

**FACTORS INFLUENCING MSMES IN CHOOSING TRANSACTIONS IN
SHARIA FINANCIAL INSTITUTIONS AND ITS IMPACT ON INCREASING
INCOME (CASE STUDY OF MSMES ACTORS IN BINJAI, NORTH SUMATERA)**



Hastuti Olivia¹

Universitas Muhammadiyah Sumatera Utara, Medan, Indonesia

hastutiolivia@umsu.ac.id

Widia Astuty²

Universitas Muhammadiyah Sumatera Utara, Medan, Indonesia

widiaastuty@umsu.ac.id

Dominggus Sijauta³

Universitas Muhammadiyah Sumatera Utara, Medan, Indonesia

dsijauta@gmail.com

Radhiyah⁴

Universitas Muhammadiyah Sumatera Utara, Medan, Indonesia

diah.kirei@gmail.com

Muhammad Yovi⁵

Universitas Muhammadiyah Sumatera Utara, Medan, Indonesia

muhammad.yovi98@gmail.com

Abstract

This study is supposed to determine the factors that influence MSMEs' choice to transact in Islamic Financial Institutions and their impact on increasing revenue. This type of research is quantitative research, this study uses an explanatory research approach. The population in this study is UMKM located in the city of Binjai who have never received capital financing from Islamic financial institutions and have a wage of Rp. 2,000,000 per month amounting to 270 people and the sample in this study using the Yamane Formula amounting to 73 respondents. Data analysis techniques in this study use the evaluation of the PLS-PM testing model on the outer test which aims to see the relationship between the indicators with the latent variables. The results of this study show, there are two factors that influence MSMEs in Binjai City to increase revenue by transacting in Islamic banking, the first is the factor of services provided by Islamic banking to customers (MSMEs) so that MSMEs know what products and services are available in Islamic banking then the second factor is financial literacy, currently, the financial literacy of MSMEs in Binjai City is still not optimal but little knowledge of Islamic banking products that are different from conventional banking and are able to help MSMEs in developing MSMEs businesses, with Islamic financial literacy, it is hoped that MSMEs will be able to get funding and the impact will result in an increase in the income of MSMEs themselves.

Keywords: Service, Sharia Financial Literacy, Income, Transaction Sharia

INTRODUCTION

Education is a conscious and planned effort made to provide guidance or assistance to develop the potential of students both in physical and spiritual potential given by an educator or other adult to students to reach maturity and achieve goals so that students are able to carry out life tasks independently. (Hidayat, Ag, and Pd n.d.). Educational organizers cannot be separated from the availability of funds for financing. Therefore, good governance is needed to realize the availability of funds in the implementation of education financing. Education financing is important in carrying out all educational processes in schools. This cost is necessary because all school operations require funds to run it, in this case, schools usually receive funding from the government which has been organized in the APBN and APBD for both schools in the city and in the regions. These costs are given to be spent in accordance with government directives and all must be accounted for for the use of the funds that have been given.

Schools do not only receive funding from the government but can develop them through canteen empowerment and internal school cooperatives. Then, after knowing the source of funds for school fees, of course, in terms of use, the funds can be divided into, 1) the school activity budget in general, and 2) the school development budget.

Furthermore, the thing that supports all school activities is finance or financing so that the management becomes efficient. All problems will arise in managing finances. We already know that some of the sources of these problems include corruption, burden on students, manipulation, spending that is not on target, and so on. This should be the concern of the government and the school committee.

REVIEW OF LITERATURE

The role of MSMEs in the economic structure can be seen when MSMEs are able to reduce poverty through providing employment opportunities. In this case, an increase in the demand for labor will expand employment opportunities and will boost the level of public income. Increasing income is ultimately expected to reduce poverty and improve welfare (Perekonomian, 2022). Data from the Ministry of Cooperatives and SMEs Report (2015) shows that in 2014 the employment of SMEs was 114,144,082 people. Meanwhile, in 2013

large businesses absorbed 3,537,162 people. This shows that MSMEs are able to absorb labor much better than large businesses (Sony Hendra Permana, 2017).

The main problem faced by the MSME sector is capital. There are still difficulties for MSMEs in obtaining capital from banks. One of the reasons is that conventional banking imposes high interest rates and MSMEs are required to have material collateral (collateral-minded) to obtain credit which is difficult for MSMEs to fulfill (Kuswantoro, 2018). One solution to solving the problem regarding the pattern of enforcement of high-interest rates for MSME financing set by conventional banks is to apply for financing from Sharia banks. Sharia banking in carrying out operational activities earns profits by avoiding interest and applying the principle of profit and loss. With the principle of profit sharing implemented by sharia banking, namely by sharing profits or losses from businesses carried out by customers, customers feel justice with the principle of profit sharing implemented by Sharia banking (Siregar et al., 2020).

Based on the observations of researchers on MSMEs in the food and beverage sector in the city of Binjai, they stated that the services and knowledge that affect MSME actors have not yet submitted financing proposals to the Islamic finance valley. Services are defined as activities carried out by producers in order to meet the needs and desires of consumers so that consumer satisfaction is achieved (Satriyanti, 2012). While service quality is the level of excellence expected by the company and efforts to control this level of excellence in order to fulfill customer desires (Satriyanti, 2012). Service quality is a form of assessment of the level of service provided by the bank to customers to meet the needs and desires of customers according to their expectations (Satriyanti, 2012).

The lack of socialization conveyed by sharia financial institutions is the main factor for MSME players regarding the existence of a special financing portion for MSME (Hayati, 2019) due to the lack of socialization from service providers, MSME actors' knowledge regarding financing is also limited so that the portion of financing that should be allocated to the right targets is not maximized.

In addition to the service factor, there are other factors that influence MSME actors in Binjai City, so far there are still several actors who have never transacted at Islamic financial institutions, namely financial literacy. The lack of public interest in carrying out

transactions in sharia banking is usually related to the public's lack of understanding about banks.

Literacy is an effort to remove all forms of obstacles to public access in utilizing financial services. One of the factors influencing the success of this financial inclusion effort is the level of public financial literacy. Financial literacy or literacy shows the ability or level of public understanding of how money works (Aisyah & Wicaksana, 2020).

Basically, the potential of the Islamic market in Binjai is currently quite potential, but Sharia financial inclusion is still low, so that people do not use Islamic financial products much. This is a challenge for Sharia financial institutions to work on the potential that exists, especially in the MSME sector. The problems found relate to developing the business of MSME actors that focus on processing food ingredients for resale where during the pandemic sales decreased and business capital turnover became smaller while food made on that day should be sold on the same day and this is due to several factors, namely the difficulty capital, lack of product diversification, traditional processing equipment and industrial infrastructure problems. Based on the journal (Aisyah & Wicaksana, 2020), achieving financial literacy and inclusion strategies will be more efficient if carried out jointly so that achieving public access to the financial services sector can be carried out more optimally and can utilize appropriate financial products and services to achieve sustainable financial prosperity (Siregar et al., 2020).

As research conducted (Nida Khoirun Nisa, 2018), The regression results show that the factors product, knowledge, distance, advertising and procedures have a significant positive effect. Meanwhile, the results of different tests show that there are no differences in factors that influence people in using sharia and conventional banking financing. Research by (Ismaulina, 2022) shows that based on the results of the study, it can be concluded that 1) Islamic financing has a positive and significant effect on increasing MSME income with a positive coefficient indicating that the increasing Islamic financing will also increase the income of MSME actors. 2) Likewise, Empowerment has a positive and significant effect on increasing MSME income, indicating that the more empowerment increases, the income of MSME actors will also increase. 3) The close relationship between sharia financing and empowerment and increasing income is in a very strong interpretation.

The use of information on business capital financing through Sharia financial institutions is still minimal, meaning that MSME actors only expect business capital from the proceeds of the day's sales, so that MSME players in the Binjai area find it difficult to develop their business. The low portion of Islamic financial institution financing for MSMEs will have economic and legal implications that must be anticipated by financial institutions. Efforts to encourage the amount and portion of financing for Sharia financial institutions are based on evidence of the importance of MSME financing for improving the performance of Sharia financial institutions internally and improving the macro economy and being able to increase income for MSME actors, of course. Therefore the solution offered is by exploring the potential possessed by SMEs by analyzing and empirically proving it through field research on the Factors Influencing MSME Actors to Choose to Transaction in Sharia Financial Institutions and Their Impact on Increasing Income.

Conceptual Framework and Hypothesis

The following is the conceptual framework in this study:

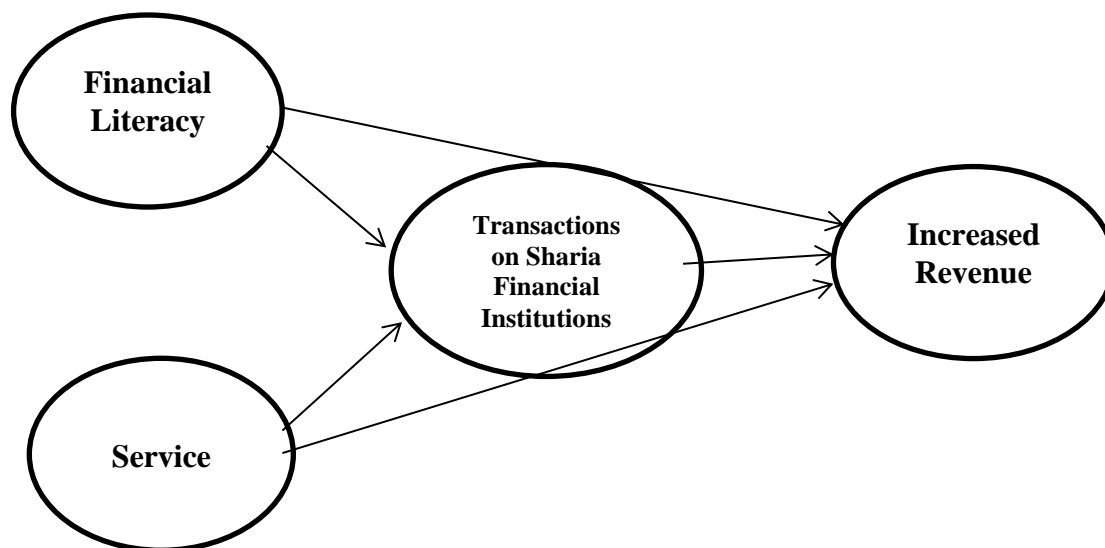


Figure 1
Conceptual Framework

Based on the problems raised above, a hypothesis can be developed which still has to be proven empirically. The hypothesis is as follows:

H1: Service has a positive and significant effect on transactions at Sharia financial institutions in MSMEs in the food and beverage sector in Binjai.

H2: Financial literacy has a positive and significant effect on transactions in Sharia financial institutions for MSMEs in the food and beverage sector in Binjai.

H3: Service has a positive and significant effect on increasing income in MSMEs in the food and beverage sector in Binjai.

H4: Financial literacy has a positive and significant effect on increasing income in MSMEs in the food and beverage sector in Binjai.

H5: Transactions in Sharia financial institutions have a positive and significant effect on increasing income for MSMEs in the food and beverage sector in Binjai.

H6: Service has a positive and significant effect on increasing income in MSMEs in the food and beverage sector in Binjai through transactions at Sharia financial institutions as an intervening variable.

H7: Financial literacy has a positive and significant effect on increasing income in MSMEs in the food and beverage sector in Binjai through transactions at Sharia financial institutions as an intervening variable

RESEARCH METHOD

This type of research is quantitative research, because it takes samples from a population. This research uses an explanatory research approach, which aims to explain the causal relationship between research variables and testing hypotheses (Nasution et al., 2020). The next data collection method comes from journals, books, other supporting documents sourced from trusted sources. Research data sources come from primary and secondary data. The population in this research are MSMEs in the Binjai city area who have never received financing capital from a sharia financial institution and have a salary of Rp. 2,000,000 per month, totaling 270 people and the sample in this study used the Yamane Formula $n = \frac{N}{1 + N(e)^2}$ resulting in a total sample of 73 respondents.

Table 1
Variable Operational Definitions

Variable	Definition	Indicator
Service (Nur Rianto,	The process of fulfilling needs	1. Professionalism and Skills

2010)	through the activities of other people directly	<ol style="list-style-type: none"> 2. Attitude and Behavior, 3. Accessibility and Flexibility 4. Reliability and Trust 5. Customer Repair 6. Reputation and Credibility
Financial Literacy (T. Kiyosaki 2008)	The ability to read and understand matters related to financial/financial issues.	<ol style="list-style-type: none"> 1. Basic knowledge 2. Personal Finance 3. Savings and Loans 4. Investment Insurance
Transactions on Sharia Financial Institution (LKS). (Muhammad, 2015), (Antonio, 2011)	Financing broadly means financing or expenditure, namely funding issued to support investments that have been planned either carried out by yourself or carried out by someone else.	<ol style="list-style-type: none"> 1. <i>Mudharabah</i> 2. <i>Murahabah</i> 3. <i>Musyarakah</i>
Increased Income (Harnanto, 2019)	increase or increase in assets and decrease or decrease in company liabilities which are the result of operating activities or procurement of goods and services to the public or consumers in particular	<ol style="list-style-type: none"> 1. Operating income 2. Non-operational Income

Source: Data processed by the authors in 2023

The data analysis technique in this study uses the Evaluation of the PLS-PM testing model on the outer test which aims to see the form of the relationship between the indicators and their latent variables. The outer test consists of:

Standard Loading Factor. An indicator is declared valid if it has a loading factor value above 0.5 on the targeted construct. The higher the value obtained indicates the higher validity of the indicator.

T-Statistics. The criterion point of the T-Statistics is 1.96; namely the critical value in the T distribution at the 5% significance level. The higher the T value obtained indicates the higher validity of the indicator.

AVE (Average Variance Extracted). AVE shows the variance value obtained from each latent variable. The minimum value required is 0.5. The higher the AVE value obtained, the better and shows the greater the information obtained and generated by these latent variables.

Composite Reliability and Cranbach's Alpha. In addition to AVE, to find the reliability of each variable, you can use Composite Reliability. The cut-off value used to assess an acceptable level of reliability is CR 0.7.

Cross-Loading. The criterion in Cross-Loading is that each indicator that measures the construct must have a higher correlation than other constructs.

Meanwhile, the internal test consists of:

Test Statistics. To test the significance of the hypothesized path, the test tool used is T-Statistics. If using an alpha level of 5%, then the critical value for T-Statistics is 1.96. If the value obtained is in the range $-1.96 < T\text{-Stat} < 1.96$ then the test is declared not significant. Conversely, if the T-Statistics is < -1.96 or > 1.96 then it is declared significant.

R-Square. The R-squared (R²) test is a way to measure the level of Goodness of Fit (GOF) of a structural model. The Rsquared (R²) value is used to assess how big the influence of latent variables is certain independent on the dependent latent variable. R² of 0.67 indicates that the model is categorized as good.

RESULTS AND DISCUSSION

The research object used in this study is MSME actors who have never received financing capital from an Sharia financial institution and have a wage of Rp. 2,000,000, amounting to 73 respondents.

Characteristics of Respondents

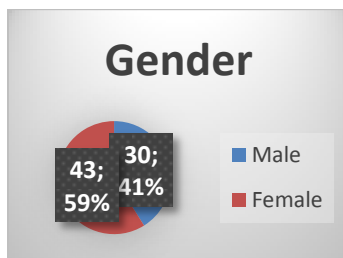


Figure 2
Characteristics of Respondents Based on Gender

Source: Processed data, 2023

Based on the picture above it can be seen that the majority of respondents in this study were women as many as 43 respondents.

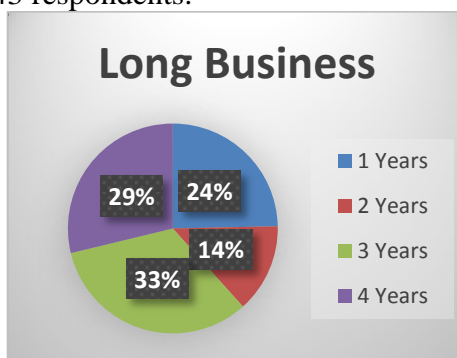


Figure 3
Characteristics of Respondents Based on Length of Business

Source: Processed data, 2023

Based on the picture above, it can be seen that respondents with 1 year of business are 24%, then respondents who have been doing business for 2 years are 14%, respondents who have been doing business for 3 years are 33% and finally respondents who have been doing business for 4 years are 29%.

PLS SEM Test Results

This study uses data analysis using Structural Equation Modeling Partial Least Squares (SEM-PLS) using SmartPLS software. Quantitative data analysis using statistical analysis with SEM-PLS tools consists of two stages, namely validity testing and reliability testing.

Measurement Analysis (Outer Model)

Convergent Validity

Table 2
Convergent Validity

Variable	Indicator	Outer Weights	Loading Factor	Information
Service (X1)	P1	0,177	0,735	Valid
	P2	0,188	0,708	Valid
	P3	0,101	0,781	Valid
	P4	0,140	0,745	Valid
	P5	0,197	0,775	Valid
	P6	0,167	0,804	Valid
	P7	0,187	0,824	Valid
	P8	0,203	0,789	Valid
	P9	0,151	0,790	Valid
	P10	0,187	0,735	Valid
Financial Literacy (X2)	LK1	0,190	0,848	Valid
	LK2	0,202	0,801	Valid
	LK3	0,207	0,897	Valid
	LK4	0,198	0,881	Valid
	LK5	0,176	0,838	Valid
	LK6	0,202	0,840	Valid
Revenue (Y)	Pend 1	0,130	0,775	Valid
	Pend 2	0,127	0,819	Valid
	Pend 3	0,108	0,743	Valid
	Pend 4	0,116	0,829	Valid
	Pend 5	0,114	0,819	Valid
	Pend 6	0,134	0,903	Valid
	Pend 7	0,140	0,869	Valid
	Pend 8	0,136	0,857	Valid
	Pend 9	0,115	0,837	Valid
	Pend 10	0,196	0,735	Valid
Transaction (Z)	Tr1	0,241	0,796	Valid
	Tr2	0,191	0,812	Valid
	Tr3	0,208	0,872	Valid
	Tr4	0,196	0,813	Valid
	Tr5	0,204	0,748	Valid
	Tr6	0,212	0,751	Valid

Source: Data processed by PLS 2023

Based on the table above it can be seen that all indicators meet the value above the loading factor, which is 0.5, meaning that the indicators in this study have fulfilled.

Composite Reliability

Composite reliability evaluation is carried out by looking at the composite reliability value of the indicator block that measures the construct and Cronbach's alpha value. A construct is said to be reliable if its composite reliability value is above 0.7 and Cronbach's alpha is suggested to be above 0.6.

Table 3
Reliability

Variable	Cronbach's Alpha	rho_A	Composite Reality	AVE	Test Results
Service (X1)	0.881	0.906	0.902	0.686	Reliable
Financial Literacy (X2)	0.924	0.925	0.940	0.725	Reliable
Income Increase (Y)	0.945	0.950	0.953	0.673	Reliable
Transaction (Z)	0.887	0.889	0.914	0.640	Reliable

Source: Data processed by PLS 2023

Based on the data presented above, it can be seen that each research variable has a Cronbach's Alpha value and composite reliability > 0.6, which means that each variable used in the study is reliable.

Structural Analysis (Inner Model)

Structural model analysis aims to analyze the research hypothesis. At least there are two parts that need to be analyzed in this model, namely: the coefficient of determination and hypothesis testing. Here is the output bootstrapping:

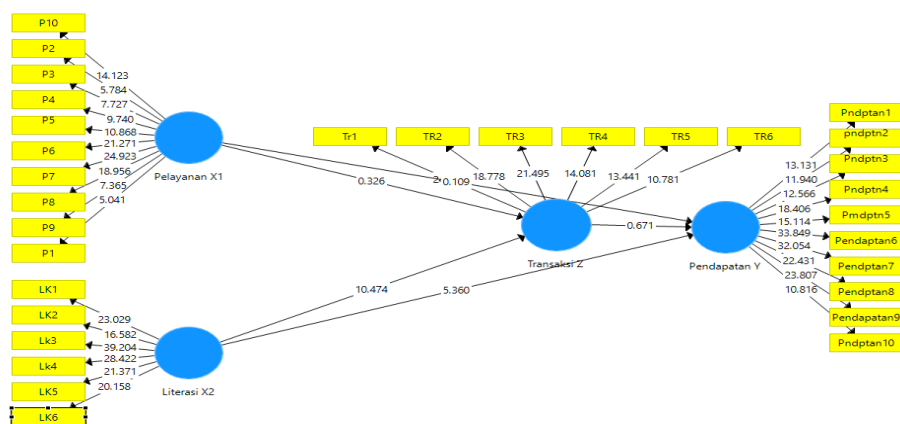


Figure 4
Output Bootstrapping

Coefficient of Determination (r Square)

The r-square result for the endogenous latent variable of 0.75 indicates that the model is substantial (good); 0.50 indicates that the model is moderate (moderate) and 0.25 indicates that the model is weak (bad).

Table 4
R Square

Variable	R Square	R Square Adjust
Revenue (Y)	0.672	0.661
Transaction (Z)	0.753	0.748

Source: Data processed by PLS 2023

F Square

The conclusion criterion is that if the f2 value is 0.02 then there is a small (weak) effect from exogenous variables on endogenous, f2 value is 0.15 then there is a moderate effect from exogenous variables on endogenous or moderate, f2 value is 0.35 then there is a large effect of exogenous variables on endogenous.

Table 5
F square

Variable	Service	Financial Literacy	Income
Service	-	-	0.367
Financial Literacy	-	-	0.405
Income	-	-	-
Transaction			0.209

Source: Data processed by PLS 2023

1. Service to income worth 0.367 indicating that there is a large effect.
2. Services for transactions worth 0.250 indicate that there is a large effect.
3. Financial literacy on income performance with a value of 0.405, indicating that there is a large effect.
4. Financial literacy on transaction performance with a value of 1.103 indicating that there is a large effect.
5. Transaction on income performance with a value of 0.209, indicating that there is a moderate effect.

Hypothesis Testing/ Direct Effect

Direct effect (Ghazali, 2016) is the direct effect that can be seen in the long term from the path coefficient results on exogenous and endogenous variables is as follows:

Table 6
Direct Effects

	Original Sample	Sample mean	Standard Dv	T statistic	P. Values
X1 > Y	0,712	0,792	0,107	6,109	0,013
X2 > Y	0,903	0,915	0,168	5,360	0,000
X1 > Z	0,330	0,428	0,191	4,326	0,004
X2 > Z	0,892	0,895	0,085	10,474	0,000
Z > Y	0,409	0,504	0,162	6,671	0,042

Source: Data processed by PLS 2023

The influence of service on increasing income has a path coefficient of 0.712. This shows that the higher the service, the higher the income of MSME actors in the city of Binjai. This influence has a probability value (p-values) of $0.013 < 0.05$, there is a significant influence between services on increasing the income of MSME actors in Binjai.

The effect of financial literacy on increasing income has a path coefficient of 0.736. This shows that the higher the financial literacy of MSME actors in Binjai, the higher the income. This effect has a probability value (p-value) of $0.000 < 0.05$, there is a significant influence between financial literacy on increasing the income of MSMEs in Binjai.

The effect of service on transactions in Sharia banking has a path coefficient of 0.330. This indicates that the higher the service of Sharia banking, the higher the transaction in Islamic banking. This effect has a probability value (p-value) of $0.004 < 0.05$, there is a significant influence between services on Islamic banking transactions.

The influence of financial literacy on sharia banking transactions has a path coefficient of 0.892. This shows that the higher the financial literacy of MSME players in the city of Binjai, the higher the transactions in Sharia banking will be. This influence has a probability value (p-values) of $0.000 < 0.05$, there is a significant influence between financial literacy and transactions in sharia banking.

The effect of Sharia banking transactions on increasing income has a path coefficient of 0.409 and this influence has a probability value (p-value) of $0.042 < 0.05$,

there is a positive and significant effect between transactions in Islamic banking on increasing the income of MSME actors in Binjai.

Hypothesis/ Indirect Effect

Table 7
Indirect Effects

	Original Sample	Sample Mean	Standard Dv	T statistic	P. Values
X1 > Y > Z	0.403	,505	0.120	,165	0.009
X2 > Y > Z	0.597	0.696	,148	,655	0.013

Source: Data processed by PLS 2023

1. Services for increasing income in Binjai through transactions at Sharia financial institutions as an intervening variable have a path coefficient of 0.403. This influence has a probability value (p-values) of 0.009 < 0.05, there is a significant influence between services on increasing the income of MSMEs in Binjai through transactions at sharia financial institutions as an intervening variable.
2. Financial literacy towards increasing income in Binjai through transactions in sharia financial institutions as an intervening variable has a path coefficient of 0.597. This influence has a probability value (p-values) of 0.013 < 0.05, there is a significant influence between financial literacy on increasing the income of MSMEs in Binjai through transactions in sharia financial institutions as an intervening variable.

The Effect of Service on Increasing Income

Based on research results, service has an effect on increasing income and has a path coefficient of 0.712, meaning that the higher the service, the higher the income of MSME actors in the city of Binjai. The development of the potential of MSMEs in Indonesia is inseparable from banking support in channeling financing to MSMEs. The role of Islamic banking in developing community businesses, especially micro-enterprises, is to participate in providing financing to the community to develop their businesses, both individual businesses and businesses in the form of groups, with the hope that the community’s economic growth and development will continue to increase from year to year.

This research is in line with research (Lestari, 2019) stated in his research that service quality had a positive and significant effect on income of PT. BNI Lhokseumawe Branch. Supported research conducted (Lestari, 2019) mentioned that service has an effect on the income of traders in Karangrejo.

The Effect of Financial Literacy on Increasing Income

Based on research results, financial literacy has an effect on increasing income, it has a path coefficient of 0.736, meaning that the higher the financial literacy of MSME actors in Binjai, the higher the income of MSME actors in Binjai. There is a significant relationship between financial literacy and the development/revenue of a business, namely good financial literacy will be able to strategically identify and respond to changes in the business, economic and financial climate so that decisions taken will create innovative and well-directed solutions to improve performance and sustainability of a business (Lestari, 2019).

This research is in line with research conducted (Vianti, 2020). The results of his research stated that Sharia Financial Literacy Affects Business Development among Mangli Market Traders, Jember Regency.

The Influence of Services on Transactions in Sharia Banking

Based on research results, service has an influence on transactions in sharia banking, it has a path coefficient of 0.330, meaning that the higher the sharia banking service, the higher the transactions in Sharia banking. Sharia banks actually offer a variety of banking products. Sharia banking products include *Al Wadi'ah* (savings), financing with profit sharing (*Al-Musyarakah* and *Al Mudharabah*), *Bai'al-Murabahah*, *Bai'assalam*, *Bai'Al-istih'na*, *Al-Ijarah* (Leasing), *Al-Kafalah* (guarantee). Sharia bank products have very fundamental differences from conventional banks and this is what attracts people to save at Sharia banks.

In order to increase public interest in saving in Sharia banks, there are several aspects that need attention, these components include tangible, responsive, assurance, reality and empathy. In addition, customers will be satisfied if these components can be fulfilled completely. This research is supported by research (Sumantri, 2014) explained in his journal that there is a positive influence of service quality on the intention to become a customer of an Sharia bank in the city of Yogyakarta.

The Effect of Financial Literacy on Transactions in Sharia Banking

Based on the results, the effect of financial literacy on Sharia banking transactions has a path coefficient of 0.892, meaning that the higher the financial literacy of MSME actors in the city of Binjai, the higher the transactions in sharia banking. Financial services are very closely related to community activities, especially banking, almost all community activities are related to financial activities and end with the need for banking services. Financial activities, especially banking services, cover all aspects and layers of society, from individuals to the institutional nature of a company.

With a good level of financial literacy, it is hoped that the community, especially MSMEs, can make good financial management decisions. People who understand financial literacy will find it easier to understand the financial services industry and have information to determine financial products and services that suit their needs and abilities in improving welfare.

Based on (Dai et al., 2021), most MSMEs in Cimahi want to improve their business finances because this way they can open businesses in other fields, and gain financial knowledge from education, training courses, and family/children. This research was supported by (Septiawan et al., 2022) states in his research results that Sharia financial literacy and motivation show an influence on public interest in the use of Sharia banking services.

The Effect of Transactions in Sharia Banking on Increasing Income.

Based on the results of research on Islamic banking transactions that have an effect on increasing income, they have a path coefficient of 0.409 and this influence has a probability value (p-value) of $0.042 < 0.05$, there is a positive and significant effect between transactions in Sharia banking on increasing the income of MSME actors in Binjai.

With the existence of sharia banks, it is hoped that they can contribute to the economic growth of society through financing issued or provided by sharia banks for the survival and growth of MSMEs during the Covid-19 pandemic. The existence of sharia banks after the pandemic could provide benefits for MSMEs, especially regarding the role of sharia banks in providing financing to MSMEs. One form of social responsibility of Sharia banks is to provide financing to MSMEs. Considering that MSMEs are a reflection

of the people's economy. Problems related to MSMEs should be a shared responsibility, especially for financial institutions such as banking and non-bank financial institutions.

Based on (Abu Amar Fauzi, 2018), Indonesian Sharia banking must carry out updates by digitizing the latest technology in presenting integrated products or services to better satisfy its customers. Then, Indonesian Sharia banking must develop human resource capabilities related to banking skills and understanding of Islamic principles to increase banking transactions carried out by customers.

This research was supported by (Sonya Pratiwi, 2021), one of the roles of Islamic financial institutions in increasing MSME income is by providing financing to MSME players whose businesses are the least affected by Covid-19, banks must be selective in choosing which customer businesses have the least impact on Covid-19.

The Effect of Service on Increasing Income through Transactions in Sharia Financial Institutions as an Intervening Variable

Based on the research results, service has an effect on increasing income in Binjai City through transactions at sharia financial institutions as an intervening variable which has a path coefficient of 0.403. This influence has a probability value (p-values) of $0.009 < 0.05$, there is a significant influence between services on increasing the income of MSMEs in Binjai City through transactions at sharia financial institutions as an intervening variable.

This research is supported by research results (Aminatuzzuhro & Lutfillah, 2014) that it is important for banks to provide excellent service so that transactions in Islamic banking also increase as a result it will increase income by MSMEs, especially in the city of Binjai.

Financial Literacy on Increasing Income through Transactions in Sharia Financial Institutions as an Intervening Variable

Based on the research results, financial literacy has an effect on increasing income in Binjai City through transactions at Islamic financial institutions as an intervening variable which has a path coefficient of 0.597. This effect has a probability value (p-value) of $0.013 < 0.05$, there is a significant influence between financial literacy on increasing the income of MSMEs in Binjai City through transactions at Islamic financial institutions as an intervening variable.

Literacy is an effort to remove all forms of obstacles to public access in utilizing financial services. One of the factors influencing the success of this financial inclusion effort is the level of public financial literacy. Financial literacy or literacy shows the ability or level of public understanding of how money works. Customer understanding of financial literacy and achieving good marketing so that customers will know the various sharia banking products so that there is no more confusion created by customers through foreign languages they don't know. Islamic bank products are financing and savings, this product should be a very potential product where there is no *usury*.

Study (Pritama, 2021) states Sharia financial literacy has a positive and significant effect on customers' decisions to use sharia banking products. This means that the higher a customer's sharia financial literacy, the better the customer's attitude will be in making decisions to use sharia banking products or in other words the respondent already knows about basic sharia financial knowledge, sharia banking products and also knows that sharia banking is protected from usury element. The results of this research show that sharia financial literacy has a positive and significant effect on the decision to use sharia financial institutions and as a result, it will foster an increase in income by MSMEs, especially in the city of Binjai.

CONCLUSION

Based on research that has been conducted by researchers regarding the factors that influence MSME actors in Binjai city choosing to transact in Sharia financial institutions and their impact on increasing income, the conclusion in this study is that there are two factors that influence MSME actors in Binjai city to increase income by transacting in Sharia banking, the first is the service factor provided by Islamic banking to customers (MSME actors) so that MSME actors know what products and services are available in Islamic banking then the second factor is financial literacy, Currently, the financial literacy of MSME players in Binjai City is still not optimal, but they know a little about Sharia banking products which are different from conventional banking and are able to help MSME players in developing their businesses. With Sharia financial literacy, it is hoped that MSME players will be able to obtain funding and the impact will be on increase in the income of the SMEs themselves.

ACKNOWLEDGEMENT

Thank you to the Universitas Muhammadiyah Sumatera Utara for implementing an internal grant in 2023, so that the authors can carry out research and produce output in the form of scientific publications. Hopefully, the Universitas Muhammadiyah Sumatera Utara will be more advanced in the field of research.

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