THE INFLUENCE OF SHARIA FINANCIAL LITERACY AND SHARIA FINANCIAL INCLUSION ON THE PERFORMANCE OF UMKM IN MOJOGEDANG DISTRICT

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Abstract

MSMEs are very important in supporting economic stability, especially in Mojogedang District. However, inadequate financial planning, difficulty in obtaining capital from financial institutions, and lack of understanding of business finance are challenges that often hinder the performance of MSMEs. Improving knowledge of Islamic finance and Islamic financial inclusion is an important step to solve this problem. The purpose of this study was to determine the performance of micro, small and medium enterprises (MSMEs) in Mojogedang District in terms of Islamic financial literacy and inclusion. One hundred people were selected using purposive sampling technique to participate in the survey, making it quantitative and using associative methodology. The questionnaire served as the main data source, and multiple linear regression was used for analysis. The study findings indicate that MSME Performance in Mojogedang District is significantly influenced by the partial and simultaneous effects of Islamic financial literacy and inclusion.

Keyword: *Islamic Financial Literacy, Islamic Financial Inclusion, MSME Performance*

A. INTRODUCTION

Supporting the stability of the national economy, the growth of MSMEs in Indonesia has been a resounding success. There were about 66 million MSME business players in Indonesia in 2023, according to statistics on Indonesian MSMEs. The staggering potential of this sector is shown by this number. In addition, MSMEs produce 61% of Indonesia's GDP, or around Rp. 9,580 trillion, and employ almost 117 million people across the nation (Kadin Indonesia 2024). Proof that MSMEs—small, medium, and large-sized businesses—are vital to Indonesia's economic growth.

The great contribution of MSMEs can continue if the government and all stakeholders carry out their roles according to their respective duties and authorities in developing MSMEs. The government can support by providing training, providing access to capital, developing infrastructure that supports MSME growth, and providing technical assistance and business management (Suhendar, Kusumah, and Salidja 2022). This happens in various regions in Indonesia.

The potential of MSMEs has also begun to grow in Mojogedang District. Various processed food businesses such as chips and businesses such as mobile vegetables, used goods collectors, grocery stores and others have begun to develop. A good example of a small-scale firm that fits within the category of small and medium-sized companies would be food and drink sellers that set up shop near the plant.

When it comes to micro, small, and medium-sized businesses (MSMEs), having the right financial management abilities is as crucial as having entrepreneurial courage and imagination (Kusuma, Narulitasari, and Nurohman 2022). There would be a decline in MSME performance if proper finance management is not implemented. Regardless of the quality of its goods, a company may face challenges including ineffective management of cash flow, a lack of clarity on firm finances, and a lack of confidence when it comes to investment and development choices. Effective financial management is very important to maintain stability, sustainability, and open up growth opportunities for MSMEs.

Although MSMEs in Mojogedang District have developed quite well, many of them still face difficulties, and some businesses have even been forced to close. This is due to improper financial planning, difficulty in obtaining capital from financial institutions, and a lack of understanding of business finance. As a result, MSMEs cannot meet operational needs, pay employee salaries, and experience an imbalance between income and expenses. They also face problems with debt that is not managed properly and do not have reserves to anticipate possible bad risks.

This lack of capital is a challenge that must be faced by MSMEs in increasing their businesses, both in terms of quantity and sources (Kurniawan 2016). If they do not have enough money, small and medium-sized businesses (SMEs) can not innovate and survive in a competitive market. The government could feel forced to provide financial aid as a result of this. According to data compiled by the OJK, Indonesia's sharia financial assets increased from 2,50.44 trillion IDR in 2020 to 2,375.84 trillion IDR in 2022. Thirteen commercial banks and twenty Islamic business units were among the 137 Islamic financial institutions that helped drive this growth; together, they accounted for 66.30 percent of total assets, 31.19% of business units, and 2.51% of BPRS (OJK 2022).

Islamic financial institutions are also developing in Central Java Province. According to Central Java BPS data in 2021 there were 36 Islamic banks, namely 10 Islamic Commercial Banks and 26 Islamic Rural Credit Banks. Then, research from BPS Karanganyar shows that Islamic banks, cooperatives, and financial organizations like Baitul Maal wa Tamwil (BMT) are all present and accounted for in Mojogedang District. According to BPS data, Mojogedang District has 3 Financial Institutions, namely BRI, PD. BKK, Islamic Institutions, and 19 cooperative units.

Islamic financial institutions such as Baitul Maal wa Tamwil (BMT) and Islamic cooperatives have not been fully used by MSME operators in this area, especially in Mojogedang District. Consequently, a lot of people have a hazy grasp of the financing processes and the ins and outs of selecting the appropriate products from Islamic financial institutions, both of which significantly affect the success and expansion of their businesses (Prasetyo, Supriyanto, and Sukardi 2020). Obtaining funding might be challenging for those who do not have a good grasp of financial literacy and inclusion.

The speed with which a person's company grows is supposedly related to how well they can identify and get access to financial institutions, according to many studies (Aribawa 2016). It is critical for MSME actors to have a strong understanding of Islamic financial literacy and inclusion due to the challenges faced by MSMEs in Mojogedang District. Additionally, it is important to increase access to financial resources by establishing systems that promote financial literacy (OJK 2016). The financial stability of MSMEs is a key factor in determining their success or failure.

Both financial inclusion and financial literacy are fascinating issues for investigation because of the tight association between the two. The findings of the 2022 Indonesian National Financial Literacy Survey (SNLKI), which was performed by the OJK, indicate a favorable correlation between financial literacy and the use of various financial goods and services. It follows that increased access to a wide range of services and products is associated with higher levels of financial literacy (OJK 2022). Micro, small, and medium-sized companies (MSME) are influenced by the management of finances, which is influenced by financial inclusion and financial literacy (Septiani and Wuryani 2020). Financial inclusion and literacy initiatives may help small and medium-sized businesses (SMBs) reduce the risks connected with management and decision-making.

B. LITERATURE REVIEW

MSME Performance

Performance is the end result of an individual's or team's efforts over a given time period to accomplish the objectives established by the organization in relation to their responsibilities and authority (Mutegi, Njeru, and Ongesa 2015). Performance is the end result of an individual's or team's efforts over a given time period to accomplish the objectives established by the organization in relation to their responsibilities and authority.

Sharia Financial Literacy

According to (Nesneri et al. 2023) Being able to manage one's own finances in line with Islamic principles and make sound financial judgments in certain contexts is what we mean when we talk about Islamic financial literacy.

Research by (Wulandari 2023) provides credence to the idea that understanding Islamic financing improves the performance of MSME banks. Having the ability to understand, assess, and manage finances is crucial for making sound financial decisions that contribute to the growth of MSME performance. Based on the reviewed literature on Islamic financial literacy, we can say the following:

Hypothesis 1: Sharia Financial Literacy has a positive effect on the performance of MSMEs in Mojogedang District.

Islamic Financial Inclusion

Increasing people's access to Islamically-based financial institutions that uphold Islamic principles—including the ban on usury (interest)—is at the heart of Islamic financial inclusion. investment in halal businesses, and sharing risks between the parties involved. Thus, the public can manage their finances in accordance with Islamic rules (Nurul Fauziah 2023).

Research by (Yadi et al. 2022) proves that the integration of Islamic financial practices has a beneficial effect on the performance of MSMEs sponsored by the Cemba Village Government in Enrekang Regency. Businesses have a better chance of succeeding when people can quickly get their hands on the products and services offered by Islamic banks. Here are some theories that may be developed from a literature study on Islamic financial inclusion:

Hypothesis 2: Sharia Financial Inclusion has a positive effect on MSME Performance in Mojogedang District.

C. METHOD

The researchers in this study used a quantitative strategy based on associations. We don't know how many people in Mojogedang District work as MSME players, but we do know that they have transacted with Islamic banking institutions. One hundred respondents were used to determine the sample using the Lemeshow formula (1997). This research used a sample method called purposive sampling. Primary and secondary data were both used in this investigation. In order to compile their data, the researchers in this study had participants complete out written questionnaires (Nempung, Setiyaningsih, and Syamsiah 2015). For the assessment, a Likert scale with five points was used. This research made use of SPSS version 23's multiple linear regression analysis approach to analyze its data.

D. RESULTS AND DISCUSSION

1. Results

The study's high accuracy and the questionnaire's legitimate measuring function are confirmed by tests of reliability, validity, and conformity with classical assumptions. Additionally, the questionnaire is trustworthy and does not run into problems with conventional assumptions, such as tests for heteroscedasticity, multicollinearity, or normality. The following regression outcomes are produced after SPSS data processing:

Model Accuracy Test
F Test (Simultaneous)

Table 1. Simultaneous Significance Test Results (Statistical Test F)
ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	269.982	2	134.991	68.295	.000[b]
	Residual	191.728	97	1.977		
	Total	461.710	99			

a. Dependent Variable: MSME Performance

b. Predictors: (Constant), Islamic Financial Inclusion, Islamic Financial Literacy

The F table value of 3.09 is determined by the size of the accompanying numbers in the table (α = 0.05; dfn1 = 2: dfn2 = 97). We can see that the computed f-value is 68.295 from the f-test results, which is more than the f-table value of 3.09, and the significance level is 0.000, which is less than the significance threshold (α = 0.05). There is no doubt that the success of small and medium-sized enterprises (SMEs) in Mojogedang District is affected by the accessibility and level of knowledge about Islamic finance. Islamic financial inclusion and Islamic financial literacy are two distinct but related factors that impact the performance of micro, small, and medium-sized enterprises (MSMEs), as this result shows.

Determination Coefficient Test (R^2)

Tabel 2. Determination Coefficient Test Results (R^2)
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.765[a]	.585	.576	1.406

a. Predictors: (Constant), Islamic Financial Inclusion, Islamic Financial Literacy

The results of the summary model test (R2) are shown by the computed R2 value (0.576, or 57.6% of the total). Thus, Islamic financial inclusion and Islamic financial literacy both have an impact on MSME performance, although a rather small one (57.6%). The remaining 42.4%, or 1 minus 57.6%, are affected by factors that are not included in this model. Since the modified R2 is around one, this data suggests that the independent factors collectively explain the dependent variable.

Hypothesis Testing
T-Test (Partial)

Table 3. Significance Results of Individual Parameters (Statistical Test t)
Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4,528	1,863		2,431	.017
	Sharia Financial Literacy	.420	.059	.598	7.166	.000
	Islamic Financial Inclusion	.195	.070	.232	2,783	.006

a. Dependent Variable: MSME Performance

The following analysis and conclusions may be drawn from Table 3 of the T-test results:

1. At the 0.05 level of significance, with 60 samples (N), 2 independent variables (K), and NK = 100-2 = 98, the table will provide a value of 1.98447;
   a. With a computed value for Islamic financial literacy (X1) that is more than the t-table value (7.166> 1.98447) and a significant level below 0.05 (0.000<0.05), the statistics in the table support the acceptance of H1. It follows that X1—Islamic financial literacy—may have an effect on Y—the performance—of MSMEs.
   b. With a significant criterion below 0.05 (0.006 < 0.05) and an estimated t value for the Islamic financial inclusion variable (X2) greater than the t table value (2.783 > 1.98447), H2 may be accepted. So, contrary to expectations, Islamic financial inclusion (X2) has a less impact on MSMEs' performance.
2. Interpretation of the multiple linear regression equation:
   Y = 4.528 + 0.420 X1 + 0.195 X2
   The following may be deduced from this equation:
   1. The average performance of MSMEs in the absence of independent factors is 4.528, as shown by the constant value of 4.528.
   2. With a regression coefficient of 0.420 for Islamic financial literacy, we can see that it positively affects the performance of MSMEs. Assuming all other factors remain constant, a one-point improvement in Islamic financial literacy will lead to a 0.420 point improvement in MSME performance.

3. Assuming all other factors stay the same, a one-point rise in Islamic financial inclusion would lead to a 0.195-point improvement in MSME performance, according to the regression coefficient of 0.195.

2. Discussion

The Influence of Islamic Financial Literacy (X1) on MSME Performance

Since the computed t-value (7.166> 1.98447) surpasses the t-table value and the significance threshold is less than 0.05 (0.000 <0.05), the findings of the partial regression analysis support H1. It follows that X1—Islamic financial literacy—may have an effect on Y—the performance—of MSMEs. For the attribute of Islamic financial expertise, the partial regression coefficient (B) is 0.420. Therefore, there would be a 0.420 increase in MSMEs' performance if Islamic finance literacy is enhanced. Consequently, Islamic financial knowledge has a good effect on the output of MSMEs in Mojogedang District.

Research conducted in Mojogedang District indicates that micro, small, and medium-sized enterprises (MSMEs) benefit greatly from programs that educate individuals on effective money management. This is in line with the findings (Wulandari 2023) Studies show that knowing one's financials allows one to better comprehend, evaluate, and handle one's financials, which in turn allows one to make sound financial choices while building their firm.

In order for MSMEs to increase their business growth, the main thing that needs to be done is to improve their financial attitudes and behavior. Especially if these attitudes and behaviors are based on sharia values, the impact will be very significant on business growth and customer trust. According to (Arodhiskara et al. 2022)MSME managers often face various problems and obstacles that hinder the development of their businesses. There are two main types of these challenges: monetary and otherwise. Capital and other issues pertaining to money are examples of financial hurdles. Many MSMEs have not been able to implement financial management effectively.

Research conducted by (Jumady et al. 2022) said that the level of financial awareness among the society, particularly with regard to sharia issues, greatly influences the success of businesses. Customers' trust may be enhanced, leading to company success, by placing an emphasis on what is and isn't acceptable conduct.

The Influence of Islamic Financial Inclusion (X2) on MSME Performance

The validity of H2 may be deduced since the t-count value is more than the t-table value (2.783> 1.98447) and the significance level is less than 0.05 (0.006<0.05). So, contrary to expectations, Islamic financial inclusion (X2) has a less impact on MSMEs' performance. Improving Islamic financial inclusion will lead to a 0.195 increase in the performance of MSMEs, as shown by the variable's B (partial regression coefficient value) of 0.195. Islamic Financial Inclusion positively impacts the performance of MSME in Mojogedang District, so it is fair to state.

Consistent with prior research and theoretical frameworks, particularly those put out by (Yadi et al. 2022). They explained that the public needs to improve their understanding of financial institutions, especially those based on sharia. The high interest of the public in using the products offered by these institutions, especially among MSMEs, shows the importance of the benefits and advantages of sharia financial products.

According to (Iko Putri Yanti 2019) Islamic financial inclusion refers to an all-encompassing field of research that aims to remove obstacles to people using the services offered by financial institutions. Making a variety of community amenities easily accessible is the primary goal of this financial inclusion.

Research conducted by (Sanistasya, Raharjo, and Iqbal 2019) demonstrates that expanding access to financial services may fuel company expansion. The fact that financial inclusion allows MSME actors to access services that help them manage their companies is evidence of this. This, in turn, leads to growth in sales, capital, employment, and profits.

E. CONCLUSIONS

Consistent with the findings from the previous discussion, the estimated t value> t table (7.166> 1.98447) and a significance level of <0.05 (0.000 <0.05) suggest that Islamic financial literacy has a positive and substantial effect on the performance of MSMEs. When it comes to the performance variable, micro, small, and medium-sized companies (MSME) benefit greatly from the inclusion of Islamic financial institutions. The fact that the computed t-value is more than the t-table value (2.783> 1.98447) and that the significance level is less than 0.05 (0.006<0.05) demonstrates this. However, Islamic financial inclusion and Islamic financial literacy both have an impact on the MSME performance variable. The fact that the

Fcount value is more than the Ftable value (68.295> 3.09) and the significance level is lower than 0.05 (0.000 <0.05) demonstrates this.

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