THE EFFECT OF ISLAMIC FINANCIAL LITERACY ON THE PERFORMANCE OF UMKM IN MEDAN CITY

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Abstract

This study aims to determine the effect of Islamic financial literacy on the performance of UMKM in the city of Medan. The research method used in this study is a quantitative method. The data used are primary data obtained through a questionnaire with a Likert scale. The population in this study were all UMKM actors in the city of Medan. The sampling technique in this study was using the accidental sampling method, totaling 30 people. The data analysis technique used is simple linear regression analysis with statistical tests consisting of partial tests with ttest and R Square (R2) determination test. Based on the results of the t-test, Islamic financial literacy has a significant effect on the performance of UMKM in Medan City with a tcount of 3,585 with a significance level of 0.001. While the value of R2 is 0.806%, this means that 80.6% of Islamic financial literacy can explain the performance of UMKM and the remaining 19.4% is explained by other variables outside of this research variable.
Keyword: Financial Literacy, UMKM Performance, and UMKM Actors

The development of the financial sector is one of the determining factors for increasing the economy in a country. The increasingly complex development of financial services requires the public to pay more attention to these conditions. The Financial Services Authority is a State institution whose function is to carry out integrated regulation and management of all activities in the financial services sector. Law No. 21/2011 concerning OJK is to supervise and control the financial services industry as well as to ensure the interests of the community which include financial literacy and inclusion factors.

Financial literacy is a series of activities to improve people's knowledge, skills and trust so that they can manage personal finances well. Improving Islamic financial literacy needs to be done with the aim of expanding individual financial literacy which was originally not literate to well literate in Islamic finance, in addition to increasing the number of consumers of Islamic financial products and services (OJK, 2016) (Nurhidayati & Anwar, 2018).

The growing population in Indonesia is becoming a potential target market for companies, both financial and non-financial. A company that has an important role in the development and growth of the national economy is a company in the financial sector. Financial institutions are also an inherent aspect of the life of the wider community.

One of the financial institutions is banking. Banks are institutions that are trusted by people from various circles in placing their funds safely. On the other hand, banks play a role in channeling funds to people who need funds.

As is the case with financial institutions, one of whose functions is to channel funds to those in need, MSMEs are one of the business units that urgently need financial assistance from financial institutions to maintain the existence of MSMEs in the community. MSMEs play a very important role in advancing economic growth and absorbing labor. This will certainly increase the country's economic growth.

MSMEs are business units owned by the community that have a positive influence on the country's economy. The existence of MSMEs in the community to this day is a concern of the government. The form of government support for MSMEs is the existence of counseling provided by the government to MSME actors so that they can improve their abilities or skills in managing their MSMEs. Another form of support is the existence of regulations from the government in this case Islamic financial institutions that provide financing facilities with relatively small returns. This is considering that MSMEs are small businesses that are developing in the midst of society(Hanum, 2014).

The existence of government support in terms of funding will be meaningless if MSME actors do not understand the importance of financial literacy. Financial literacy is one of the important sciences for every MSME actor. Not only is it always related to funding from financial institutions, but financial literacy is more about how an MSME actor can manage his finances well so that he can generate the desired profit.(Nanda et al., 2019).

Financial literacy is a science or education that teaches us to manage our assets or finances so that we can manage finances effectively and efficiently which in the end by understanding financial literacy we are also able to make the right financial decisions. Understanding of financial literacy can also guarantee our lives in the future. This can happen because we can manage our finances as well as possible(Gunawan et al., 2019b).

Retirement is an age that is no longer productive, for that we need to think about and prepare for everything related to our retirement, including finances. So, financial literacy is not only important for a business, but more than that, financial literacy also teaches us how to manage our personal funds so that we are free from financial problems.(Gunawan et al., 2019a)

Financial literacy is very important, to increase individual responsibility and see the ability of savings that can meet old age or retirement. The existence of large fluctuations in loan interest can cause a person's potential for bankruptcy. This occurs due to errors in managing finances.

From the explanation above, it is clear that MSMEs, which are micro-enterprises, must be required to be able to understand financial literacy well. A good understanding of financial literacy is expected to be able to expel every MSME actor who has funding problems. MSMEs are small businesses that always have problems with capital and for that financial institutions, in this case Islamic banks, are here to overcome these problems. However, if MSME actors do not understand the concept of financial literacy, then the problem of lack of capital will not be solved.

The existence of MSMEs in the community has provided many benefits for the surrounding community. One of the perceived benefits is the opening of job opportunities for job seekers. MSMEs have great potential in absorbing labor (Hafni & Rozali, 2017). MSME actors often open their businesses by accident, meaning that there is no desire to become employees or work with other people, so the choice is to open a business. Even MSME actors often do not carry out the company's functions in a professional manner. For this reason, MSMEs must get attention from the government, not only in terms of capital but also in terms of skills.

According to Lila Bismala, the determinants of the success of MSMEs consist of several factors including human resources (HR), capital, machinery and equipment, business management, marketing, availability of raw materials, and information in order to have global access (Bismala, 2016). All of these factors are very much needed so that MSMEs can continue to grow and develop.

One of the most frequently used financing contracts by Islamic financial institutions to fund MSMEs is financing with a murabahah contract. This contract is the easiest contract in its application in Islamic banking, both for MSME actors and for Islamic financial institutions (Bara & Pradesyah, 2019).

Method

The research method uses quantitative research methods with primary data types obtained using an instrument or questionnaire (questionnaire) which is a list of questions compiled in writing. The population in the study is a number of registered SMEs as many as 1235 people. The sampling technique used the slovin formula so that the number of samples obtained was 93 people.

The data analysis technique in this study used simple linear regression consisting of a partial test with t-test and a determination test with R-Square (R2). However, before regressing the existing data, the data needs to be tested for validity with validity and reliability tests.

Findings and Discussion

Based on the SPSS output that has been carried out, the following research results are obtained:

1. Test the Validity of the data consisting:
   a. Validity Test
   Based on the validity test carried out, the results obtained are the data in this research are valid. This is known by comparing rtable and rcount. From the results of this study, it was obtained rcount > rtable. So all the question items in this study are valid and feasible for further testing.
   b. Reliability Test
   Reliability test is used to test whether the questionnaire compiled is a reliable measuring instrument or not. The technique used is Combach Alpha. Based on the analysis carried out, the results of reliability testing can be shown in the following table.
   Decision Making Basis:
   Alpha > r_{tabel} = Reliabel
   Alpha < r_{tabel} = TidakReliabel
   Tabel 1 Reliability Statistics Test for Islamic Financial Literacy and MSME Performance

Variabel	Cronbach's Alpha	N of Item
Lierasi Keuangan	0.722	10
Kinerja UMKM	0.720	10

Based on the table above, it can be concluded that the variables in this study are reliable or trustworthy because the Alpha value is greater than 0.6.

2. Hypothesis Test

a. Partial Test with t_{test}

Tabel 2 Coefficients Table

	Model	Unstandardized Coefficients			t	Sig.
		B	Std.Error	Beta		
1	(Constant)	5.732	3.734		1.535	.136
	LiterasiKeuangan	.538	.150	.551	3.585	.001

DependentVariable: KinerjaUMKM

Based on the table above, it can be concluded that Islamic financial literacy has a significant effect on the performance of MSMEs in the city of Medan with a value of tcount > ttable which is 3,585 > 2,048 with a significance level of less than 5% or 0.05, which is 0.001.

b. Determination Test with R-Square (R^2)

Table 3 Model Summary Table

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std.Error ofthe Estimate
dimension	.898a	.806	.792	1.19198

a. Predictors:(Constant),LiterasiKeuangan,

b. DependentVariable:KinerjaUMKM

The table above shows that the R Square value is 0.806 or 80.6%, which means that the independent variable (Islamic financial literacy) can explain the dependent variable (SME performance) of 80.6% while the remaining 19.4% is explained by other variables outside of the variables used in this study

Discussion

Based on the results of the research above, it is explained that there is a significant influence between Islamic financial literacy on the performance of MSMEs in Medan City. Understanding of Islamic financial literacy is very important for MSME actors because it greatly affects the way MSMEs manage their finances.

The resulting research model is:

$Y= 5.732 + 0.538 X$

This explains that if the understanding of MSME actors on financial literacy does not exist or the value is 0, then the MSME performance is constant at 5,732. This means that if the understanding of MSME actors towards Islamic financial literacy increases to 1, the MSME performance level also increases by 0.538. And conversely, if the understanding of MSME actors on financial literacy decreases, the performance of MSMEs is also predicted to decrease by 0.538.

The function of Islamic financial institutions in this case Islamic banks in maintaining the existence of MSMEs in our midst is very large. This provides opportunities for MSME actors to overcome funding problems. Islamic financial institutions are here to provide financing facilities to every MSME actors who need additional capital or who experience a lack of capital. By getting an injection of funds from Islamic financial institutions, the performance of MSMEs will increase and this will affect the economic growth of a region. When the economic growth of a region is good, this will automatically have an impact on increasing the country's economy.

The role of MSMEs in accommodating workers will also continue if MSME actors can take advantage of financing facilities from Islamic financial institutions. Of course, MSMEs must also understand Islamic financial literacy well so that the funds obtained can be managed effectively and efficiently which will ultimately increase the income of MSME actors.

Conclusions and Suggestions

Based on the results of this study, it can be concluded that Islamic financial literacy has a significant influence on the level of performance of MSMEs in MSME City. This can be seen through the partial test with ttest which states that tcount > ttable. Then based on the R-Square (R2) determination test, the R2 value is 0.806 or 80.6%, which means that Islamic financial literacy can explain the performance of MSMEs by 80.6% and the rest is explained by other variables outside of this research variable.

Islamic financial institutions that play an important role in assisting funding for MSME actors are expected to be able to channel working capital financing to all MSME actors who need these financing facilities. So that the existence of MSMEs continues to provide benefits for the surrounding community and the country's economic growth.

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