

Islamic Financial Literacy, Islamic Financial Inclusion and Micro-Business Performance

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Abstract

This research aims to look at the role of Islamic financial literacy component in creating financial inclusion and developing micro-businesses in Indonesia. Cross sectional research design was employed in this study and data were collected from 138 micro-business located in Pekanbaru, Indonesia. The data was analyzed using path analysis and IBM SPSS 26 was adopted to testing the hypothesis. This study revealed that only two of Islamic financial literacy components positively and significant influences Islamic financial inclusion. This study also found that only one component of Islamic financial literacy positively and significantly influences micro-business performance. Other findings show a positive and significant relationship between Islamic financial inclusion and micro-business performance. This study indicates that component of Islamic financial literacy play an important role in promoting Islamic financial inclusion which is necessary for growth of micro-business in Indonesia. Owner or manager of micro-business should increase their Islamic financial literacy through various training programs. This is the first study in Indonesia in investigating the role of Islamic financial literacy on financial inclusion and micro-business development. This study has limitations in sample size and research location.

JEL Classification: G21, G53, M13.

Keywords: Islamic Financial Literacy, Islamic Financial Inclusion, Micro-Business Development, Indonesia.

Educación Financiera Islámica, Inclusión Financiera Islámica y Desempeño de las Microempresas

Resumen

Esta investigación tiene como objetivo analizar el papel del componente de alfabetización financiera islámica en la creación de inclusión financiera y el desarrollo de microempresas en Indonesia. En este estudio se empleó un diseño de investigación transversal y se recolectaron datos de 138 microempresas ubicadas en Pekanbaru, Indonesia. Los datos se analizaron mediante análisis de ruta y se adoptó IBM SPSS 26 para probar la hipótesis. Este estudio reveló que solo dos de los componentes de alfabetización financiera islámica influyen positivamente y significativamente en la inclusión financiera islámica. Este estudio también encontró que solo un componente de la alfabetización financiera islámica influye positiva y significativamente en el desempeño de las microempresas. Otros hallazgos muestran una relación positiva y significativa entre la inclusión financiera islámica y el desempeño de las microempresas. Este estudio indica que el componente de la educación financiera islámica desempeña un papel importante en la promoción de la inclusión financiera islámica, que es necesaria para el crecimiento de las microempresas en Indonesia. El propietario o gerente de microempresas debe aumentar su alfabetización financiera islámica a través de diversos programas de capacitación. Este es el primer estudio en Indonesia en investigar el papel de la literaria financiera islámica en la inclusión financiera y el desarrollo de microempresas. Este estudio tiene limitaciones en cuanto al tamaño de la muestra y la ubicación de la investigación.

Clasificación JEL: G21, G53, M13.

Palabras clave: Educación Financiera Islámica, Inclusión Financiera Islámica, Desarrollo de Microempresas, Indonesia.

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1. Introduction

1.1 Background

The development of Islamic banking in Indonesia continues to experience a significant increase. In a report published by the Financial Services Authority (OJK) of Indonesia, the number of Sharia banking in Indonesia as of June 2023 is 204 units, with details of 13 Islamic Commercial Banks, 20 Sharia Business Units and 171 Islamic Rural Banks. Apart from the increase in the number of offices, the number of Islamic banking assets has also experienced a significant increase, where in December 2015 the total number of Sharia banking assets was 304 trillion and in June 2023 the total assets increased to 801.7 trillion. The total financing funds distributed also increased from 218.8 trillion in December 2015, increasing to 525.1 trillion in June 2023 (OJK, 2023).

On the market share side, there has also been an increase, although it is not comparable to the conventional banking market share. In December 2020, the Sharia banking market share was 6.51 percent with murabahah contracts still dominating, namely 46.11 percent and in August 2022 it increased to 7.03% (Investor, 2022). Overall the Sharia financial market share reached 9.89 percent. The low market share of Sharia banking in Indonesia is caused by many things, including the low level of Sharia financial literacy. Low levels of literacy result in low levels of Sharia financial inclusion. In research conducted by Puspitasari et al, (2020) the level of Sharia financial inclusion in Indonesia has only reached 0.180, where the highest Sharia financial inclusion index is occupied by DKI Jakarta Province (Ali et al, 2019). The low level of Sharia financial inclusion can still be understood if we refer to the general level of financial inclusion. In research conducted by Camara and Tuesta (2017), Indonesia's financial inclusion index ranks 84th out of 137 countries.

Financial inclusion plays an important role in a country's economy because financial inclusion provides individuals and businesses with access to financial services such as savings, financing, insurance, remittances and credit (Mindra et al., 2017). Camara and Tuesta (2017) underline that the main cause of low levels of financial inclusion in a society is the difficulty of access to finance, especially for low-income communities and also for micro-enterprises. Access to formal financial institutions can take the form of opening accounts by individuals or companies, as well as extending credit to microexchanges. For micro enterprises, the availability of funds for business development is very necessary, even the International Monetary Fund (IMF) encourages every country to provide space for MSMEs to be able to access formal financial institutions by establishing an institution called the Financial Inclusion Support Framework (FISF). FISF's main objective is to support the creation of access to formal financial institutions for them.

Micro-business is one of the largest business communities in Indonesia that has difficulty accessing formal financial institutions. This is because many of them do not have a good financial culture, such as saving money in banks, credit, financing, loans and various services offered by banks. Financial culture is important because it can have a significant impact on financial well-being. Financial culture is defined as the values, beliefs, and attitudes that people have about money and finance (Medium, 2023). Fligstein and Goldstein (2015) say that financial culture will make someone familiar with financial language and to a certain level will make them plan their investments and expenses. This means they are willing to take financial risks, including increasing debt. Fligstein and

Goldstein (2015) added that if financial culture has become a life style, then access to financial products will be easily achieved. Financial Services Authority (OJK) of Indonesia has established several priority strategies to encourage the creation of financial inclusion for several targets, including the micro small and medium enterprises (MSMEs) group. The MSMEs group was targeted because they have great potential in supporting the national economy (OJK, 2017).

Several economists say that financial inclusiveness can be created from individual characteristics such as gender, age and level of education (Demirguc-Kunt and Klapper, 2012 and Shihadeh, 2018) as well as level of religiosity (Hassan et al., 2019; Maulana and Abidin, 2019; Kumar, 2013 and Hassan, 2015). Apart from individual characteristics, business characteristics can also be an obstacle to financial inclusion, for example business actors who operate in certain sectors still have difficulty accessing formal financial institutions (Trianto et al., 2023). Financing institutions are currently also looking more at financing the agricultural sector than the non-agricultural sector during the Covid-19 pandemic (Hasan, 2021; Aziz, 2021). In several literatures, financial literacy also plays a role in creating financial inclusion for MSMEs. In research conducted by Habriyanto et al (2022), the key factors for sharia financial inclusion in MSMEs are Islamic financial awareness and Islamic financial skills. Trianto et al., (2021) also found that Islamic financial literacy plays a vital role in creating financial inclusion in formal institutions for MSMEs. Braunstein and Welch (2002) added that financial literacy can provide a better understanding of financial services. In this way, it is hoped that people who do not have bank accounts will be able to avoid non-standard financial services.

The issue of financial inclusion attracts the attention of not only policymakers, but also academics. For policy makers, inclusiveness is something that must be pursued so that national economic development gets maximum support from formal financial institutions so that they have the ability to develop their businesses even better. For academics, the interest in studying the issue of financial inclusion among business actors is based on the desire to obtain empirical evidence. Empirical facts show that without financial inclusion it will be very difficult to build a business (Abubakar, 2015; Habriyanto et al., 2022). Other empirical facts show that financial inclusion for business actors can improve their business performance (Fan and Zhang, 2017; Okello et al., 2017; Riwayati, 2017; Kalunda, 2013 and Trianto et al., 2021). Many other researchers have also studied this relationship, including (Sharma, 2016; Babajide et al., 2015; Gretta, 2017 and Demirguc-Kunt et al., 2017, Dienillah and Anggraeni, 2016), and Lal, 2018). Apart from studying the relationship between financial inclusiveness and MSMEs performance, several researchers are also interested in studying factors that influence inclusiveness, including Okello et al., 2017 and Hoque et al., 2018; Hassan et al., 2019; Maulana and Abidin, 2019; Kumar, 2013 and Hassan, 2015; Trianto et al., (2021), Nugroho and Purwanti, (2014).

In Social Exchange Theory, it is explained that a relationship between people will occur when both parties feel the benefits of the relationship, which can be in the form of cost benefits or rewards (Homans, 1958; Blau, 1964). In the context of the relationship between micro enterprises and Islamic banking, when micro enterprises feel the benefits of accessing sharia financial institutions, they will be happy to take advantage of the financing and other facilities provided by Islamic financial institutions. On the one hand, when Islamic financial institutions find an opportunity to gain large benefits by providing financing or other facilities for micro businesses, they will also provide this financing. Empirical studies show that enterprises that receive formal financial support from Islamic

financial institutions are successful in developing their businesses (Razak and Asutay, 2022; Sabiu and Abduh, 2021). This indicates that both felt the positive impact of the exchange.

Many researchers are interested in conducting research related to financial literacy in MSMEs, for example carried out by Anshika et al., (2021). They conducted research in the state of Punjab, India and found empirical facts that MSME business actors who have a high level of education also have a high level of understanding of financial literacy. This research also found the fact that the types of businesses run by entrepreneurs also have different financial literacy abilities. Okello et al (2020) investigated the role of financial literacy in decision making in 400 households in Uganda and found that financial literacy had a positive and significant effect on financial inclusion. Using the Analytical Network Process (ANP) approach, Ali et al (2020) investigated the main factors causing sharia financial inclusion in Indonesia and found the fact that financial literacy was a determining factor for financial inclusion in Indonesia. Susan (2020) investigated the role of financial literacy on financial inclusion in 140 MSMEs in West Java, Indonesia. The results of this research show that financial literacy has a positive impact on financial inclusion.

Even though previous researchers have conducted various studies related to Islamic financial literacy, Islamic financial inclusion and business performance, there have been no researchers who have specifically studied the impact of Islamic financial literacy and Islamic financial inclusion on micro-business performance in Indonesia. This research aims to fill this gap and we believe the results of this research can reveal the role of Islamic financial literacy and Islamic financial inclusion in encouraging the growth of micro businesses. This study was analyzed using the Social Exchange Theory approach as a novelty in this study. Therefore, it is important to carry out this research in order to obtain empirical facts that can be used as a reference for developing micro-entreprises and also sharia banking in Indonesia. dan For this reason, this research is divided into five stages, the first stage discusses the phenomena of Islamic financial literacy and financial inclusion in micro-entreprises as well as research gaps. The second stage discusses literature studies on Islamic financial literacy, Islamic financial inclusion and social exchange theory. The third stage discusses the research methodology. The fourth stage discusses the research results and the fifth stage conclusions and recommendations.

2. Literature Review

2.1 Micro Entreprises dan Economics Developments

Micro Entreprises are a sector that receives extra attention by the government because they have a large contribution to supporting the national economy. The contribution of the micro enterprise sector to the Indonesian economy can be seen from its contribution to the formation of Gross Domestic Product (GDP) and also in absorbing labor. Micro enterprises contributed 37.77 percent to GDP and were able to absorb a workforce of 107 million people or 89.04 percent of the total workforce absorbed (Ascarya, 2020). The development of micro-enterprises in supporting the national economy has experienced significant obstacles due to the Covid-19 pandemic. The government has issued various policies to save micro enterprises from bankruptcy. Starting from the Perpu to overcome the Covid-19 pandemic, the Minister of Finance Regulation (PMK) to the Minister

of Cooperatives Regulation (Permenkop). The government has done all this to save micro enterprises so they can survive amidst the Covid-19 pandemic.

Table 1. Government Policy Respond During Covid-19 for MSMEs

No	Policy	Remarks
1	PERPU No.1/2020 and UU No.2/2020	- State financial policies and financial system stability to handle the Covid-19 pandemic.
2	PMK No.65/PMK.05/2020	- Procedures for the provision of interest subsidies/margin subsidies for credit or financing micro, small and medium enterprises in supporting the implementation of the national economic recovery program.
3	PMK No.85/PMK/05/2020	- Replaced of PMK No.65/PMK.05/2020 - Procedures for the provision of interest subsidies/margin subsidies for credit or financing micro, small and medium enterprises in supporting the implementation of the national economic recovery program.
4	PMK No.138/PMK/05/2020	- Replaced of PMK No.85/PMK.05/2020 - Procedures for the provision of interest subsidies/margin subsidies for credit or financing micro, small and medium enterprises in supporting the implementation of the national economic recovery program.
5	Permenkop No. 22 Tahun 2020	- Procedures for submitting data on cooperative debtors in the context of providing interest subsidies / margin subsidies for credit or financing for the MSMEs sector
6	Permenkop No.4 Tahun 2020	- Loan/financing - Revolving Fund Management Institute (LPDB) as a responsible as a channel for loan funds

Source: Chandra et al., (2020).

The Indonesian government's quick response in saving micro businesses from bankruptcy illustrates that micro businesses have a vital role, not only in absorbing labor and alleviating poverty but also in developing a strong national economy.

2.2 Islamic Financial Literacy, Financial Culture and Islamic Financial Inclusion

In various literatures it is stated that someone who has skills in financial literacy has the ability to manage finances so that it enables them to be successful in personal and business life (Abubakar, 2015; Pond, 2003; Lusardi and Tufano, 2008; Van Rooij et al., 2007; Lusardi and Mitchell, 2014).

Financial literacy can be defined as knowledge, skills and beliefs that influence attitudes and behavior to improve the quality of decision making and financial management in order to achieve prosperity (OJK, 2017). Sementara itu OECD mendefinisikan literacy sebagai berikut "*Financial literacy defined as combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing*". Meanwhile, sharia financial literacy is defined as a person's knowledge, skills and confidence in sharia finance which can be used for decision making (OJK, 2017).

In some literature, financial literacy is identified with financial culture (Csiszárík-Kocsir et al., 2022). Financial culture refers to a person's habits in dealing with finances such as financial knowledge, financial skills and references, financial skills and awareness, all of which are present together and simultaneously (Sági et al., 2020). Fligstein and Goldstein (2015) say that financial culture means that households have a more relaxed attitude towards debt. Meanwhile, Hung et al., (2009) define financial culture as the ability to use the knowledge and skills needed to manage financial resources effectively for a lifetime well-being. Kawamura et al., (2021) found that financial literacy plays an important role in decision making. Csiszárík-Kocsir et al., (2022) argue that financial literacy will help them better understand the risks and benefits of financial services and help them maintain their investments at an optimal level. Csiszárík-Kocsir et al., (2022) added developing financial culture, individuals can increase their knowledge of financial products and concepts, learn to manage risk or make the decision that may have less negative consequences.

In the context of developing a business, financial literacy has an important role in developing a business (Chepngetich, 2016; Susan, 2020; Trianto et.al., 2021). This cannot be separated from the role of the dimensions of financial literacy which consist of awareness, attitude, knowledge and skills. Business actors who have the ability to make financial decisions will of course have the ability to manage finances, for example in financing working capital. Many micro businesses in Indonesia experience rejection of financing by banks due to their poor credit history (Machmud and Huda, 2011). This indicates that it is important for someone to be able to manage finances well. In this case, financial literacy has a crucial role in financial management among micro businesses. Lusardi et al. (2017) stated that financial literacy helps empower and educate poor people so that they are knowledgeable and able to evaluate various financial products and services to make the right decisions so as to obtain maximum benefits.

Financial literacy is also closely related to financial inclusion because someone who has good financial literacy will make it easier for them to access financial institutions. Likewise with micro enterprises, for those who want to develop their business, they must connect with formal financial institutions. Entrepreneurs who have good financial literacy will make it easier for them to access financial institutions (Abubakar, 2015). Financial inclusion is also a concern of world financial institutions such as the World Bank, where they argue that financial inclusion has an impact on poverty alleviation (world Bank, 2014). OJK defines financial inclusion as the availability of access to various financial institutions, products and services in accordance with community needs and capabilities in order to improve community welfare. Meanwhile, the World Bank (2014) defines financial inclusion as the proportion of individuals and firms that use financial services. In the context of Sharia finance, financial inclusion means creating access for someone to Sharia financial institutions such as Sharia banking.

Camara and Tuesta, (2017) said that financial inclusion can be seen from three dimensions, namely access, use and barriers. In terms of access, it is related to the ease with which a person can access financial institutions, both in terms of location, which can be seen from the presence of branch offices or cash offices, ATM machines and agents. Meanwhile, the use dimension is related to account ownership, opening savings and financing. Meanwhile, the barrier dimension is related to a person's obstacles in accessing formal financial institutions, such as the distance of the location of the financial institution, large cost burdens and the level of trust. Barriers can also be related to the insufficient availability of money to utilize financial services (Jouti, 2018).

2.3 Social Exchange Theory

Social Exchange Theory (SET) was first initiated by Homans (1958), then developed by Blau (1964). Initially SET only focused on cost benefits, then it was later developed to involve social and economic elements. These two elements are seen to be closely related, especially with regard to social interaction, both individually and institutionally (Emerson, 1976). SET is a theory of social and economic interaction that allows each individual to make profitable exchanges. The more profitable the exchange, the more often a person will engage in social and economic interactions (Wu et al, 2014). Liyanaarachchi et al., (2021) added that this theory emphasizes exchange relationships with the hope of obtaining various economic and social benefits.

Lee et al (2014) explain that SET has its roots in economics and business considering similarities with economic theory such as rational choice, expected utility value to diminishing marginal value. Miles (2012) further explained that SET allows someone to exchange economic (products, services and knowledge) and social (friendship and status) resources with different actors. Wang et al (2018) added that social and economic exchange can take the form of business transactions such as customers involved in online communities hoping for utilitarian, hedonic and social rewards (reciprocity of trust and reputation) to be exchanged with suppliers in business to business marketing. Blau (1964) said that social and economic exchange is a reciprocal relationship. This reciprocal relationship occurs because someone responds in a similar way to what they do. Lee et al. (2014) added that reciprocity is usually based on philosophical ideals such as fairness and distributive justice. Miles (2012) said the role of social influences such as friendship and reputation has a crucial role in this reciprocal relationship.

In the context of business transactions between micro-entreprises and sharia financial institutions, SET is very suitable for explaining this reciprocal relationship. Sharia financial institutions can provide savings and financing services for micro-entreprises and micro-entreprises can use these services to develop their business. Masrizal and Trianto (2022) explained that in general financing services at sharia financial institutions are divided into two, namely Profit and Loss Sharing (PLS) based financing services such as mudhorabah cooperation contracts and non-PLS based financing services such as murabahah cooperation contracts. The benefit that can be taken from this exchange for Islamic financial institutions is to gain financial benefits. Meanwhile, the benefit that micro-entreprises can take from this exchange is that they can develop their business even better because they receive support from sharia financial institutions. Miles (2012) said in SET that if someone offers a benefit, the recipient feels obliged to return the kindness.

2.3 Previous Studies and Hypothesis Development

2.3.1 Islamic Financial Literacy and Islamic Financial Inclusion Link

In his study, Candiya Bongomin et al (2017) investigated the role of financial literacy components in the occurrence of financial inclusion in Uganda and found that financial attitude had a positive and significant influence on the occurrence of financial inclusion. Meanwhile, other components such as financial knowledge, financial skills and financial behavior have a positive effect on financial inclusion but are not significant. Habriyanto et al (2022) also specifically investigated the role of the components of Islamic financial literacy on Islamic financial inclusion in Indonesia by involving 55 business actors in the creative economy sector in Indonesia. The results of this research show that Islamic financial knowledge and Islamic financial skills have a positive influence on Islamic financial inclusion. Meanwhile, Islamic financial knowledge has a positive but insignificant influence. The results of previous research show that financial literacy plays an important role in creating financial inclusion.

Agarwal (2007) added that a lack of awareness and understanding of financial products and services causes low literacy levels. Therefore, people need to be equipped with good financial literacy so they can make appropriate and strategic decisions regarding the use of basic financial products and services. Lusardi (2009) added that a good understanding of financial literacy can help someone evaluate financial products and services so they can make the right decisions. Kumar and Pathak (2022) investigated 200 respondents in Nalgonda and Medak districts in Telangana, India and found that financial awareness has an important role in financial inclusion. Candiya Bongomin et al., (2017) argue that lack of financial awareness, lack of trust in financial institutions and attitude are major barriers to take-up of financial products and services, especially in developing countries. In his observations, Holzmann (2010) found that attitude, which is the willingness to save, borrow and use of insurance products affects financial inclusion among low-income society.

Product knowledge is one of the components of financial literacy which is important for creating financial inclusion. In a study conducted by Carpena et al., (2011) regarding the impact of financial literacy on distinct dimensions of financial knowledge, it was found that financial literacy significantly improved basic awareness of financial choices and attitude towards financial decisions. They also found financial literacy significantly improved in individual awareness of financial products. Habriyanto et al., (2022) in their observations of 55 MSMEs in Indonesia and found that financial awareness had a positive impact on decisions in financing Islamic banks. This research also found that financial skills statistically have a positive and significant effect on decisions regarding financing at Islamic banks. The results of the literature search above provide important information that financial literacy is important in creating financial inclusion. For this reason, we propose the following causal research hypothesis:

- H1 : Islamic financial awareness has a positive influence on Islamic financial inclusion for micro-entreprises
- H2 : Islamic financial knowledge has a positive influence on Islamic financial inclusion for micro-entreprises

- H3 : Islamic financial skill has a positive influence on Islamic financial inclusion for micro-entreprises
- H4 : Islamic financial attitude has a positive influence on Islamic financial inclusion for micro-entreprises

2.3.2 Islamic Financial Literacy and Business Performance Link

Financial literacy has an important role in developing a business because it is related to financial decisions such as financing of business, financial management and investment decisions (Bill and Delpachitra, 2003; van Rooij et al., 2011). Someone who has financial expertise tends to have the ability to make financial decisions such as debt management (Lusardi and Tufano, 2015). By using the Theory of planned behavior approach, Chepngetich (2016) also found empirical facts, where financial literacy has a positive and significant influence on the performance of MSMEs in Kenya. Susan (2020) added that entrepreneurs who have financial skills will have a positive impact on company performance. Trianto et al (2021) found that MSMEs in the creative economy sector in Indonesia are able to develop well when the owners have a good understanding of Islamic financial literacy.

Meanwhile, research conducted by Esiebugie (2018) in Nigeria shows that financial knowledge and financial attitude have a positive influence on business performance. The results of this research recommend that business actors be given training on budgeting and planning, debt management, record keeping and saving and retention in order to increase the financial literacy of business actors. Fitriyah et al (2023) also found a positive and significant relationship between financial literacy and financial behavior and MSMEs performance. Meanwhile, financial attitude has a negative relationship with company performance.

More specifically, Habriyanto et al (2022) investigated the role of Islamic financial knowledge, Islamic financial awareness and Islamic financial skills in developing business among 55 business actors in Pekanbaru, Indonesia. The results of this research show that Islamic financial skills have a positive and significant influence on business performance. Meanwhile, the variables Islamic financial knowledge and Islamic financial awareness have a positive influence on business performance but are not significant.

The findings above illustrate to us that financial literacy is an important variable and must be mastered by business actors if they want to develop their company. For this reason, we formulate the following hypothesis:

- H5 : Islamic financial awareness has a positive influence on micro-entreprises performance
- H6 : Islamic financial knowledge has a positive influence on micro-entreprises performance
- H7 : Islamic financial skill has a positive influence on micro-entreprises performance
- H8 : Islamic financial attitude has a positive influence on micro-entreprises performance

2.3.2 Islamic Financial Inclusion and Business Performance Link

Munyuki and Jonah (2021) investigated the role of financial literacy in entrepreneurial success in the Captown area, Africa. They discovered the fact that entrepreneurs who have a good understanding of financial literacy are associated with success in running their business. Bongomin et al (2019) also found that financial inclusion was one of the causes of increasing MSME business performance in Uganda. Riwayati (2017) conducted an investigation in Indonesia where business actors who were able to improve the quality of their financial inclusion were able to develop their businesses well. This research is strengthened by the findings of Trianto et al (2021) and Habriyanto et al (2022) where the MSME sector will develop well when they are able to access formal financial institutions. The results of this research illustrate that financial inclusion has an important role in developing business. Therefore we propose the following hypothesis:

H9 : Islamic financial inclusion has a positive influence on micro-entreprises performance

3. Research Methodology

3.1 Data

This research uses primary data taken directly from research respondents. The respondents for this research were micro-entreprises in Pekanbaru City, Indonesia with a total sample of 138. Sampling was carried out using non-probability sampling technique. The sample criteria set in this research are:

1. Comes from the Bangkit Muslim Entrepreneurs (BPM) and Productive Generation (Genpro) communities.
2. Have an account with a Islamic Bank
3. Have a turnover of no more than IDR 300 million/year

The following is the sample distribution by Islamic bank:

Table 2. Islamic Financial Institutions

No	Islamic Financial Intstitutions	Total	Percentage
1	Bank Syariah Indonesia	96	69.58
2	Bank Muamalat	11	07.97
4	BTN Syariah	7	05.07
5	CIMB Syariah	5	03.62
6	Permata Syariah	3	02.17
7	Islamic Rural Bank	11	07.97
8	Islamic Cooperative	5	03.62
	Total	138	100

3.2 Method

This research uses a quantitative approach to measure the influence of the independent variable on the dependent variable. In this research, a quantitative approach uses Path analysis with SPSS software. Path analysis is a method for measuring the pattern of relationships between variables (Allen, 2017). In the causal relationship between variables, there are direct and indirect influences.

3.3 Empirical Model

This research aims to find causal relationships between exogenous variables and endogenous variables. The exogenous variables in this research are the components of Islamic financial literacy, namely Islamic financial awareness, Islamic financial knowledge, Islamic financial skills and Islamic financial attitude. The endogenous variables are Islamic financial inclusion and business performance. This causal relationship can be seen in the following empirical model:

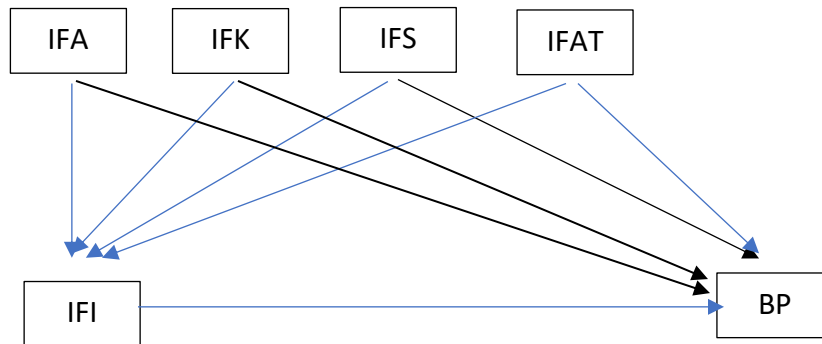


Figure 1. Empirical Model

Remarks :

- IFA = Islamic Financial Awareness
- IFK = Islamic Financial Knowledge
- IFS = Islamic Financial Skill
- IFAT = Islamic Financial Attitude
- IFI = Islamic Financial Inclusion
- BP = Business Performance

4. Result and Discussion

4.1. Respondent Profile

Respondents in this study were dominated by graduates from universities as many as 93 (76.39%) with the age of respondents reaching 30 years reaching 58 (42.03%) as shown in Table 4. Table 4 also shows the type of business, where food and beverage businesses dominated the respondents in this study who reached 64 (46.37%) of the total sample. Most of the respondents' businesses have employees with sales turnover reaching IDR 100 million - IDR 300 million, 58 respondents or 42.03%.

Tabel 4. Respondent Profile

No	Keterangan	Total	%
1	Gender		
	a. Male	69	50.00
	b. Female	69	50.00
2	Education		
	a. SD	8	05.80
	b. SMP	10	07.25
	c. SMA	27	19.56
	d. Perguruan Tinggi	93	67.39
3	Age		
	a. <30 tahun	58	42.03
	b. 30 - 40 years old	42	30.44
	c. 40 - 50 years old	33	23.91
	d. > 50 tahun	5	03.62
4	Type of Business		
	a. Food and Beverage	64	46.37
	b. Service	23	16.67
	c. Trading	15	10.87
	d. Art	5	03.62
	e. Advertising	12	08.70
	f. Fotography	8	05.80
	g. Others	11	07.97
5	Sales Per Years		
	a. IDR 10 million - IDR 50 Million	46	33.33
	b. IDR 50 Million - IDR 100 Million	34	24.64
	c. IDR 100 million - IDR 300 million	58	42.03

6	Jumlah Karyawan		
	a. No employee	39	28.26
	b. 1	42	30.43
	c. 2 – 5	57	41.30

Source: Author Calculation, 2023

4.2 Path Analysis

4.2.1 Descriptive Statistic

Table 5 shows descriptive statistical data where the smallest mean value is obtained by the IFS variable, namely 3.3551 and the largest mean value is obtained by the IFAT variable, namely 4.1377. Meanwhile, the smallest standard deviation is occupied by the IFAT variable and the largest standard deviation is occupied by the BP variable.

Table 5. Descriptive Statistic

Variabel	Minimum	Maximum	Mean	Std. Deviation
IFA	1	5	3.5072	.73739
IFK	2	5	3.7899	.84104
IFS	2	5	3.3551	.73296
IFAT	2	5	4.1377	.61836
IFI	1	5	3.4710	.79407
BP	1	5	3.3623	.80093

Source: Authors Finding, 2023

4.2.2 Reliability Data

Table 6 shows the data reliability values for each variable. The recommended data reliability value is a minimum of 0.70 (Hair et al., 2006). The reliability value is shown by the Cronbach's Alpha value, where the composite value is above 0.70. This means that the data used in this research is declared reliable.

Table 6. Reliability

Variable	Cronbach's Alpha	
	Individual	Composite
Islamic Financial Awareness (IFA)	0.747	0.786
Islamic Financial Knowledge (IFK)	0.730	
Islamic Financial Skill (IFS)	0.739	
Islamic Financial Attitude	0.852	
Islamic Financial Inclusion	0.694	
Business Performance	0.714	

Source: Authors Finding, 2022

4.2.3 Correlation Among Variable

In research, the causal relationship between the independent variable and the dependent variable must have a correlation. The correlation value for each variable can be seen in Table 7.

Table 7. Correlation Matrix

Variables	IFA	IFK	IFS	IFAT	IFI	BP
IFA	1					
IFK	.573**	1				
IFS	.461**	.489**	1			
IFAT	-.042	-.126	0.069	1		
IFI	.437**	.597**	.551**	.075	1	
BP	.465**	.526**	.451**	.016	.786**	1

** = Significant at the 0.01

* = Significant at the 0.05

Source : Authors Finding, 2023

4.2.4 Multicollinierity

Multicollinearity analysis is needed to see the relationship between independent variables. Hair et al (2006) said that there are no indications of multicollinearity in the data if the variance inflating factor (VIF) value is below 10. Table 8 shows the VIF value for each variable where the value is below 10. This means that this research data is free from indications of multicollinearity.

Table 8. Multicollinearity

Independent Variable	VIF
Islamic Financial Awareness (IFA)	1.596
Islamic Financial Knowledge (IFK)	2.035
Islamic Financial Skill (IFS)	1.611
Islamic Financial Attitude (IFAT)	1.063
Islamic Financial Inclusion (IFI)	1.846

Source: Authors Finding, 2023

4.2.5 Path Coefficient

Table 9 shows the results of the causal relationship between exogenous variables and endogenous variables. From Table 9, it can be seen that the Islamic financial awareness variable has a positive influence on the Islamic financial inclusion variable, but it is insignificant ($\beta = 0.056$, t-value = 0.648). Because it rejects the proposed hypothesis (Rejected H1). Meanwhile, Islamic financial skills have a positive and significant influence on the occurrence of Islamic financial inclusion in micro businesses ($\beta = 0.407$, t-value = 5.138). Therefore, accept the proposed hypothesis (Accpeted H2). Islamic financial skills also have a positive and significant influence on the occurrence of Islamic financial

inclusion in micro-entreprises ($\beta = 0.334$, $t\text{-value} = 4.038$). For this reason, accept the proposed hypothesis (Accepted H3). This research also found a positive relationship between Islamic financial attitude and Islamic financial inclusion but it was insignificant ($\beta = 0.142$, $t\text{-value} = 1.699$) and rejected the proposed hypothesis (Rejected H4).

Table 9. Path Coefficient

Relationships	Path Coefficients Effect				Remarks
	Direct	Indirect	Total	CR	
Islamic Financial Awareness ---> Financial Inclusion	.056	-	.056	.648	Rejected
Islamic Financial Knowledge ---> Financial Inclusion	.407	-	.407	5.186**	Accepted
Islamic Financial Skill ---> Financial Inclusion	.334	-	.334	4.038**	Accepted
Islamic Financial Attitude ---> Financial Inclusion	.142	-	.142	1.699	Rejected
Islamic Financial Awareness ---> Business Performance	.162	.009	.171	2.258**	Accepted
Islamic Financial Knowledge ---> Business Performance	.012	.005	.017	0.175	Rejected
Islamic Financial Skill ---> Business Performance	-.026	-.009	-.035	0.353	Rejected
Islamic Financial Attitude ---> Business Performance	-.037	-.005	-.042	0.529	Rejected
Islamic Financial Inclusion ---> Business Performance	.734	-	.734	10.210*	Accepted

CR = Significant at ***0.01, **0.05 and *0.1

Source : Authors Finding, 2022

Another finding from this research is that there is a positive and significant relationship between Islamic financial awareness and business performance ($\beta = 0.162$, $t\text{-value} = 2.258$), and accept the proposed hypothesis (Accepted H5). The relationship between Islamic financial knowledge and business performance is also positive but not significant ($\beta = 0.012$, $t\text{-value} = 0.017$), therefore reject the proposed hypothesis (Rejected H6). The relationship between Islamic financial skills and business performance is also positive, but insignificant ($\beta = -0.026$, $t\text{-value} = 0.353$) and rejects the hypothesis (Rejected H7). Islamic financial attitude also has a positive relationship with business performance but is insignificant ($\beta = -0.037$, $t\text{-value} = 0.526$) and rejects the hypothesis (Rejected H8). Meanwhile, the Islamic financial inclusion variable has a positive and significant influence on business performance ($\beta = 0.734$, $t\text{-value} = 10.210$) and accepts the proposed hypothesis (Accepted H9).

Table 10. Path Coefficient – Summary Model

Model	R	R ²	Adjusted R ²	Std Error of the Estimate
Model 1	.677	.458	.442	.59315
Model 2	.978	.637	.623	.49164

Source: Author Findings, 2023

Meanwhile, Table 10 shows the model summary, where the R value for model 1 is 0.677 and the R2 value is 0.458. Meanwhile, for model 2, the R value is 0.978 and the R2 value is 0.638 with the standard error for each model being 0.59315 and 0.49164.

4.3 Discussion

This research aims to investigate the role of Islamic financial literacy in the occurrence of Islamic financial inclusion in micro-entreprises in Indonesia. This research also aims to look at the role of Islamic financial literacy and Islamic financial inclusion in developing micro-entreprises in Indonesia from the perspective of social exchange theory. We found empirical facts that the factors that determine the occurrence of Islamic financial inclusion in micro-business are Islamic financial knowledge and Islamic financial skills. The results of this research are in line with research conducted by Habriyanto et al (2022), Candiya Bongomin et al (2018) and Susan (2020). This indicates that it is important for micro-entreprises to increase knowledge about Islamic finance. Disney and Gathergood (2013) say that consumers who take credit or finance from banks have good knowledge about finance when compared to consumers who do not take credit.

Micro-entreprises in Indonesia must also improve their Islamic finance skills so they can evaluate various financial products before making decisions. Accurate information and good financial skills make it possible for micro-entreprises to make the right decisions regarding choosing financial products such as spending, saving, borrowing and investing (Berhman, 2010). World Bank (2012) said that entering today's complex financial industry which offers various financial products must be balanced with a person's awareness. Islamic banking in Indonesia also needs to pay attention to financial skills and financial knowledge for micro-entreprises through various programs such as socializing Islamic financial products to micro-entreprises.

Hsiao and Tsai (2018) said that financial literacy has an important role in improving company performance. This research reveals that Islamic financial literacy can improve company performance. This finding is in line with Susan (2020), Trianto et al (2021) and Candiya Bongomin (2018). These findings have important implications for micro-entreprises in Indonesia to always increase awareness regarding Islamic finance. The better understanding of Islamic finance, the better it will be for micro-entreprises to improve their business. It is important for micro-business actors in Indonesia to have a financial culture in their activities. Beres-Huzdik (2012) said financial culture is not only related to financial literacy (financial knowledge) and experience but also related to financial skills and financial consciousness. Furthermore (Csiszárík-Kocsir et al., 2016) said that several experts believe that financial culture can be connected to financial knowledge in more cases. In the light of financial consciousness people can learn the advantages and risks of financial services and can keep their investment well. Nagy and Toth (2012) emphasized that conscious behavior of people would be essential. Therefore micro-business managers must strive to acquire Islamic financial literacy skills that will help them to make important decisions in business. Micro-business managers in Indonesia must also understand that Islamic financial literacy is a necessity before accessing Islamic financial services such as savings and financing to help achieve the company's mission.

Finally, this study found Islamic financial inclusion had a positive and significant influence on the performance of micro-entreprises in Indonesia. This finding is in line with Susan (2020), Candiya Bongomin et al (2018), Habriyanto et al (2022) and Trianto et al (2021). This illustrates how important access to sharia banking in Indonesia is for micro-entreprises. Micro-entreprises that have access to sharia banking in Indonesia have greater opportunities to develop their businesses. They can choose financial products that suit the company's needs. Camara and Cuesta (2017) said that financial inclusion includes access, use and barriers. This indicates that micro-entreprises in Indonesia that have access to Islamic banks provide opportunities for them to develop their businesses. This is in line with the opinion of Beck et al., (2008) who said that access to finance for MSMEs will be able to realize growth in output, employment generation, profitability, efficiency, export, productivity and return on assets. Okello et al., (2017) added that MSMEs who can access finance formally will be able to increase income, build viable businesses, and reduce their vulnerability to external shock.

In the context of social exchange theory, then access to Islamic banking services in Indonesia for micro-entreprises already fulfills the elements of mutually beneficial exchange. Micro-entreprises can choose appropriate financial products to improve their business performance and it has been proven that the availability of access to sharia banking can develop their business. On the one hand, Islamic banking can also benefit from this exchange. The benefits that can be felt by Islamic banking are increasing the company's reputation and profits because businesses run by micro-entreprises receive profitable financing or credits. Increasing the reputation of Islamic banking will have an impact on increasing the number of customers.

4.4 Theoretical Contributions and Practical Implication

The research aims to explore the contribution of the Islamic financial literacy concept in creating Islamic financial inclusion among micro-businesses in Indonesia and to explore the contribution of the Islamic financial literacy concept to the performance of micro-businesses in Indonesia. Financial literacy is the concept of individual financial decisions in creating well-being by combining the concepts of financial awareness, financial knowledge, financial skills, financial attitude and financial behavior. OECD (2013) says that financial literacy is a process by which financially illiterate individuals improve understanding of financial products, concepts, risk through information acquisition to make informed choices, to know where to go for help, and to take effective action to improve their financial well-being. Lusardi et al. (2017) added that financial literacy helps in empowering and educating the poor so that they are knowledgeable and capable of evaluating different financial products and services.

In a theoretical perspective, financial literacy contributes to the creation of financial inclusion, although in several findings not all components of financial literacy contribute to the creation of financial inclusion (Holzmann, 2010; Candiya Bongomin et al., 2017; Habriyanto et al., 2022), but in general financial literacy contributes to the creation of financial inclusion (Bongomin et al., 2020; Susan, 2020; Trianto et., 2021). The results of this research also support previous studies and theories that components of financial literacy, especially financial knowledge and financial skills, affect financial inclusion among micro-businesses in Indonesia. The concept of Islamic financial literacy also contributes to improving company performance, especially financial awareness. This

means that theoretically, the concept of financial literacy can be applied to the micro-business community in Indonesia. This has practical implications, that owners or managers of micro-businesses need to receive education about Islamic financial literacy in order to create wider Islamic financial inclusion. The creation of Islamic financial inclusion will have an impact on company performance.

5. Conclusion and Recommendations

5.1 Conclusion

The results of this study show the positive and significant impact of Islamic financial literacy, especially the components of Islamic financial knowledge and Islamic financial skills for creating Islamic financial inclusion for Micro-enterprises in Indonesia. However, only one component of Islamic financial literacy, namely Islamic financial attitude, influences company performance. Islamic financial literacy is a person's skill in managing Islamic finances. For this reason, micro-business managers should be able to increase their skills regarding Islamic financial literacy which will help them in developing their business. Therefore, financial culture among micro businesses in Indonesia is an important thing to have. This study also found a positive and significant impact between Islamic financial inclusion and business performance. Hal ini mengindikasikan penting terjadinya inklusi keuangan Islam oleh micro-business. The results of our investigation using a social exchange theory approach show that the reciprocal relationship between micro-enterprises and Islamic banking has a mutually beneficial relationship.

5.2 Limitation of Study and Future Research

Even though this research found important results regarding the relationship between Islamic financial literacy and Islamic financial inclusion and business performance among micro-businesses in Indonesia, this research has limitations, first in terms of sample size. Second, this research also only took place in one city in Indonesia. Therefore, we recommend that for future research the number of samples needs to be increased and samples taken in several cities in Indonesia. We also recommend taking data from sub-urban and rural areas.

5.3 Policy Recommendations

The results of this research reveal the important role of Islamic financial literacy and Islamic financial inclusion in developing micro-enterprises in Indonesia. Therefore, we recommend to several parties as follows:

1. Owner or manager of Micro-enterprises need to increase sharia financial literacy by participating in various activities such as training in managing Islamic finances, debt

management, financial decision making and investment decisions. This training is needed to increase access to Islamic financial services and increase company size.

2. Islamic banking manager needs to socialize Islamic banking products to micro-entreprises more intently. Islamic banking needs to provide services that can be accessed by micro-entreprises easily and at low cost.
3. The government needs to make policies that support the development of micro-enterprises. This policy is related to increasing sharia financial literacy and Islamic financial inclusion. Training programs and sharia-based financing assistance need to be created to increase Islamic financial inclusion for micro-entrepreneurs.

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