



Gold Door For Increasing MSMEs Income: The Role Of Sharia Financial Literacy

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Abstract— The low performance of MSMEs in Indonesia is often attributed to their limited access to capital, which, in turn, stems from a lack of financial knowledge and understanding concerning MSMEs and their dealings with financial institutions. Despite Indonesia's predominantly Muslim population, Islamic finance, which operates in accordance with Islamic law, has struggled to gain a significant market share in the country. This research primarily aims to gauge the level of Sharia financial literacy among MSMEs, with a particular focus on street vendors in the vicinity of the Anas Machfud Grand Mosque in Lumajang. Additionally, the study endeavors to identify the factors influencing Sharia financial literacy and evaluate their impact on the growth of local MSMEs. The research methodology involves both descriptive and explanatory surveys conducted among 31 MSMEs participants. Descriptive analysis is utilized to scrutinize the gathered data, while a simple regression test is employed to discern relationships among the variables studied. The research findings underscore the positive correlation between enhanced knowledge of Sharia financial literacy and increased income for MSMEs situated near the Anas Machfud Lumajang Grand Mosque. These results affirm the pivotal role of financial literacy in propelling the development of MSMEs, particularly in this specific area.

Keywords—*Sharia Financial Literacy, Increased Income, MSMEs*

I. INTRODUCTION

The development of Micro, Small and Medium Enterprises (MSMEs) has a very important role in a country's economic growth. MSMEs are often the backbone of the economy, creating jobs and generating income for the community. In this context, Islamic financial literacy emerges as a key factor that can bring significant changes in the financial performance and growth of MSMEs. This background will explain the influence of sharia financial literacy on increasing MSMEs income and its relevance in the context of a sharia-based economy.[1].

Sharia-Based Economic Growth. In recent years, Islamic financial principles have become a major focus in the rapidly developing Islamic economy. These principles include the prohibition of *riba* (usury), fairness in transactions, and a prohibition against investment in businesses that are incompatible with Islamic values such as

alcohol and gambling. In the context of a sharia-based economy, MSMEs that understand sharia financial literacy will be better able to follow these principles in their operations, which in turn can increase customer trust and access to wider markets[2].

Increased Access to Sharia Financing. MSMEs often face challenges in accessing financing for their business growth. Sharia financial literacy can help MSMEs understand the sharia financing products available, such as *mudharabah*, *musyarakah* and *murabahah*. With a better understanding of these products, MSMEs can more effectively apply for loans or financing to expand their business, purchase additional inventory, or develop new products[3].

Better financial management is an important aspect of sharia financial literacy. MSMEs who have this understanding are able to plan budgets more carefully, manage debt more efficiently, and avoid the practice of *usury* which is prohibited in Islam. In this way, they can optimize the utilization of their financial resources and increase business profitability.[4].

Diversification of Products and Services. MSMEs that understand Islamic financial principles often have an advantage in diversifying their products and services. They can develop products that comply with Islamic principles, such as *halal* food, sharia fashion, or sharia financial services. By offering products that are in line with Islamic values, MSMEs can attract customers who care about ethics and adherence to the teachings of their religion[5].

Increased Consumer Confidence. MSMEs that operate in accordance with sharia financial principles often gain more trust from consumers. Sharia-based products and services are often considered more ethical and reliable by Muslim consumers. This can result in increased revenue through increased market share and customer loyalty[6].

Local Economic Empowerment. By increasing MSMEs income, sharia financial literacy can empower the local economy. Successful MSMEs can help reduce poverty levels in their local communities, create additional jobs, and increase the purchasing power of local residents. In this way, Islamic financial literacy plays an important role in sustainable economic development[7].

Sharia financial literacy has a very significant impact on increasing MSME's income. In the context of a Sharia-based economy, a deep understanding of Sharia financial principles, access to appropriate financing, efficient financial management, as well as the ability to diversify products and services, all make positive contributions to MSMEs business growth. This also supports sustainable economic development and empowerment of local communities. Therefore, efforts to increase Sharia financial literacy among MSMEs are a very important step in supporting the growth and development of a Sharia-based economy.[8].

This research has a theoretical basis in Expectancy Theory. Expectancy Theory explains that our tendency to act in a certain way depends greatly on how strong our expectations are of possible outcomes as well as our level of interest in those outcomes. In a practical context, workers will be more likely to strive to achieve good performance appraisals because this can result in rewards from the organization, such as salary increases, or even intrinsic rewards, which will ultimately fulfill their personal goals.[9].

II. METHODS

The research approach applied in this research is a descriptive and verification approach. There are two types of data used, namely primary and secondary data. Primary data was obtained through observation, interviews and data collection in the field using questionnaires as the main tool for collecting information. Meanwhile, secondary data consists of publications relevant to the research topic as well as analysis of related documents and literature.

The research methods applied are descriptive surveys and explanatory surveys. The research object includes the variables to be studied, especially the level of financial literacy, the factors that influence it, and their impact on the development of MSMEs. The subjects in this research were MSMEs located in the Anas Machfud Grand Mosque area, Lumajang, totaling 31 respondents. Sampling was carried out using the saturated sample method, namely the entire population of MSMEs was taken as the research sample.

Observations used "one shot"/cross-sectional time coverage, namely less than one year. The research period will be carried out for 6 months, namely February to July 2023. The research will be carried out in the Anas Machfud Grand Mosque area, Lumajang. The data collection technique is by distributing questionnaires prepared using a Likert scale.

To understand the level of Sharia financial literacy among MSMEs, the factors that influence the literacy level, as well as the impact of knowledge about Sharia finance on the development of their businesses, a descriptive and verification approach was used. These descriptive measurements and analyses are the basis for carrying out statistical analysis. In this context, demographic factors will be identified that influence the level of Sharia financial literacy through the application of a simple regression analysis model.

III. RESULTS AND DISCUSSION

A. Research Result

In this research, data was obtained from 31 respondents, consisting of traders who have business

locations within the Grand Anas Machfud Mosque, Lumajang and around the mosque, which was a relocation because previously these traders sold on the sidewalk of North Alun-Alun Street in front of the Anas Machfud Grand Mosque. Lumajang.

In this research, the results of the validity and reliability test of the question instrument, which were analyzed using the SPSS 21 program, show that the variables of Sharia financial literacy and MSMEs income have been proven to be valid and reliable. This result was obtained from the significance value of both variables which was less than 5%, which indicates the validity of both. Furthermore, the reliability test shows that the Cronbach alpha value for the Islamic financial literacy variable is 0.739, while for the MSMEs income variable it is 0.696. These two values are considered reliable because they exceed 0.6.

The results of a simple linear regression test between Sharia financial literacy and MSMEs income can be seen in Table 1 below:

TABLE 1. Simple Linear Regression Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
(Constant)	5.192	0.764			
Sharia Financial Literacy	0.251	0.028	0.110	6.560	0.000
Adjusted R Square	0.735				

Source: SPSS 21.0 Data Processing

Based on the regression results in Table 1, the following linear regression equation is obtained:

$$Y = 5.192 + 0.251X$$

Constant (α): 5.192

The income level (Y1) will also increase by a percentage of 519.2% if Sharia financial literacy is eliminated or has a value of zero.

β_1 value: 0.251

This figure shows the regression coefficient value for sharia financial literacy with a positive direction and value of 0.251. If financial literacy increases, the income level will also increase by a percentage of 25.1%. This increase occurs if the level of sharia financial literacy or its opposite, income is constant.

In Table 1, the Adjusted R Square value is 0.735. This value is close to 1, indicating that the Sharia Financial Literacy variable has a strong contribution to the MSMEs Income variable of 0.735, while the remaining 0.265 is influenced by other variables.

In Table 1, the regression results show a significant positive influence of the Sharia Financial Literacy variable on MSMEs Income. This is reflected in the positive t value for the variable Therefore, the hypothesis is accepted, and it can be interpreted that the better sharia financial literacy, the income of MSMEs also tends to increase. On the other hand, if Sharia financial literacy is low, MSMEs income will likely decline.

B. Discussion

The results of the research above strengthen the hypothesis in this research which states that sharia financial literacy has a positive and significant effect on increasing MSMEs income in the Anas Machfud Grand Mosque area, Lumajang. This finding is consistent with the results of previous research, such as those conducted by Fania *et.al* [10] and Annisa [11], which also showed that a higher level of Islamic financial literacy had a positive impact on increasing MSMEs' income. In addition, the results of this research are in line with the findings in the studies of Hebriyanto *et.al* [12], Suwarsi *et.al* [13], and Sondari *et.al* [14], which also identified a positive relationship between Sharia financial literacy and increasing MSMEs income. In this research it can be concluded that MSMEs in the Anas Machfud Lumajang Grand Mosque area already have good knowledge of sharia financial literacy to increase MSMEs income and conversely for MSMEs that lack sharia financial literacy it will be difficult to increase and manage MSMEs income.

The results of this research illustrate that the increase in economic utility in the period used for financial reporting is in the form of an increase or influx of assets or reduced responsibility which results in increased equity outside of funding. Apart from that, income is an inflow from shipping or producing goods, providing services or carrying out other activities that are the main activity or center that is currently running.

This picture is in accordance with the increase in MSMEs knowledge in sharia financial literacy. Increasing sharia financial literacy possessed by MSMEs cannot be separated from individual understanding and knowledge of Islamic or sharia financial principles. Sharia financial literacy involves a deep understanding of financial concepts and rules in Islam, as well as the ability to apply them in personal or business financial management.

The results of this research are also consistent with Expectancy Theory. This theory suggests that individuals will be motivated to act if they have the hope that the action will produce the desired results and that these results will provide value or satisfaction for them.

Based on the Expectancy Theory, increasing sharia financial literacy can result in increased income because individuals and communities who are more sharia financially literate will be more motivated to take financial actions that are in line with their beliefs. This can lead to improved financial management, smarter investments, and better economic growth in communities that adhere to Islamic financial principles.

IV. CONCLUSION

Based on the analysis and discussion that has been carried out, researchers can conclude that the level of Sharia financial literacy in MSMEs has a positive and significant influence on MSME income. Sharia financial literacy can help MSMEs manage their finances better, gain access to finance through sharia principles, build customer trust, and explore new business opportunities. This can make a significant contribution to increasing MSMEs' revenues and growing their businesses in an environment that is aligned with Islamic financial principles.

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