**Analysis of the level and impact of sharia financial literacy on MSME performance**

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**Abstract**

This study aims to analyze the effect of Islamic financial literacy on the performance of micro, small, and medium enterprises (MSMEs) in the Greater Jakarta Area. Islamic financial literacy in this research is measured through three dimensions: knowledge, skills, and beliefs. These variables are tested for their simultaneous influence on MSME performance, which includes aspects such as revenue growth, transaction volume, and cash flow management. The study employs a quantitative approach using primary data collected from 50 MSME respondents selected through purposive sampling. The data was obtained by distributing structured questionnaires, and the analysis method used is simple linear regression. The results reveal that Islamic financial literacy has a significant and positive impact on the performance of MSMEs. The coefficient of determination (R²) value of 48.8% indicates that nearly half of the variance in MSME performance can be explained by the level of Islamic financial literacy possessed by business owners. This finding implies that a better understanding and application of Islamic financial principles—such as Islamic financing, investment in sharia-compliant instruments, and the use of Islamic insurance—can contribute meaningfully to improving MSME performance. Therefore, enhancing Islamic financial literacy among MSME actors is crucial in supporting sustainable business growth and strengthening their economic resilience, especially in urban areas like Greater Jakarta Area.

**Keywords:** Islamic financial literacy, MSMEs, entrepreneurs

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1. **Introduction**

Islamic financial literacy is one of the important aspects that must be considered in the development of micro, small, and medium enterprises (MSMEs) in Indonesia. MSMEs play a significant role in driving the national economy and reducing unemployment. This can be proven by their contribution to Indonesia’s Gross Domestic Product (GDP) and the increasing number of MSMEs in the country (Damayanti and Nirmala, 2024).

Financial literacy is the understanding of financial products and concepts by using information and advice, as well as the ability to identify and comprehend financial risks to make appropriate financial decisions (Wahyu & Candra, 2018). A good level of literacy helps individuals to plan their finances wisely, whereas low literacy may lead to poor financial decisions, resulting in suboptimal financial planning and potential financial problems (Dalima Landang et al., 2021). Having a positive attitude toward managing finances in accordance with sharia principles and behaviors that support the use of sharia products, such as sukuk investments and zakat payments, is an integral part of Islamic financial literacy (Pratama & Nisa, 2024). According to a journal by Nuraini & Monoarfa and Juliana (2024), Islamic financial literacy can increase public awareness and understanding of the products and services offered by Islamic financial institutions. Therefore, it can foster the growth of the Islamic finance industry and have a positive impact on the economy.

Priskilla et al. (2022) explain that MSME development based on broad community participation as business stakeholders reflects the government’s commitment to current economic development. The development of the economy adjusted to the existence of micro, small, and medium enterprises is strengthened through Law Number 20 of 2008 concerning the Implementation of Micro, Small, and Medium Enterprises, providing a solid legal foundation to empower and develop MSMEs so they can contribute to national economic growth. Furthermore, according to Hastuti et al. (2020), MSMEs have the ability to expand employment opportunities and provide widespread economic services to the community. MSMEs have the potential to contribute to income distribution, economic growth, and play a role in achieving national stability.

Despite the growth of the MSME sector in Indonesia, there are still several fundamental problems. MSMEs continue to face obstacles related to the quality of human resources and business management skills (Adawiyah, 2014). A lack of financial and managerial capacity remains a major challenge (Aprayuda and Dalam, 2022). This issue is evidenced by the imbalance between Islamic financial literacy and inclusion. The Financial Services Authority (OJK) reported in 2024 that the Islamic financial literacy index stood at 39.11%, while the Islamic financial inclusion index was only 12.88% (OJK, 2024).

According to a CNNIndonesia.com news article (CNN, 2024), there has been an economic decline among MSMEs over the past three months, as reflected in decreased income, purchasing and selling power, and reduced labor usage. The final months of 2024 pose a challenge for MSME entrepreneurs due to the relatively low business expectation index. MSME actors must begin to master and maximize the financial literacy and inclusion initiatives already prepared by the government (Aprayuda and Dalam, 2022).

Previous research conducted by Djuwita and Yusuf (2018) explained that business development is only influenced by financial behavior, while other variables have no effect. On the other hand, Januardin (2019) found that business development is influenced by both financial knowledge and financial behavior. Meanwhile, Susie and Ramadhan (2017) stated that financial literacy is influenced only by income level and education. These studies show varying results regarding the effect of financial literacy on MSMEs.

However, none of the previous studies have focused specifically on MSMEs in the Greater Jakarta Area, which ranked among the top six regions with the highest number of MSMEs in Indonesia in 2022 (BUMIALUMNI, 2022). The novelty of this research lies in its focus on MSMEs in Greater Jakarta Area, and it directly analyzes the relationship between Islamic financial literacy and MSME performance.

This study aims to analyze the level of Islamic financial literacy among MSME entrepreneurs in Greater Jakarta Area. The results are expected to provide a clear overview of Islamic financial literacy among MSME players, which in turn can help them manage their businesses more effectively. With improved Islamic financial literacy, MSME entrepreneurs are expected to take advantage of various Islamic financial products, such as Islamic financing, Islamic investment, and Islamic insurance. This will positively impact the growth and sustainability of their businesses.

1. **Research Design and Method**

This researcher uses quantitative research using the Questionnaire data collection technique. The questionnaire method is a method of data collection carried out by giving a number of questions to respondents, who are then asked to provide answers according to their understanding. Meanwhile, interviews are an information collection technique in which researchers directly communicate or chat with respondents to obtain the necessary data.

The sample in this study were MSME actors registered as domiciled in Greater Jakarta Area in the data of the DKI Jakarta Province Industry, Trade, Cooperatives, Small and Medium Enterprises (PPKUKM) Service, revealing that 377,625 MSMEs currently exist in Jakarta. From the existing population, a sample was taken as a representative using the purposive sampling technique where the author conducted a sample drawing with the criteria: 1) MSMEs located in the city of Greater Jakarta Area; 2) MSMEs that have been more than 1 (one) year old; 3) MSMEs that have carried out financial bookkeeping; and,4) MSMEs that have utilized financial service products, so that a sample of 50 respondents was obtained who had met the requirements.

1. **Results and Discussion**

The results of this study on the influence of Islamic financial literacy on MSME performance are the core part of this study. The indicators of Islamic financial literacy used include general knowledge of Islamic-based financial products and services, such as Islamic financing and Islamic investment, as well as the application of Islamic principles in financial management. Meanwhile, the performance of MSMEs measured includes business growth, total revenue, number of transactions, and business cash flow.

**Table 1. Descriptive Statistics**

|  |  |  |
| --- | --- | --- |
|  | **Sharia Financial Literacy** | **MSME Performance** |
| **Mean** | 29.08 | 29.38 |
| **Maximum** | 36 | 36 |
| **Minimum**  | 18 | 16 |
| **Standard Deviation** | 3.85365 | 4.65061 |

Source: data processed (2024)

Descriptive statistical analysis is used to provide an explanation of the variables in the study, there are two variables, namely the independent variable (Sharia Financial Literacy) and the dependent variable (MSME Performance). Descriptive statistical analysis provides results in the form of numbers containing the maximum, minimum, average and standard deviation values for each variable. Descriptive statistical analysis is tested using IBM SPSS. The results of testing with the application can be seen in the Table 1.

**Table 2 Normality Test**

|  |  |  |
| --- | --- | --- |
|  |  | **Conclusion** |
| Sig | 0.200 | normally distributed data |

Source: data processed (2024)

Table 2 provides an illustration that the significance value for Sharia and MSME financial literacy is >0.05 with all data having a normal distribution.

**Table 3 Linearity Test**

|  |  |  |
| --- | --- | --- |
|  | **Sig** | **Conclusion** |
| Sharia Financial Literacy | 0.510 | Linear |

Source: data processed (2024)

Table 3 shows significant results > 0.05 which means the requirements have been met. From the results of the normality test and linearity test have been met, then the researcher continued with a simple linear regression test.

**Table 4. Simple Linear Regression Test**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Model** |  | **Unstandardized Coefficients** | **Standardized Coefficients** | **t** | **Sig.** |
| **B** | **Std. Error** | **Beta** |
| 1 | (Constant) | 3.864 | 3.655 | .699 | 1.057 | .296 |
| Sharia Financial Literacy | .843 | .125 |  | 6.764 | .000 |

Source: data processed (2024)

From Table 4, the regression equation can be written as Y = 3.864 + 0.843 X. This regression equation gives the result that there is a positive influence caused by Islamic financial literacy on the performance of MSMEs. The regression equation provides a statement that every change in the increase in Islamic financial literacy units, the performance of MSMEs increases by 0.843, then looking at the correlation coefficient value is as follows.

**Table 5 Correlation and Determination Coefficients**

|  |  |  |  |
| --- | --- | --- | --- |
| **Model** | **R** | **R Square** | **Adjusted R Square** |
| 1 | .699 | .488 | .477 |

Source: data processed (2024)

Based on Table 4, the correlation coefficient value is 0.699 and the determination coefficient value is 0.488 (48.8%). With this, Islamic financial literacy has an effect of 48.8% on MSME entrepreneurs.

Based on the results of the study, there is a significant influence between Islamic financial literacy and the performance of MSMEs in Greater Jakarta Area. Islamic financial literacy is a fundamental aspect in financial management in accordance with Islamic principles. Good financial management is a major factor because it has an impact on the continuity and development of businesses, including MSMEs. Therefore, it is important for MSME actors to pay attention to Islamic financial literacy in managing their businesses. This is in line with the opinions of experts who state that a good understanding of financial literacy can help MSMEs manage their finances effectively.

The results of this study also show that MSMEs that have not been able to manage their finances well need to be supported to increase their capacity in sharia-based financial management. One step that can be taken is by providing insight by teaching the principles of Islamic finance and the application of correct accounting basics to support professionalism in business management.

1. **Conclusions**

Based on the research conducted by the researcher, it can be concluded that the level of Islamic financial literacy has a significant positive influence on the performance of MSMEs in the Greater Jakarta A rea. This is shown through data analysis which produces a coefficient of determination of 48.8%, which indicates that almost half of the variation in MSME performance is influenced by Islamic financial literacy. Understanding and implementing Islamic financial literacy, including financial management based on Islamic principles such as Islamic financing and investment, has been shown to increase the effectiveness of business management. Therefore, to improve the performance of MSMEs, collaborative efforts are needed from the government, financial institutions, and academics to broaden the insights and capacity of MSME actors in adopting Islamic financial principles. This study also opens up opportunities to develop further studies by adding financial inclusion variables or other factors that can affect MSME performance more comprehensively.

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