

## Community Leaders' Financial Literacy Towards Sustainable Community in Malaysia

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**Abstract:** In the fast-paced world of the 21st century, where economic landscapes evolve rapidly, financial literacy has become vital for leaders across all sectors. It equips them to navigate complex financial environments, make informed decisions, and adapt to economic shifts that directly impact their organizations and communities. In Malaysia, the government has formed the Community Leaders under the rural development program for village development. As a result of that, the Ministry of Rural and Regional Development has allocated resources to assist community programs. Therefore, these community leaders should be equipped with financial literacy to ensure that the financial resources are managed efficiently and effectively. Financial literacy is one of the most important requisites to financial well-being. It is also described as the measurement of how well an individual can understand and use information related to finance to make decisions. The objective of this study is to examine the needs of the Financial Literacy Model for community leaders. Further, it will also determine the components to be included in the development of the Financial Literacy Model for enhancing the public financial management system among community leaders. A mixed method research design, which combined qualitative (focused group interviews on selected community leaders) and quantitative (questionnaires) data will be employed in this research. Data analysis in qualitative research focuses on the process of systematically searching and arranging the interview transcripts. Interview sessions are crucial for gaining a thorough understanding of financial knowledge and skills among leaders. The research is anticipated to assist policymakers, community leaders, and the government in improving sustainable community development.

**Keywords:** *Community Leaders, Financial Literacy, Sustainable Community*

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### 1. Introduction

Community leaders play a crucial role in Malaysia's social and cultural fabric, especially in a diverse country with multiple ethnic, religious and linguistic groups. The Ministry of Rural and Regional Development (KPLB) has developed and launched the Rural Development Policy (DPLB) 2030 with 10 thrust objectives, 33 policy statements and 88 strategies that will benefit 7.8 million rural residents, including 96,752 persons who have been appointed as Village Community Leaders. In Malaysia, the formation of Community Leaders under the rural development program is a key strategy in ensuring that local voices are represented and that development projects are more effectively managed. These leaders act as a bridge between the government and the village communities, helping to implement policies and projects and also advocating for the needs of their people. This decentralized approach to development allows for more sustainable growth enhances community ownership fosters long-term political and economic stability in rural areas.

In line with this approach, the Ministry of Rural Development (KPLB) receives an allocation of RM10.93 billion in Budget 2023. Its minister, Datuk Seri Mahdzir Khalid said, the increase in allocations by four percent or almost RM424.9 million compared to 2022 shows the government's commitment to implementing the agenda of people's well-being in rural areas. The grants are for programs that generate income and promote economic activities in villages as well as the happiness and well-being of villages. This participatory approach to development planning at a village level seems to provide a new tool to encourage and empower community leaders in the planning and management of the village economic activities and projects at the grassroots level to be carried out towards achieving sustainable community economic well-being.

Based on the OECD International Survey of adult financial literacy in 2020, Malaysia's financial literacy scored 59.7%. Based on this survey, although Malaysians are showing healthy money management for instance

budgeting and living within means, we are still lagging in terms of product knowledge, financial numeracy and planning for long-term goals. In Malaysia, there is no specific survey conducted on the financial literacy of leaders. This is very crucial since good financial literacy empowers leaders to make informed decisions. Therefore, financial literacy is a critical leadership competency that drives informed decision-making, effective stakeholder communication, and ethical governance.

A robust system of public financial management is needed to successfully achieve goals through policy implementation and reach desired results. If a leader lacks financial expertise, it can lead to making bad financial choices, which could result in a significant decrease in economic growth. Hence, to boost economic development in rural areas, we suggested a financial literacy model as a means to improve financial understanding and planning for community leaders.

Financial literacy has become one of the significant elements in the twenty-first century. Fernando (2020) defines financial literacy as an understanding and application of a variety of financial abilities, such as personal financial management, budgeting, and investing. The absence of these abilities is called financial illiteracy. Financial literacy is also described as the measurement of how well an individual can understand and use information related to finance to make decisions.

However, financial literacy is not widely practiced by community leaders for village economic performance in Malaysia (Rashid et al., 2019). Financial literacy is considered a critical factor in an individual's or leader's capacity to effectively handle finances (Ali et al., 2013; Rashid et al., 2019). A good understanding of finances can assist the leader in properly using financial resources, which will boost the government's potential to provide more services to the community. As a result, a holistic financial literacy model is likely to be one of the solutions for strategizing and implementing the village's development transformation strategy, as there is no precise model for how financial literacy might contribute to long-term community economic wellbeing.

### **Research Questions**

- Why Financial Literacy Model is important for community leaders in public finance?
- What are the components to be included in the development of the Financial Literacy Model for community leaders in Malaysia?

### **Research Objectives**

- To examine the needs of the Financial Literacy Model for community leaders.
- To determine the components to be included in the development of the Financial Literacy Model for enhancing the public financial management system among community leaders.

## **2. Literature Review**

### **Sustainable Community Economic Well Being**

Rural areas and their populations play a crucial role in maintaining a nation's political and economic security. In nations like Malaysia that have growing economies, the rural populace makes up most of the people (Rashid et al., 2019). The Ministry of Rural and Regional Development and other government agencies have increased funding for projects in villages, especially for economic activities (Ministry of Rural Development, 2019). The government's initiatives in village-level development planning empower and motivate villagers to plan and execute projects based on their requirements and goals. Therefore, the government had formed the Community Leaders under the rural development program.

Community Leaders appointed by the State Government consisted of the Chairman, Secretary and committee leaders who work voluntarily for the village development. The selection and exchange of Community Leaders would remain the responsibility of state governments, while the ministry would monitor management procedures and regulations. Community Leaders as agents of development at the grassroots level, act as liaisons between the village community and government agencies. Community Leader's main functions (Ministry of Rural Development, 2019); (1) to strategize and implement a development transformation plan for the village with the involvement of the local community, (2) to implement a comprehensive human capital transformation to produce a united and progressive community as well as to support government's policies. The village's

development, poverty reduction, and economic growth require community leaders who are committed, dedicated, knowledgeable, skillful, and optimistic (Rashid et al., 2019). Coordinating community development initiatives that support sustainable economic well-being is vital and offers significant benefits.

### **Definition and Characteristics of Financial Literacy**

Financial literacy is crucial for promoting the long-term growth of both individuals and society. According to Bryant (2013), individuals with strong financial skills are better equipped to make informed decisions, leading to a more stable financial system. Furthermore, Rahmandoust et al. (2011) emphasize the importance of financial literacy for leaders, noting that financially literate leaders are better positioned to make sustainable decisions that can benefit society in the long run.

Improving financial literacy can lead to more prudent financial behaviors, increased savings, and reduced debt levels, ultimately contributing to a more resilient economy. Empowering individuals with financial knowledge encourages responsibility and fosters sustainable economic practices that align with long-term societal goals. Financial literacy is a broad term that refers to the capacity to use knowledge and skills to properly manage financial resources (Hastings, Madrian & Skimmyhorn, 2012). Financial literacy is defined by the Organization for Economic Cooperation and Development's International Network on Financial Education (OECD/INFE) as the combination of awareness, knowledge, skill, attitude, and behavior required to make sound financial decisions and ultimately achieve individual financial well-being (OECD/INFE, 2011; OECD, 2013).

According to Delavende, Rohwedder and Willis (2008), the dimension of financial literacy is a type of human capital that influences the ability to efficiently manage revenue, expenses, and savings. Meanwhile, Orton (2007) defined financial literacy as three dimensions: (i) financial knowledge and understanding, (ii) financial skills and competence, and (iii) financial accountability. Financial literacy has been defined variously in several research, with different methods and frameworks used to study it.

### **Holistic Financial Literacy Model and Community Leaders in Public Finance**

Financial literacy can aid with complexity and have a favorable effect on economic capability (Taft, Hosein & Mehrizi, 2013). According to Houston (2010), financial literacy has an additional application dimension, which means that an individual must be able and confident in using his or her financial knowledge to make wise financial decisions (Ali, Rahman & Bakar, 2013). Financial literacy is an important factor in understanding finances and making sound financial decisions. It has an impact on the quality of one's financial life as well as the ability to make sound decisions.

Notably, those with high financial literacy are more likely to engage in financial planning (Tan, Hoe & Hung, 2011). As a result, improving financial literacy in public finance is critical for improving community economic well-being through better financial decision-making by community leaders. Having adequate financial knowledge and abilities resulted in suitable and informed judgments (Hilgert, Hogarth & Beverley, 2003), which are critical not only for individuals but also for community management. As a result, increased dependence on community leaders' financial literacy in public finance can free up resources, allowing the Ministry of Rural Growth (KPLB) to provide more financial assistance to achieve long-term economic growth in village areas.

As a result, financial literacy is crucial since it affects both individuals and society. This is because financial literacy has an impact on everything from day-to-day to long-term financial decisions, with far-reaching consequences for individuals and society alike. Low levels of financial literacy across countries are linked to inefficient spending, poor financial planning, and expensive borrowing and debt management (Lusardi et al, 2017). Furthermore, it has been noted that financial literacy can improve people's skills and ability to make better-informed decisions, resulting in beneficial financial behaviors. As a result, it may be stated that increasing financial literacy promotes prudent economic behavior.

Though many community leaders possess good skills and knowledge in their respective fields, a lack of financial literacy can pose significant challenges. Thus, current education and skill development in financial literacy must be a priority for someone aspiring to lead successfully in the current competitive business landscape. Hence, financial literacy is vital for community leaders since they carry the accountability of making financial decisions that meaningfully affect the entire public finances. Community leaders must have a comprehensive knowledge

and understanding of financial literacy to direct the community strategically, set realistic visions and goals, allocate sufficient resources efficiently and make sound decisions in tandem with the financial well-being and long-term objectives.

### **3. Research Methodology**

This study focuses on selected community leaders from Melaka's rural districts. The rationale for selecting rural areas as a sample location in this study was that the Rural Development Ministry approved an RM1.5 million grant to the Community Management Councils to allow community programs at the grassroots level to be carried out in their areas. Community leaders in local communities frequently organize welfare programs, such as food distributions, educational support, and healthcare initiatives. They also mobilize resources during times of need, like natural disasters, ensuring that help reaches the most vulnerable populations quickly and efficiently. As a result, community leaders should be financially literate because they have a significant influence over their communities' well-being. Financial literacy will provide them with the knowledge and skills necessary to manage, guide, and support community members as well as the development of local initiatives. This study will use an exploratory sequential mixed-method research design with both qualitative (interviews) and quantitative (questionnaires) data. The data collection method then continues with targeted group interviews with selected community leaders, including MPKK leaders and Community Representatives in rural regions, to explore related concerns.

The interviews will be recorded and transcribed, with theme analysis employed to compare current practices with expected outcomes. This analysis will help identify gaps and opportunities in the financial literacy model. Upon completing this phase, the research will move forward to data analysis, where the collected data will be evaluated using Structural Equation Modelling (SEM) with AMOS.

The results from this analysis will be examined to determine their broader implications and suggestions for improvement will be outlined. Finally, the study will conclude with recommendations for improving the financial literacy model based on the research findings. These proposals are designed to give useful insights to policymakers, government officials, and community leaders interested in achieving financial sustainability.

### **4. Contribution and Conclusion**

This paper will contribute theoretical and practical contributions to the topic of financial literacy in Malaysia. Firstly, the community leaders' financial literacy model will improve the public financial management system among them. Community leaders lacking adequate financial literacy skills and knowledge may face significant difficulties and challenges in efficiently handling the public finances. It will result in poor financial decision-making, poor resource distribution, high financial risk and complications with stakeholders, thus affecting the stability and reputation of the public financial management system. Therefore, by applying sound financial practices, they can improve governance, empower communities, and foster trust in public institutions, leading to better outcomes for all.

Secondly, the proposed financial literacy model will assist the government in implementing proper initiatives aimed at fostering growth through targeted financial policies and schemes. By enhancing the financial knowledge and skills of community leaders, this model allows the government to tailor its programs more effectively, ensuring that financial aid and policies directly support sustainable economic development and poverty alleviation.

### **Conclusion**

A Financial Literacy Model is crucial for community leaders in public finance due to the significant role they play in managing public resources and making financial decisions that directly impact their communities. Strong financial literacy will assist the leader in establishing a vision, communicating effectively, making educated judgments, and increasing their reliability.

Therefore, it is encouraging all community leaders to invest in enhancing their financial literacy skills and knowledge in achieving sustainable economic development in society. This is because community leaders often serve as a vital link between the government and the public.

Furthermore, financial literacy promotes sustainability by equipping leaders with the knowledge to plan long-term budgets, avoid debt traps and ensure that community projects are financially viable in the long run. It also enables leaders to drive economic growth by making informed financial decisions that boost local economies, support entrepreneurship and encourage investments in community development. Thus, community leaders with financial literacy will contribute significantly to building sustainable communities by promoting responsible resource management, economic resilience and long-term planning.

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