

The Influence of Promotion, Financial Literacy, and Income on Interest Small and Medium Enterprise (SME) Applying for Financing to Sharia Microfinance Institutions (LKMS)

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ABSTRACT

This research aims to determine the influence of promotion, financial literacy and income on interest in small and medium enterprises (SME) applying for financing at sharia microfinance institutions (LKMS) in Lhokseumawe city. The sampling technique uses Random sampling. The total sample was 96 people in the city of Lhokseumawe. Research data was analyzed using PLS-SEM (Partial Least Square – Structural Equation Modeling) with Smart PLS 3 Software. The research results showed that the Promotion variable did not have a positive influence on Small and Medium Enterprise (SME) interest in applying for financing at Sharia Microfinance Institutions (LKMS). Meanwhile, the financial literacy and income variables have a significant positive influence.

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INTRODUCTION

Financial institutions play a major role in supporting economic activities in Indonesia, especially in the financial sector. The economic sector that has the greatest impact on the economic activities of modern society is financial institutions. Even though micro businesses are an important component in the economy, currently micro businesses are still experiencing difficulties in developing. Development slowed down because financial institutions, especially traditional banking institutions, found that they had no funding. Micro, Small and Medium Enterprises (MSMEs) rely on informal sources and Microfinance Institutions (LKM) due to the limited availability of banking financing sources. Financial institutions are institutions that offer formal, semi-formal and informal financial services to underprivileged communities and micro-entrepreneurs (Suprayugo 2022).

For those who do not have access to banks, microfinance institutions provide platforms. Baitul Maal Tamwil is one of these microfinance institutions. Over the past few years, BMT has become a topic of intense discussion. BMT has developed as a substitute for improving the state of the Indonesian economy. By providing capital to people who already have a business or want to start a new business, BMT can act as an intermediary between banks and small business owners (Yogasnumurti et al. 2023).

The large role of financial institutions in economic growth has also overwhelmed the economy of the lower middle class, such as MSMEs. Efforts that can be made to strengthen Microfinance Institutions so that Microfinance Institutions can reach widely, maintain financial sustainability and provide a positive impact are

by: strengthening capital and management of community financial institutions, raising support and facilitating MSME financing with financial institutions, raising participation from various parties in financing MSMEs in the regions (Riyadi, Effendi, and Nursyamsiyah 2020).

Financial institutions that operate in accordance with sharia principles and offer credit and other services related to payment traffic and money circulation are known as sharia microfinance institutions. Since the early 1990s, Islamic microfinance has become increasingly popular, especially in Indonesia and other countries where the majority of the population is Muslim. Founded in 1990, the Sharia Microfinance Institution in Indonesia, also known as Baitul Maal wat-Tamwil (BMT), represents a new avenue for microfinance in the country. In Indonesia, Baitul Maal wa Tamwil (BMT) operates similarly to a sharia cooperative. Its mission is to offer financial services that comply with Islamic law, especially to underprivileged Muslim communities (Literature et al. 2022).

In Indonesia, sharia financial institutions can be found almost throughout the archipelago. Likewise, with the change in public attitudes towards sharia financial institutions, the number of Sharia Microfinance Institutions (LKMS) is also increasing. Given the current circumstances, microfinance can be a strategy to strengthen the economy and divert it into profitable ventures to reduce poverty. To distribute money without collateral, microfinance companies may also form group patterns. when a group of people consists of several people who share debt repayment responsibilities among themselves. This means that the group's ability to distribute loans to other members will be hampered if one member is unable to fulfill his responsibilities (Octafia 2017).

Sharia Microfinance Institutions (LKMS) can be used as a solution to support capital for MSMEs, because the administrative requirements for applying for capital at Sharia Microfinance Institutions are simpler than applying for banking. Because in this Sharia Microfinance Institution the credit requirements are easy and light and the credit procedures are very simple (Putri and Putu Eka Dianita Marvilianti Dewi 2022). This is what can open up the widest opportunities for Micro, Small and Medium Enterprises to access capital for financing through Sharia Microfinance Institutions (Syafani Natya 2020).

Working capital financing is intended to help customers who lack capital for their business, so that if they receive additional funds, their business can continue running. When a customer's business is running well, it will be possible for the company to grow and increase productivity even further. Customers use the funds provided to build Micro, Small and Medium Enterprises to support the businesses they operate temporarily. This way, the customer's business can continue to operate and grow (Judge 2018).

According to data from the Coordinating Ministry, Micro, Small and Medium Enterprises (MSMEs) in Indonesia can be said to be growing rapidly. The number of MSMEs in Indonesia reached 59.2 million in 2017 (Hafizh and Silalahi 2022). Micro, Small and Medium Enterprises (MSMEs) have quite large development potential because of the many elements that drive their progress. These elements come from within and without. Internal determinants of MSMEs include drive to develop, openness to new ideas, and ambition to succeed. Meanwhile, easy access to capital, economic growth and technological progress are external factors that encourage the development of MSMEs. Not all MSMEs can progress along with technological advances (Hamza and Agustien 2019).

The following is a graph of the development of the number of MSMEs in Indonesia in 2017-2022:

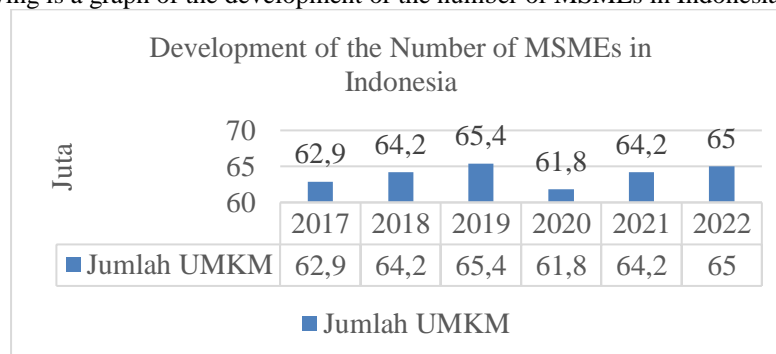


Figure 1 development of the number of MSMEs in Indonesia in 2017-2022:

Source: Department of Cooperatives and SMEs (Data Processed 2023)

It can be seen in the table above that MSMEs have increased every year starting from 2017-2019. However, in 2020 there was a decline due to Covid-19, but starting in 2021-2022, MSMEs have recovered and are experiencing continuous improvement.

The total number of MSMEs in the entire Aceh Province registered with the Cooperatives and SMEs Service is 74,810 business units. Like in Lhokseumawe City which is one of 21 Regencies/Cities in Nagroe

Aceh Darussalam Province. Lhokseumawe City itself consists of 4 sub-districts with a total number of businesses reaching 2,352 business units.

Table 1 Data on Micro, Small and Medium Enterprises in Lhokseumawe City in 2023

No.	District name	Number of MSMEs
1	Muara Dua	447 Units
2	Banda Sakti	1616 Units
3	Blang Mangat	114 Units
4	Muara Satu	175 Units
	Total	2,352 Units

Source: Department of Cooperatives and SMEs (Data Processed, 2023)

Seeing that the economic condition of the city of Lhokseumawe is categorized as quite good, and the policies of the Lhokseumawe City government which are quite supportive of improving the people's economy. In this way, it can open up opportunities for Micro, Small and Medium Enterprises (MSMEs) to develop their business.

Promotion

Promotion is very important to attract customer attention. Simply put, the purpose of promotions is to engage, persuade, and inform customers. One of the most important aspects in attracting customer interest is promotion. Banks will increase the breadth of knowledge and information that their customers have regarding their goods by advertising the goods they offer (Kristiyadi and Hartiyah 2016). Promotional activities are intended to help the general public know and become familiar with the offers of a company or non-bank financial institution so that they can make the right decisions regarding funding from that organization. Promotional activities need to receive more attention because promotion is one aspect that determines the success of a marketing program. No matter how good the product quality is, if customers or the public have never heard of promotional activities, they need to get more attention because promotion is one of the determining factors for the success of a marketing program. No matter how good the product quality is, customers or the public have never heard of it. At this time, it could be said that there are still many business actors, especially MSMEs, who prefer to take credit loans from banks. The lack of promotion by non-bank financial institutions (LKBB) is one of the causes of the lack of knowledge about these non-bank financial institutions (Economy 2021). In the journal Kristiyadi and Hartiyah (2016), Promotion has a positive effect on Interest in Saving in Sharia Financial Services Cooperatives.

Financial Literacy

Financial Literacy is the ability to understand and apply sharia financial ideas as well as use and manage available funds to achieve goals based on sharia principles (Adiyanto and Purnomo 2021). People are easily deceived into making investments that promise tempting profits in a short time without considering the risks because of the public's limited understanding of the financial industry and its products. As a result, society as a whole suffers. Research entitled Sharia Financial Literacy in Islamic Religious Universities (Case Study of UIN Alauddin Makassar) by Said and Amiruddin (2017) found that access to information on sharia finance is still low. The government together with sharia financial institutions need to strive for an understanding of sharia financial literacy among the public (Adiyanto and Purnomo 2021).

Income

Income is the amount of money received in the form of salary or wages or from side businesses. The factor that can influence the decision to take financing is the customer's own income. According to research conducted by (Rahma, 2020), income has a significant positive effect on customer decisions in making murabahah financing decisions at BCA Syariah. When taking out financing, customers must consider their income. Customer income is very important because it can determine the customer's ability to make installment payments (Eka, Ardiansyah 2024).

METHOD

This study employed a quantitative research methodology. Both primary and secondary data were used. Primary data for this study are those that were obtained straight from the research object through a survey given to MSMEs in Lhokseumawe City. The variable scale is measured using a Likert scale that spans from

"1" denotes a significant disagreement while "5" denotes agreement. In the meanwhile, books, journals, and statistical data provided secondary data pertaining to the variables in this study. There were 2,352 MSMEs in Lhokseumawe City that made up the study's population. In the meantime, 96 MSMEs made up the sample in this study. In this study, a random sampling strategy was employed for sampling. Researchers employ data analysis tools to process data, such as.

RESULTS

Based on the results of the data that has been processed using SAM PLS, the data results can be obtained as follows:

1. Evaluation Of Measurement Model (Outer Model)

The outer model is evaluated by looking at the validity, reliability, composite reliability and Cronbach's alpha measurement values of the model.

Validity test

Convergent and discriminant validity form the validity of a measurement. Loading Factor parameters and AVE (Average Variance Extracted) values are used to determine convergent validity. If the AVE value and loading factor value are greater than 0.5 and 0.7 respectively, then the measurement is said to have convergent validity. But according to (Muhson 2022) Loading factor values between 0.5 and 0.6 are considered sufficient for research in the early stages of developing a measurement scale. The loading factor limit is 0.70 which will be used in this research.

Convergent Validity

Convergent validity is the correlation between the indicator score and the construct score. The PLS-SEM model meets convergent validity and can be said to be valid if the outer loading value is > 0.7 and the AVE value is > 0.5 . However, a loading factor value between 0.5 and 0.6 is considered sufficient for research in the early stages of developing a measurement scale (Muhson 2022). The following are the results of the correlation between the indicators and their constructs. The outer loading values in the model can be seen in the table below.

Table 2 Outer Loading Values

Variable	Indicator	Outer Loading Value	Information
<i>Promotion</i>	Pr1	0.751	Valid
	Pr3	0.717	Valid
	Pr4	0.796	Valid
	Pr5	0.791	Valid
	Pr10	0.742	Valid
<i>Financial Literacy</i>	FL1	0.821	Valid
	FL2	0.835	Valid
	FL3	0.768	Valid
	FL4	0.763	Valid
	FL5	0.728	Valid
	FL10	0.742	Valid
<i>Income</i>	In1	0.855	Valid
	In2	0.903	Valid
	In3	0.828	Valid
SME Interest	MU.1	0.819	Valid
	MU.2	0.836	Valid
	MU.3	0.856	Valid
	MU.4	0.853	Valid

MU.5	0.860	Valid
MU.6	0.812	Valid

Source: Data processed with Smart PLS (2024)

After carrying out calculations, the outer model in the table above shows that all loading factors for each indicator have values above 0.70.

Table 3 Results of Average Variance Extracted

Variable	AVE	Critical Value	Information
<i>Promotion</i>	0.530	> 0.5	Valid
<i>Income</i>	0.744	> 0.5	Valid
<i>Financial Literacy</i>	0.526	> 0.5	Valid
SMEs interested in applying for financing at LKMS	0.705	> 0.5	Valid

Source: Data processed with SmartPLS (2024)

Thus, it can be concluded that based on the outer loading and Average Variance Extracted (AVE) values, this research data meets the requirements for convergent validity.

Discriminant Validity

Testing discriminant validity involves looking at the cross loading value of measures with a construct, specifically the cross loading value > 0.70 in one variable. Discriminant validity can also be confirmed by comparing the AVE roots for each concept with other elements in the research model. The model is taken into account if the root AVE of any construct is higher than the correlation between that construct and other constructs, then the discriminant validity will be sufficient. The following are the outcomes of the discriminant validity testing conducted in this study:

Table 4 Cross Loading

	<i>Financial Literacy</i>	<i>Income</i>	SMEs interested in applying for financing at LKMS	<i>Promotion</i>
FL.1	0.821	0.692	0.720	0.512
FL.10	0.742	0.483	0.501	0.420
FL.2	0.835	0.704	0.827	0.556
FL.3	0.768	0.642	0.712	0.539
FL.4	0.763	0.724	0.734	0.524
FL.5	0.728	0.589	0.623	0.437
IN.1	0.669	0.855	0.716	0.554
IN.2	0.671	0.903	0.763	0.483
IN.3	0.655	0.828	0.697	0.533
MU.1	0.719	0.732	0.819	0.507
MU.2	0.699	0.674	0.836	0.522
MU.3	0.706	0.690	0.856	0.622
MU.4	0.701	0.722	0.853	0.502
MU.5	0.715	0.720	0.860	0.558
MU.6	0.702	0.700	0.812	0.553
Pr.1	0.605	0.587	0.522	0.751
Pr.3	0.359	0.276	0.362	0.717
Pr.4	0.508	0.526	0.585	0.796
Pr.5	0.604	0.514	0.510	0.791

Source: Data processed with SmartPLS (2024)

From the data in the table above, it is clear that the indicators used in this research have strong discriminant validity when compiling the variables. The fact that the cross loading value of each indicator on the variable created is higher than the cross loading value on other variables further supports this.

Reliability Test

The reliability test includes Cronbach's alpha and composite reliability. Cronbach's alpha and composite reliability are used to assess an indicator's dependability value on a variable. A variable is considered to meet the composite reliability and Cronbach's alpha requirements if its values are more than 0.70 (Muhson 2022).

Table 5 Composite Reliability Results

Variable	Composite Reliability	Rule of Thumb	Results
Financial Literacy	0.930	>0.70	Reliable
Income	0.897	>0.70	Reliable
SMEs interested in applying for financing at LKMS	0.935	>0.70	Reliable
Promotion	0.871	>0.70	Reliable

Source: Data processed with SmartPLS (2024)

From the table above, it shows that the value Composite Reliability for all variables has a Composite Reliability value > 0.70 , so that the data is reliable and further data processing testing can be carried out.

Table 6 Cronbach's Alpha Results

Variable	Cronbach's Alpha	Rule of Thumb	Results
Financial Literacy	0.918	>0.70	Reliable
Income	0.827	>0.70	Reliable
SMEs interested in applying for financing at LKMS	0.916	>0.70	Reliable
Promotion	0.823	>0.70	Reliable

Source: Data processed with SmartPLS (2024)

The table above shows that all variables used in this research are reliable because they produce Cronbach's alpha values > 0.70 . It is concluded that the data has passed the reliability test, so the data can be continued to the next analysis.

2. Evaluation Of Structural Model (Inner Model)

R-Square Value

R-Square calculates the impact of the independent variable's value on the dependent variable. With Smart PLS, the R-Square value is produced during the data processing step. The findings of the inner model (structural model test) on the coefficient of determination (R²) will first be displayed through data analysis. The coefficient of determination, or R-square (R²), has a value between 0 and 1. It is evaluated based on three factors: the first is the substantial/strong value of R-square (R²), which is between 1 and 0.75; the second is a moderate R-square (R²) value, namely between 0.74 to 0.5; and the third is a weak R-square (R²) value, namely between 0.49 and 0.25. The following are the coefficient of determination values produced by this research:

Table 7 Results of R-Square Values

Variable	R Square	R Square Adjusted
SMEs interested in applying for financing at LKMS	0.805	0.798

Source: Data processed with SmartPLS (2024)

Based on the results of the coefficient of determination (R square) value produced by the research construct, the Promotion, Financial Literacy and Income variables for the SME Interest variable in applying for financing at Sharia Microfinance Institutions are 0.805 or 80.5% which is strong. Meanwhile, the remaining 19.5% (100-80.5) was influenced by variables outside the research.

F-Square Value

F-square is to qualify the influence of variables on other variables if they are declared significant and how much influence they have at the structural level, whether the value is small, medium or high. The f-square value is 0.02 (small), 0.15 (medium) and 0.35 (high). This test is carried out to determine the goodness of the model and this test is to explore whether the endogenous latent variable is strongly influenced or not by the exogenous latent variable. (Marko Sarstedt, Christian M. Ringle 2017).

Table 8 Results of F-Square Values

	Pr(X1)	FL (X2)	In (X3)	MU (Y)
Pr(X1)				0.021
FL (X2)				0.338
In (X3)				0.411

Source: Data processed with SmartPLS (2024)

With an f-square value of 0.021, the promotion variable on SME Interest in applying for Financing at Sharia Microfinance Institutions is found to have a negligible impact, according to the above table. The financial literacy variable has a high f-square value of 0.338, indicating that SME interest in applying for financing at Sharia Microfinance Institutions is influenced by it. The Income variable also affects SMEs' interest in applying for Sharia-compliant financing. Microfinance Institutions: the 0.411 f-square score is highly significant.

Path Coefficients

The value of path coefficients or path coefficients is a value that shows the direction of the variable relationship, whether the hypotheses have a positive or negative direction. The range of this route coefficient is -1 to 1. A positive relationship occurs if the value is 0 to 1, and a negative relationship occurs if the value is 0 to -1. The table below displays the path coefficient values.

Table 9 Path Coefficients

Variable	Path Coefficients (Y) SME interest in applying for financing at LKMS
(X1) Promotion	-0.086
(X2) Financial Literacy	0.436
(X3) Income	0.454

Source: Data processed with SmartPLS (2024)

The aforementioned data indicates that there is a negative correlation, of -0.086, between the variable Promotion and SME interest in applying for financing at Sharia Microfinance Institutions. The interest of SMEs in submitting a funding application to Sharia Microfinance is positively correlated with the financial literacy variable. Instances, specifically 0.436. Additionally, there is a positive correlation (0.454) between the income variable and SME interest in applying for credit at Sharia Microfinance Institutions. Therefore, the financial literacy and income factors have a positive link with the interest of SMEs to apply for funding at Sharia Microfinance Institutions. Additionally, there is a single variable the Promotion variable that has a negative correlation with SMEs' interest in applying for credit at Sharia Microfinance Institutions.

T-Statistics (Bootstrapping)

To be able to see whether the relationship is significant or not, use the bootstrapping method in Smart PLS. If > 1.96 then the relationship is significant and if < 1.96 then the relationship is not significant (Muhson 2022). The results of t-statistics (bootstrapping) can be seen in the table below.

Table 10 Bootstrapping Calculation Results

Hypothesis	Original Samples	Q statistics	P Values
<i>Financial Literacy</i> -> SMEs interested in applying for financing at LKMS	0.436	5,227 >1.96	0.000 < 0.05
<i>Income</i> -> SMEs interested in applying for financing at LKMS	0.454	5,233 >1.96	0.000 < 0.05
<i>Promotion</i> -> SMEs interested in applying for financing at LKMS	0.086	1,181 <1.96	0.238 > 0.05

Predictive Relevance(Q2)

The predictive relevance value (Q2) is a numerical value that is between 0 and 1. The model used in research has predictive relevance if the Q2 value > 0, while the model is less predictively relevant if the Q2 value ≤ 0. The higher the research predictive model, the predictive relevance value getting closer to 1.

Table 11 Predictive Relevance Results (Q2)

Dependent Variable	Q Square
SMEs interested in applying for financing at LKMS	0.557

Source: Data processed with SmartPLS (2024)

Based on the results, the predictive relevance value (Q square) produced by the research construct is 0.557 for the variable SME Interest in applying for Financing at Sharia Microfinance Institutions. So that this value is greater than the value 0, then distributive justice towards Y has predictive relevance.

Fit Models

The Normed Fit Index (NFI) value is displayed in the Fit Model. NFI values ranging from 0 to 1 are obtained by comparing the hypothesized model with certain independent models (G. David Garson, 2016). If the value is close to 1 then the model fits very well. The NFI values for this research are shown in the table below:

Table 12 Model Fit

	Saturated Model	Estimated Model
SRMR	0.088	0.088
d_ ULS	2,925	2,925
d_ G	1,509	1,509
Chi-Square	703,253	703,253
NFI	0.668	0.668

Source: Data processed with Smart PLS (2024)

Based on the table above, it shows that the NFI value in this model is 0.668. This means that this research model is 66% fit.

The Effect of Promotion on SME Interest in Applying for Financing at Sharia Microfinance Institutions

The research results show that Promotion (X1) has no effect on SME Interest in applying for Financing at Sharia Microfinance Institutions (Y). This is proven by a significance value of 0.273 > 0.05 and can be proven by the t statistical test where t count (1,096) t table < (1.96). Thus it can be concluded that the first hypothesis Ha1 in this study is rejected and H01 is accepted. The results of this study are not in line with research (Kristiyadi and Hartiyah 2016) which states that promotion has a positive relationship between credit procedures and the decision of MSMEs to make credit loans. This means that promotion activities for MSMEs do not affect MSMEs' interest in applying for financing at Sharia Microfinance Institutions (LKMS). Because promotion activities require a lot of costs, promotion activities are given more consideration to attract the interest of MSMEs.

The Influence of Financial Literacy on SME Interest in Applying for Financing at Sharia Microfinance Institutions

The research results show that Financial Literacy (X2) has a significant effect on SMEs' interest in applying for financing at Sharia Microfinance Institutions (Y). This is proven by a significance value of $0.000 < 0.05$ and can be proven by the t statistical test where $t \text{ count } (5,645) > t \text{ table } (1,96)$. Thus it can be concluded that the second hypothesis Ha2 in this study is accepted and H02 is rejected. The results of this study are in line with research (Maufiroh, Diana, and Hidayati 2023) which states that Sharia financial literacy has a positive influence on people's interest in saving. This means that the better the level of Financial Literacy of MSMEs, the more interested MSMEs will be in applying for financing from Sharia Microfinance Institutions (LKMS).

The Influence of Income on SME Interest in Applying for Financing at Sharia Microfinance Institutions

The research results show that Income (X3) has a significant effect on SME Interest in applying for Financing at Sharia Microfinance Institutions (Y). This is proven by a significance value of $0.000 < 0.05$ and can be proven by the t statistical test where $t \text{ count } (5,464) > t \text{ table } (1,96)$. Thus it can be concluded that the third hypothesis Ha3 in this study is accepted and H03 is rejected. The results of this study are in line with research (Lestari M 2023) which states that The level of income has a positive and significant effect on the interest of MSMEs in applying for financing at Sharia Microfinance Institutions, especially the BMT Bagus Lanang Belitang OKU Timur Multi-Business Cooperative. This means that the higher the income of MSMEs, the more interested MSMEs will be in applying for financing from Sharia Microfinance Institutions (LKMS).

CONCLUSION

Based on testing of the results that have been carried out regarding the Influence of Promotion, Financial Literacy, and Income on Interest in Small and Medium Enterprises (SMEs) Applying for Financing at Sharia Microfinance Institutions (LKMS) (Case Study of MSMEs in Lhokseumawe City), it can be concluded as follows :

1. The results of data analysis show that the Promotion variable has no effect on SME interest in applying for financing at Sharia Microfinance Institutions.
2. The results of data analysis show that the financial literacy variable has a significant effect on SME interest in applying for financing at Sharia Microfinance Institutions.
3. The results of data analysis show that the Income variable has a significant effect on SME interest in applying for financing at Sharia Microfinance Institutions.

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