limitation provides an important backdrop for interpreting the role of Islamic financial literacy, as low formal education often correlates with limited financial capability.

From a program perspective, the average duration of PKH participation is 4.2 years, suggesting prolonged exposure to social assistance mechanisms. However, as will be discussed in subsequent sections, duration alone does not guarantee optimal outcomes, highlighting the importance of mediating factors .

Measurement Model Evaluation

The measurement model demonstrates strong psychometric properties, confirming the reliability and validity of the constructs employed in this study. All dimensions of Islamic financial literacy (IFL) exhibit Cronbach's alpha values above 0.80, indicating high internal consistency. Composite reliability values exceed the recommended threshold of 0.70, while average variance extracted (AVE) values are all above 0.50, supporting convergent validity.

Discriminant validity is established using the Fornell–Larcker criterion, with each construct showing stronger correlations with its own indicators than with other constructs. Additionally, Harman’s single-factor test indicates that common method bias is not a significant concern, as a single factor accounts for only 28.4% of the total variance well below the critical threshold of 50% .

These results confirm that the measurement model is robust and suitable for structural analysis, thereby strengthening the credibility of subsequent hypothesis testing.

Islamic Financial Literacy Among PKH Beneficiaries

Descriptive analysis reveals that overall Islamic financial literacy among PKH beneficiaries is relatively low, with a mean score of 2.34 on a five-point scale. This finding aligns with national surveys indicating limited financial literacy among low-income populations in Indonesia. A more nuanced examination shows variation across dimensions. (Soetiono & Setiawan, 2018) Literacy in Islamic social finance (e.g., zakat, infaq, sadaqah) records the highest mean score, suggesting that religiously embedded practices are more familiar to respondents than formal financial instruments. In contrast, knowledge of Islamic banking products scores the lowest, reflecting limited access to or engagement with formal Islamic financial institutions.

This pattern highlights an important structural gap: while beneficiaries possess normative awareness of religious financial obligations, they lack the technical knowledge required to utilize formal financial services effectively. Consequently, financial behavior remains largely informal and consumption-oriented, unless supported by targeted literacy interventions. (Nugroho et al., 2026)

Structural Model: Direct Effects

The structural model explains 41.3% of the variance in human capital development ($R^2 = 0.413$), indicating moderate explanatory power. The predictive relevance of the model is confirmed by a positive Stone–Geisser Q^2 value, suggesting that the model has adequate predictive capability.

The results of hypothesis testing provide several important insights.

First, PKH participation has a positive but relatively modest direct effect on human capital development ($\beta = 0.154$, $p < 0.05$), supporting H1. This finding confirms that cash transfers contribute to improved welfare outcomes; however, the relatively small coefficient suggests that financial assistance alone is insufficient to drive substantial human capital

transformation. This supports the critique within development literature that CCTs primarily affect access rather than behavioral change.

Second, PKH participation has a strong positive effect on Islamic financial literacy ($\beta = 0.421, p < 0.001$), supporting H2. This finding indicates that program engagement—through interactions with facilitators, group meetings, and institutional exposure—plays a significant role in enhancing beneficiaries' financial knowledge. Importantly, this effect appears to occur even in the absence of formal financial education components, suggesting the presence of informal learning mechanisms within the program structure .

Third, Islamic financial literacy exerts a substantial positive effect on human capital development ($\beta = 0.478, p < 0.001$), supporting H3. This represents the strongest direct relationship in the model, highlighting the central role of literacy in shaping household investment behavior. Households with higher IFL are more likely to allocate resources toward education, preventive healthcare, and savings, thereby enhancing long-term resilience.

Collectively, these findings suggest that while PKH provides the necessary financial input, Islamic financial literacy determines the effectiveness of its utilization. (Mubaroq et al., 2025)

Mediation Effect of Islamic Financial Literacy

A key contribution of this study lies in identifying Islamic financial literacy as a mediating mechanism between PKH participation and human capital development. The mediation analysis reveals that the indirect effect ($\beta = 0.201, p < 0.001$) is statistically significant, with a confidence interval that does not include zero.

Notably, 56.6% of the total effect of PKH on human capital development is mediated through Islamic financial literacy. This indicates that more than half of the program's impact operates through an indirect pathway, underscoring the importance of literacy as a transformative factor rather than a peripheral one .

From a theoretical perspective, this finding extends human capital theory by incorporating behavioral and value-based dimensions into the analysis. It suggests that financial resources alone do not automatically translate into productive investments; instead, the presence of knowledge and ethical orientation is crucial in shaping decision-making processes. (Suarlin, 2025)

From a policy perspective, the results imply that integrating Islamic financial education into social protection programs could significantly enhance their effectiveness.

Without such integration, cash transfers risk being absorbed into short-term consumption patterns, limiting their long-term developmental impact.(Ismail, 2025)

Islamic Financial Literacy and *Amal Shalih* Transformation

Beyond conventional economic outcomes, the findings of this study reveal a deeper and more transformative role of Islamic financial literacy (IFL), namely its capacity to convert material resources into *amal shalih* a form of value laden economic behavior that integrates financial decision-making with ethical and spiritual objectives.(Anisah & Gucandra, 2025)

At a surface level, the empirical results indicate that households with higher IFL allocate a significantly larger proportion of PKH transfers toward productive expenditures such as education, healthcare, and micro-enterprise capital. However, a more critical reading of these findings suggests that this is not merely a shift in spending patterns, but a transformation in *decision-making logic*. High-IFL households do not simply spend differently; they *evaluate financial choices through a normative Islamic framework*, where economic actions are assessed in terms of both utility and moral consequence.(Anggi & Semaun, 2025)

This transformation can be analytically understood through three interrelated dimensions: *First, Cognitive–Normative Integration*, Islamic financial literacy embeds financial knowledge within a moral epistemology.(Suharti et al., 2025) Unlike conventional financial literacy, which emphasizes optimization under constraints, IFL introduces normative filters such as the prohibition of *riba*, the obligation of *zakat*, and the encouragement of risk-sharing. As a result, financial decisions are no longer purely instrumental but are guided by what can be termed “Shariah-compliant rationality.”

In this study, this is reflected in the strong tendency of high-IFL households to avoid *riba* based debt, even when such options may offer short-term liquidity advantages. This behavior suggests that IFL enhances not only knowledge but also *ethical restraint*, which is critical for long-term financial sustainability. Avoidance of exploitative debt structures reduces vulnerability to financial shocks, thereby indirectly reinforcing human capital investment capacity.

Second, From Consumption to Productive and Social Allocation, A key empirical distinction between high- and low-IFL households lies in the allocation of cash transfers.(Taufiqurahman, 2018) While low-IFL households tend to prioritize immediate consumption, high-IFL households exhibit a reallocation toward productive and socially beneficial uses.

Importantly, this reallocation is not limited to private returns (e.g., education spending), but extends to social redistribution mechanisms such as *zakat*, *infaq*, and participation in *qardhul hasan*. This indicates that IFL fosters a dual-orientation in financial behavior: *Inward investment* (human capital, resilience) and *Outward redistribution* (social solidarity, welfare enhancement). This dual-orientation aligns with the Islamic economic principle that wealth circulation (*tadawul al-mal*) should benefit both the individual and the broader community. Thus, *amal shalih* emerges not only as a personal virtue but as a socially embedded economic function.

Third, Behavioral Internalization and Habit Formation, Another critical insight from the findings is that IFL appears to facilitate the internalization of ethical financial habits. (Rahayu et al., 2024) High IFL households do not merely perform isolated acts of charity; rather, they demonstrate consistent patterns of behavior, such as regular ZIS contributions and sustained avoidance of non-Shariah compliant transactions. This suggests that IFL operates at the level of behavioral conditioning, where repeated exposure to Islamic financial principles whether through PKH facilitators, community interactions, or religious norms gradually shapes stable financial habits. In this sense, *amal shalih* is not episodic but becomes institutionalized within daily economic life.

One of the most significant contributions of this study lies in repositioning *amal shalih* from a purely theological concept into an empirically observable and measurable economic construct. The findings demonstrate that *amal shalih* can be operationalized through: Productive allocation of financial resources; Ethical financial choices (e.g., avoiding *riba*); and Participation in redistributive and community based financial practices.

This reconceptualization challenges the dominant paradigm in development economics, which tends to separate material welfare from moral or spiritual considerations. Instead, this study proposes that in Muslim-majority contexts, ethical capital and human capital are mutually reinforcing. (Nurrachmi et al., 2025)

While earlier analysis establishes IFL as a mediating variable, the findings in this section suggest a more profound role: IFL functions as a **transformative bridge** between: Economic input (cash transfers), and Value-based output (*amal shalih* and human capital development).

This implies that the effectiveness of social protection programs cannot be fully understood without considering the *moral economy* in which beneficiaries operate. Cash

transfers provide the means, but Islamic financial literacy provides the direction and purpose of those means. (Nurrachmi et al., 2025)

The policy implications of this expanded analysis are substantial. If Islamic financial literacy indeed transforms cash transfers into *amal shalih*, then social protection programs such as Program Keluarga Harapan should move beyond purely distributive approaches and incorporate structured Islamic financial education modules.

Such integration could include: Basic training on Shariah-compliant financial planning; Practical guidance on zakat calculation and allocation; and Community-based financial literacy programs linked to PKH group meetings. By doing so, policymakers can enhance not only the efficiency but also the moral and social impact of public spending.

In sum, the findings demonstrate that Islamic financial literacy is not merely an informational asset but a transformative capability that reshapes how financial resources are perceived, allocated, and valued. (Anisah & Gucandra, 2025) Through IFL, cash transfers are elevated from short-term consumption support to instruments of sustainable, ethical, and spiritually grounded development. This confirms that the transition “from cash transfers to *amal shalih*” is fundamentally a process of cognitive, behavioral, and moral transformation with Islamic financial literacy at its core.

Control Variables and Robustness Insights

The inclusion of control variables in this study provides a more nuanced understanding of the structural and socio-demographic factors that shape human capital development beyond the primary model. Rather than functioning merely as statistical adjustments, these variables offer important insights into the underlying mechanisms through which Islamic financial literacy (IFL) operates.

The education level of the household head emerges as a significant and positive predictor of human capital development ($\beta = 0.187$, $p < 0.01$). This finding reinforces the foundational role of formal education in shaping cognitive capacity, information processing, and long-term planning behavior.

However, when interpreted alongside the stronger effect of Islamic financial literacy ($\beta = 0.478$), a more important insight emerges: formal education and Islamic financial literacy are not substitutes, but complementary capabilities.

In the context of PKH beneficiaries where more than 75% of respondents have low educational attainment IFL appears to function as an adaptive knowledge system that

compensates for limited formal schooling. While formal education equips individuals with general cognitive skills, IFL provides context-specific, actionable knowledge directly related to financial decision-making within an Islamic framework.(Anisah & Gucandra, 2025)

This suggests that even in structurally disadvantaged populations, targeted literacy interventions can partially override educational deficits, enabling households to make more strategic investments in education and health. In other words, IFL acts as a functional equalizer, narrowing the gap in human capital outcomes between low- and relatively higher-educated households.

The number of school-aged children also shows a positive and statistically significant effect on human capital development ($\beta = 0.142$, $p < 0.05$). At first glance, this may appear counterintuitive, as larger dependency ratios are often associated with resource constraints. However, within the PKH framework, this finding reflects a conditional incentive structure: households with more school-aged children face stronger program requirements and thus have greater exposure to education-related conditionalities. This creates what can be termed demand-side pressure for human capital investment.(Ramadhani, 2024)

More importantly, when combined with Islamic financial literacy, this pressure appears to be transformed into intentional and structured investment behavior. High-IFL households are better able to prioritize expenditures, allocate resources efficiently, and avoid financially detrimental choices, thereby converting demographic pressure into productive outcomes.(Andriani, 2025) Thus, the effect of the number of school-aged children is not merely quantitative but interactional its positive impact is amplified when accompanied by higher levels of financial literacy.

The analysis reveals that gender of the household head does not have a statistically significant direct effect on human capital development. This finding challenges a common assumption in social policy design that gender targeting particularly toward women is sufficient to ensure better welfare outcomes. While female-headed households in this study exhibit slightly higher levels of Islamic financial literacy ($\beta = 0.089$, $p = 0.067$), the absence of a significant direct effect suggests that gender alone does not automatically translate into improved economic decision-making.

Instead, the findings point to a more critical mechanism: capability formation through literacy. Female recipients may have greater exposure to PKH program activities and social interactions, which can enhance their IFL. However, it is this literacy that ultimately drives improved allocation of resources.

This shifts the policy narrative from *who receives* to *what capabilities are developed*. In this context, gender-sensitive approaches remain important, but their effectiveness depends on whether they are accompanied by meaningful knowledge transfer and behavioral transformation.

One of the most striking findings is that provincial location does not have a statistically significant effect on human capital development after controlling for other variables. This is particularly noteworthy given the initial assumption that regions differ substantially in terms of Islamic financial infrastructure, ZIS intensity, and socio-economic conditions.

The absence of significant regional effects suggests that Islamic financial literacy operates as a cognitive equalizer across geographically diverse contexts.(Najib, 2024) Regardless of structural differences between provinces, households with higher IFL demonstrate similar patterns of behavior in allocating resources toward human capital development.

This indicates that behavioral and cognitive factors may be more decisive than structural environment in determining outcomes. While infrastructure and institutional support remain important, their impact is mediated by the extent to which individuals understand and utilize available resources.(Bock et al., 2005)

In practical terms, this enhances the external validity and generalizability of the study's findings. The mediating role of Islamic financial literacy is not context-specific but appears to function consistently across different regional settings.(Muhammad Zeeshan Ashraf Malik & Muhammad Khalid Sohail, 2025)

Taken together, the control variable analysis strengthens the central argument of this study in three key ways:

First, Reinforcing the centrality of Islamic financial literacy, Even after accounting for education, household structure, gender, and regional differences, IFL remains the most influential predictor of human capital development. This confirms that the main findings are not spurious but robust.

Second, Revealing interaction effects rather than isolated influences, Variables such as education and number of children do not operate independently but interact with IFL. Their effects are significantly enhanced when households possess higher levels of Islamic financial literacy.

Third, Shifting the focus from structural constraints to transformative capability, While traditional development approaches emphasize structural determinants (education, geography, demographics), this study highlights the importance of transformative knowledge systems in this case, Islamic financial literacy as a driver of behavioral change.

Analytical Conclusion of This Section, The extended analysis of control variables demonstrates that human capital development among PKH beneficiaries is not solely determined by structural or demographic factors. Instead, it is shaped by the interaction between these factors and a key enabling capability Islamic financial literacy.

In this sense, Islamic financial literacy functions not only as a mediator but as a central organizing mechanism that aligns household characteristics, program incentives, and financial behavior toward productive and ethically grounded outcomes.(Isa et al., 2024)

Synthesis of Findings

Taken together, the findings of this study do more than confirm the effectiveness of conditional cash transfers; they reconfigure the analytical lens through which such programs should be understood. While participation in the Program Keluarga Harapan (PKH) provides an essential financial stimulus, the empirical evidence clearly demonstrates that financial input alone is insufficient to generate meaningful and sustained human capital development. Instead, the effectiveness of cash transfers is fundamentally contingent upon the presence of a transformative intermediary Islamic financial literacy (IFL).

At a deeper level, the study reveals a two-stage transformation mechanism: *First*, resource activation stage, cash transfers function as enabling resources that relax immediate financial constraints, allowing households to access basic education and health services. This corresponds to the traditional logic of CCT programs. *Second*, behavioral transformation stage, Islamic financial literacy converts these resources into purpose-driven economic actions, guiding households toward strategic, ethical, and future-oriented decision-making.

The critical contribution of this study lies in empirically demonstrating that the second stage is not automatic. Without Islamic financial literacy, cash transfers tend to remain consumption-smoothing instruments; with it, they become development-generating capital.(Yamout, 2014)

The findings also challenge the dominant paradigm of poverty alleviation, which often focuses narrowly on income and consumption metrics. This study shows that in a

Muslim-majority context, development cannot be fully understood without incorporating value-based behavioral dimensions.

One of the strongest contributions of this study is methodological: it translates abstract Islamic concepts into empirically measurable variables. Specifically, *amal shalih* often treated as a purely theological construct is operationalized through observable financial behaviors.

This allows the study to: Bridge the gap between normative Islamic teachings and empirical social science; Provide quantifiable evidence of value-based economic transformation; and Expand the scope of development indicators beyond conventional metrics.

In its entirety, this study demonstrates that the journey “from cash transfers to *amal shalih*” is not a simple economic progression, but a multidimensional transformation process involving resources, knowledge, behavior, and values. Thus, the ultimate contribution of this research is to show that sustainable human capital development in Muslim-majority contexts requires not only financial inclusion, but also moral-intellectual empowerment.

CONCLUSION

This study demonstrates that while participation in the Program Keluarga Harapan (PKH) has a positive effect on human capital development, its impact remains limited when operating in isolation. The findings clearly show that cash transfers alone are insufficient to generate sustainable improvements in education, health, and economic resilience. Instead, Islamic financial literacy (IFL) emerges as the key mechanism that enhances the effectiveness of social assistance by shaping how beneficiaries allocate and utilize financial resources.

Theoretically, this study advances the literature by integrating human capital theory with behavioral and normative dimensions rooted in Islamic economics. It conceptualizes Islamic financial literacy as a dual-capability system combining cognitive knowledge and ethical orientation and empirically establishes *amal shalih* as a measurable outcome of financial behavior. This represents a novel contribution by bridging the gap between abstract Islamic values and observable development indicators, thereby expanding the analytical scope of poverty alleviation studies.

Empirically, the study reveals that more than half of the total effect of PKH on human capital development is mediated through Islamic financial literacy. Furthermore, households with higher IFL not only invest more productively in education and health but

also demonstrate stronger engagement in ethical financial practices, including zakat contributions, avoidance of *riba* based debt, and participation in socially oriented economic activities. These findings confirm that the transformation “from cash transfers to *amal shalih*” is both real and measurable.

From a policy perspective, the results suggest that social protection programs should move beyond transfer-based approaches toward capability-enhancing strategies. Integrating Islamic financial literacy into programs such as Program Keluarga Harapan can significantly improve their long-term impact by fostering not only economic resilience but also value-based financial behavior.

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