

Analysis of the Level of Sharia Financial Literacy in Muslim Msmes in the Aloon-Aloon Area of Lamongan Regency

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Article Info	ABSTRACT
Keywords: Sharia Financial Literacy, Moslem MSMEs, Lamongan Regency Square	This research is entitled Analysis of Sharia Financial Literacy Levels in Moslem UMKM in the Alun-Alun Area of Lamongan Regency using qualitative field research and methods and descriptive analysis, the aim of this research is to find out level of sharia financial literacy among Moslem UMKM in the Lamongan Regency square area. The results of this research show that the sharia financial literacy level of moslem UMKM in the Lamongan Regency square area is classified as less literate with an average percentage of 71/7%. This study uses 4 dimensions, namely basic knowledge of sharia finance, share savings and loans, sharia insurance and sharia investment, with average results in each aspect, namely : basic knowledge of sharia finance 84%, sharia savings and loans 62.7%, sharia insurance 68% and sharia investment 72%.
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INTRODUCTION

Indonesia is a developing country and is striving to expand its financial inclusion. This is an effort to eliminate all barriers to public access to financial services. One factor that can influence the success of financial inclusion efforts (Rijal, Akmalur; Ningrum, 2023) is improving public financial literacy, which refers to the public's ability or understanding of how money works.

Financial literacy is crucial for a country's economic progress. High levels of financial literacy facilitate the implementation of financial systems and contribute significantly to economic growth. The higher the level of financial literacy, the easier it is for financial institutions to provide financial access to the public. Indonesia is the world's most populous Muslim country, with over 240 million Muslims. However, the conventional financial system outperforms the Islamic financial system. Financial literacy remains low, ranking seventh globally in terms of Islamic financial market share. Due to Indonesia's low level of literacy and technological knowledge, many remain unaware of the existence of Islamic financial products, which are highly beneficial for their lives. Educational programs, training programs, and Islamic financial literacy campaigns also play a role in shaping public understanding of Sharia-based financial aspects (Surepno & Sa'diyah, 2022).

According to Busan and Medury in their theory of Islamic financial literacy, financial literacy is the ability of a person to make the right decisions regarding the use and

management of their personal assets and to obtain information. Meanwhile, according to Dahmen and Rodriguez, there is a significant relationship between financial literacy and the performance obtained by entrepreneurs, namely a relationship that is logically applied to companies with good financial literacy so that they will be able to identify and respond to finances, so that the decisions taken will be able to produce innovative and well-directed solutions to improve the sustainability of their businesses (Lubis, 2019) .

Sharia financial literacy in Indonesia began in the 21st century when the government began to pay greater attention to the development of the Sharia financial sector. In 2008, the Indonesian government issued Law Number 21 of 2008 concerning Sharia Banking, which became the legal basis for the development of a Sharia-based financial system. Another significant step was the establishment of the Financial Services Authority (OJK) in 2011, which focuses on the development of the financial industry, including the Sharia financial sector. The OJK continues to encourage innovation and growth in this sector through supportive regulations and the implementation of various Sharia financial literacy programs (Rijal et al., 2023) .

According to a survey by the Financial Services Authority (OJK), the Islamic financial literacy index increased from 8.93 % in 2019 to 9.14% in 2022. However, the level of Islamic financial literacy remains relatively low, with only 9 out of 100 people actually engaging in Islamic finance. Furthermore, as of October 2023, the level of public inclusion in Islamic finance had only reached 12.12 % . This figure is still far from the overall financial inclusion rate of 85%. Nevertheless, Indonesia continues to strive to develop Islamic financial institutions, which are still relatively small nationally but significant globally. Several measures have been taken to introduce Islamic financial literacy, even from an early age. The Indonesian government has a vision to become a leading global Islamic economic center, targeting 90% Islamic financial inclusion by 2024. To achieve these goals, efforts are needed to increase Islamic financial literacy and inclusion through educational programs, outreach, innovation, and policies that can have a direct impact on society and the Islamic financial services industry.

Currently, the level of Islamic financial literacy in Indonesia regarding Islamic financial products and services is a crucial factor in promoting Islamic financial literacy. According to Bank Indonesia (BI) data from 2021, the number of MSMEs in Indonesia has reached over 63 million, but MSMEs remain low in utilizing Islamic banking services to develop their businesses (Menne, 2023) .

Based on the description above, especially considering the low level of Islamic financial literacy in Indonesia and the government's target for Indonesia to become a center for Islamic economics by 2024, the government is striving to continue developing a number of sectors, namely: the halal industry, the Islamic financial sector, the Islamic social financial sector, and Islamic entrepreneurship through Islamic financial literacy, which is expected to help the government in terms of improvements in these various fields (Sari, 2019).

Theoretical Basis

Understanding Financial Literacy

According to the Financial Services Authority (OJK), financial literacy is a community's skills, confidence, and knowledge related to attitudes and behaviors in improving the quality of decision-making and good personal financial management to achieve public financial well-being. The Financial Services Authority (OJK) stated that the vision of financial literacy is to create an Indonesian society with a high level of financial literacy so that people can choose and utilize financial products and services to improve their welfare. The mission of financial literacy is to provide financial education to the Indonesian people so they can manage their finances intelligently and can increase access to information and the use of financial services and products through the development of supporting infrastructure for financial literacy.

Financial literacy is the concept of knowledge about financial products and concepts, supported by advice and information, as a means of identifying and understanding financial risks and making informed financial decisions. Therefore, financial literacy can be interpreted as knowledge about finance and the goal of achieving well-being. (Kusumadewi et al., 2019)

Understanding Islamic Financial Literacy

Sharia financial literacy is the understanding, attitudes, skills, and behaviors required to make financial decisions and manage finances based on Sharia. 10 Sharia financial literacy is mandatory and must be practiced because Islam regulates how its followers manage financial matters. Therefore, increasing Sharia financial literacy is crucial for every Muslim worldwide so that the wealth they acquire or manage can be blessed in this world and the hereafter (Kusumadewi et al., 2019) .

Sharia financial activities can be interpreted as a method based on Sharia law, every person must be able to manage their personal finances in a financially literate manner that leads to healthy financial activities and is in accordance with Sharia guidance.

Goals and Benefits of Financial Literacy

Financial literacy has long-term goals intended for the community (Baiq Fitri Arianti & Khoirunnisa Azzahra, 2020) , including:

1. Improving the literacy of someone who was previously less literate or not literate to become well literate.
2. Increase the number of users of financial products and services.
3. So that the wider community can determine financial products and services that suit their needs.
4. The public has a correct understanding of the benefits and risks.
5. The public knows their rights and obligations and believes that the financial products and services they choose can improve the welfare of the community.

Meanwhile, the benefits of financial literacy for society are:

1. Able to choose and utilize financial services and products that suit your needs.
2. Able to plan finances better.
3. Do not invest in risky financial instruments.

Factors Influencing Islamic Financial Literacy

Many studies have been conducted by previous researchers on factors influencing Islamic financial literacy, and in general, according to Lusardi & Mitchell, there are 4 (four) main demographic factors that serve as a reference, (Adiyanto & Purnomo, 2021) , including:

1. Age factor .

Sharia financial literacy levels, measured by age , show that low levels of Sharia financial literacy are still found among teenagers and the elderly. The highest levels are found among adults (between 20 and 50 years old) .

2. Gender.

Several studies have shown that gender significantly influences a person's level of financial literacy. It's clear that men have higher levels of financial literacy than women. This is because men are more assertive in responding to financial challenges.

3. Level of education.

The theory of planned behavior reveals that the higher a person's education, the higher their knowledge and understanding of financial literacy, and they will be more selective and careful in choosing financial products.

4. Income.

Based on income factors, it has been empirically proven that a person's income level influences their literacy level. For example, someone with a low income also has low literacy, and vice versa. However, the literacy rate of someone with a low income is higher than that of someone unemployed or unemployed.

Seeing the problems that occur in students who are working on their thesis, it takes the right way to reduce the possibility of stress. Lazarus and Folkman (Gamayanti, 2018). There are five reasons for self-disclosure according to Derlega and Grzelak: (1) Expression, with self-disclosure, humans can express their feelings. (2) Self Clarification, by telling the feelings and problems experienced, a person can gain understanding from other people so that they can find a solution to a problem (3) Social Validation, after self-disclosure the listener will give a response, thus will get an information that beneficial. Fourth, Social Control, individuals will give beliefs or ideas that will form a good impression about themselves, Syafei, I. (2018).

METHOD

In this study, the author employed a qualitative method, a research method based on post-positivism or interpretive philosophy, used to examine natural object conditions, with the researcher acting as the key instrument. Data collection techniques used were triangulation (a combination of interviews, observation, and documentation).

The subjects of this study were Muslim MSMEs operating in the Aloon-aloon area of Lamongan Regency, and the sampling technique used was purposive sampling. According to Sugiyono, purposive sampling is a technique for selecting data sources based on specific considerations.

Purposive sampling is a sample selection method in which researchers select respondents based on certain characteristics or traits deemed relevant to their research (Lenaini, 2021). The goal is to obtain the most relevant and useful information in accordance with the research objectives..

RESULTS AND DISCUSSION

Sharia financial literacy in Muslim MSMEs in the Aloon-aloon area of Lamongan Regency

Sharia financial literacy among Muslim MSMEs (Micro, Small, and Medium Enterprises) in the town square area of Lamongan Regency is a crucial topic for developing the sharia economy at the local level. Sharia financial literacy relates to an understanding of financial products and services that comply with sharia principles, which not only prohibit riba (interest) but also encourage fair and transparent transactions, and avoid speculation and investment in prohibited businesses. Improving sharia financial literacy among Muslim MSMEs in Lamongan can provide benefits such as:

1. Wider financial access
2. Better financial management
3. Economic growth
4. Financial inclusion

In increasing Islamic financial literacy among MSMEs, there are several strategies that can be implemented, including :

Financial attitude development. Sharia financial literacy includes

1. Education and understanding of sharia concepts, such as mudharabah, murabahah, ijarah, rahn, and others. MSMEs need to understand how to manage their finances effectively to play a role in developing their businesses.
2. Use of financial products and services. MSME owners must be aware of financial products and services that are appropriate for their business needs. This will help them optimize financial management and make better business decisions.
3. Sharia financial market growth. Partnering with MSMEs operating in the sharia sector to boost the growth of the sharia financial market. This can improve the quality of sharia financial products and services and increase their appeal to the public.
4. Improving public understanding of Islamic finance. Increasing public interest in purchasing and using Islamic financial products and services, such as deposits, insurance, and so on. Public understanding of Islamic finance can be further enhanced, as evidenced by increased public interest in purchasing Islamic financial products.
5. Training and courses. MSMEs can participate in training and courses on Islamic financial literacy offered by Islamic financial institutions and MSME development institutions.
6. Human resource development. MSMEs need to develop their human resources so they can develop skills in Islamic financial management.

By implementing these various strategies, MSMEs can improve their Islamic financial literacy and ultimately manage their finances and business performance well. Improving Islamic financial literacy in Lamongan, particularly in the town square area, requires

collaboration between the local government, Islamic Financial Institutions, MSME associations, and the community. With coordinated efforts, Islamic financial literacy can be key to developing an inclusive and sustainable Islamic economy in Lamongan. Based on data obtained by researchers, Muslim MSMEs in the town square area of Lamongan Regency have less literate knowledge regarding Islamic finance, with an average percentage of 71.7%. Regarding basic Islamic financial knowledge regarding usury, 100% of MSMEs already know that usury is forbidden in Islam. The non-literate category can be seen from the number of correct answers they received from the questionnaire distributed by researchers. Many Muslim MSMEs are unaware of Islamic mutual funds; only 7 out of a total of 15 respondents did. This is due to a lack of information and education about Islamic mutual funds, which may not be as widespread as conventional financial products.

Muslim MSMEs in the Aloon-aloon area of Lamongan Regency

Muslim MSMEs consider Islamic finance a viable alternative for obtaining capital and support for their business development. Some understand that Islamic finance does not use interest, but rather is based on profit-sharing principles or Sharia-compliant financing. This benefits the economy because Islamic MSMEs avoid practices contrary to Sharia, such as gharar (uncertainty) and maysir (gambling), and are committed to upholding the principles of justice and social welfare in all aspects.

Muslim MSMEs operating around the Lamongan Regency town square reported gaining knowledge about Islamic financial literacy through various activities and sources. However, not all MSMEs possess the same level of knowledge and understanding of Islamic finance. Interviews revealed that most Muslim MSMEs acquired their knowledge from sales representatives from banks or Islamic cooperatives that offer products and loans to them. Furthermore, some also participated in training sessions or workshops that provided information on Islamic financial literacy. Others also consulted websites for research and publications on Islamic financial literacy. By accessing these resources, Muslim MSMEs can learn and understand Islamic financial literacy and apply it to their business management.

Sharia financial literacy analysis can be measured based on questions in a questionnaire distributed by researchers and completed by respondents. The formula for calculating the level of Sharia financial literacy among Muslim MSMEs is as follows:

$$\text{Sharia Financial Literacy Level Category} = \frac{\text{Number of correct answers}}{\text{All questions}} \times 100\%$$

Example: $12/15 \times 100\% = 80\%$

According to Chen and Volpe, financial literacy is categorized into three groups: well literate, less literate, and not literate. The not literate group of respondents is the group of respondents who obtained a score of <60% of the total correct answers on the level of Islamic financial literacy. The less literate group of respondents is the group of respondents who obtained a score of 60–79% of the total correct answers on the level of Islamic financial literacy. Meanwhile, the well literate group of respondents is the group of respondents who obtained a score of >80% of the total correct answers on the level of Islamic financial literacy.

The following is a description of the level of Islamic financial literacy from each dimension:

Table 1 : Percentage of Respondents Who Answered Questions With Correct

No.	Dimensions	Question	Respondent	Financial Literacy Level Sharia		
				<i>Not Literate</i> (<60%)	<i>Less Literate</i> (60-79%)	<i>Well Literate</i> (>80%)
1.	Knowledge The Basics of Islamic Finance	I knowing that usury is something that is prohibited in Islam	15			100%
		I apply	13			86.7%
		principle sharia in sharia banking operations				
		I know about profit sharing in Islamic banks	12			80%
		I understand the principle of profit sharing in cooperation	11		73.7%	
		I understand the benefits of basic knowledge of Islamic finance	12			80%
Average						84%
2.	Savings and Sharia Loans	I find out about savings products at Islamic banks	10		66.7%	
		I understand the various types of contracts in sharia financing	10		66.7%	
		I learn about murabahah financing	10		66.7%	
		I				

		learn about mudharabah financing	8	53.4%		
		I know about the benefits of mudharabah savings	9	60%		
Average					62.7%	
3.	Insurance Sharia	I know the principles of Islamic insurance	11		73.4%	
		I knowing the difference between sharia insurance and conventional insurance	11		73.4%	
		I know the benefits of using sharia insurance	11		73.4%	
		I knowing about sharia insurance products	10		66.7%	
		I knowing the risks in insurance sharia	8	53.4%		
Average					68%	
4.	Investment Sharia	I knowing about sharia investment products	9		60%	
		I know the benefits of long term investment	13			86.7%
		I learn about sharia mutual funds	7	46.7%		
		I am aware of the investment risks	12			80%
		I understand about the compensation for the Company's services.	13			86.7%
Average					72%	

Source: Processed data, 2024

The table above shows the percentage of respondents who answered each question correctly, along with the average for each dimension of Islamic financial literacy. It can be seen that the lowest level of Islamic financial literacy among Muslim MSMEs is in the Islamic savings and loans dimension, at 62.7%, and the highest level is in the basic Islamic financial knowledge dimension, at 84%.

Discussion

Muslim MSMEs operating around the town square in Lamongan Regency reported gaining knowledge about Islamic financial literacy through various activities and sources. However, not all MSMEs possess the same knowledge and understanding of Islamic finance. Interviews revealed that most Muslim MSMEs acquired their knowledge from sales representatives from banks or Islamic cooperatives that offer products and loans to them. Furthermore, some also participated in training sessions or workshops that provided knowledge about Islamic financial literacy. Others deliberately studied websites for research and publications on Islamic financial literacy. By accessing these resources, Muslim MSMEs can learn and understand Islamic financial literacy and apply it to their business management.

The population in this study was the number of Muslim MSMEs in the Lamongan Regency town square area. The population of Muslim MSMEs was 76 Micro, Small, and Medium Enterprises (MSMEs). Sampling was conducted by selecting several MSMEs that met the researcher's criteria. Interest in Islamic banking among Muslim MSMEs is still relatively low due to limited understanding and outreach. The phenomenon is evident in the presence of Islamic banks in Lamongan Regency, but their presence does not attract the sympathy and empathy of Muslim MSMEs who want to become Islamic banking customers. Furthermore, this lack of knowledge among Muslim MSMEs about Islamic banking can lead to inaccurate perceptions about Islamic banking.

Customers' knowledge of Islamic banks is still very limited. Some customers are still unaware of what Islamic banks actually are, and some customers still equate Islamic banks with conventional banks. This is due to several factors that prevent customers from fully embracing Islamic banks as a whole, including: the less widespread distribution of Islamic banks compared to conventional banks, so that people have not completely separated from conventional banking. Furthermore, people are still accustomed to conventional banks because conventional banks are the banks they first became familiar with.

Based on the research results above, the level of Islamic financial literacy of Muslim MSMEs in the Lamongan Regency square area is classified as less literate. Islamic financial literacy is an individual's ability in knowledge, skills, and attitudes in managing financial resources according to Islamic teachings. Furthermore, Islamic financial literacy is also a religious obligation for every Muslim, because it impacts the realization of Al-Falah (Success) in this world and the hereafter. Islamic financial literacy is a skill that every Muslim individual must have to manage their personal finances for financial well-being in the future. Therefore, Muslim MSMEs must have good Islamic financial literacy to be able to make financial decisions according to their needs and abilities.

Respondents in this study were several Muslim MSMEs in the town square area of Lamongan Regency. If Muslim MSMEs do not yet understand Islamic financial literacy, they should be provided with a brief and clear understanding by the relevant Islamic financial institutions, so that Muslim MSMEs can make better financial decisions according to their needs. Furthermore, by improving financial literacy, Muslim MSMEs will have relevant skills in decision-making by understanding the resulting financial consequences. Muslim MSMEs, as consumers and customers, must also be given confidence and trust that Islamic financial institutions in carrying out their activities and financial management are supervised by regulators to protect the interests of consumers and customers.

CONCLUSION

Based on the research results, it can be concluded that the level of Islamic financial literacy among Muslim MSMEs in the Lamongan Regency square area is 71.7% and is classified as less literate (60-79%). This study uses 4 dimensions, namely basic knowledge of Islamic finance, Islamic savings and loans, Islamic insurance and Islamic investment, with average results in each aspect, namely: basic knowledge of Islamic finance 84%, Islamic savings and loans 62.7%, Islamic insurance 68% and Islamic investment 72%. Therefore, the level of Islamic financial literacy is very important for every individual, especially those who are Muslim, because with a high level of understanding, individuals can manage their finances well, so they can make financial decisions that are in accordance with their abilities and life needs to achieve prosperity in the future

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