

Islamic Financial Literacy, Inclusion, and MSME Financial Well-Being: The Mediating Role of Islamic Banking Intention

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ABSTRACT

This study examines the effect of Islamic financial literacy and Islamic financial inclusion on the financial well-being of micro, small, and medium enterprises (MSMEs) and analyzes the mediating role of intention to use Islamic banking products. The research was conducted on MSME owners and managers in the trade and industrial sectors in Klaten Regency, Indonesia. Using a quantitative causal-associative design, primary data were collected through offline questionnaires from 100 MSME respondents selected using purposive sampling. The data were analyzed using SPSS 25 and PROCESS Macro Model 4 with bootstrapping. The findings show that Islamic financial literacy has a positive and significant effect on financial well-being and intention to use Islamic banking products. Islamic financial inclusion also has a positive and significant effect on both financial well-being and intention to use Islamic banking products. Intention to use Islamic banking products significantly improves MSME financial well-being. The mediation analysis reveals that intention to use Islamic banking products significantly mediates the relationship between Islamic financial literacy and financial well-being, but does not significantly mediate the relationship between Islamic financial inclusion and financial well-being. These findings indicate that knowledge must be translated into actual intention and usage to improve financial well-being, while access alone is insufficient when product adoption remains limited. The study contributes to Islamic finance literature by integrating financial literacy, financial inclusion, behavioral intention, and financial well-being in a single MSME-based mediation model.

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Keyword: Financial inclusion, Financial literacy, Financial well-being, Islamic banking, MSMEs (,)

INTRODUCTION

Micro, small, and medium enterprises (MSMEs) are an essential pillar of Indonesia's economic structure. Their contribution is reflected in employment creation, household income generation, local

economic resilience, and national economic growth. In Indonesia, MSMEs are not only productive business units but also important instruments for strengthening inclusive development. Therefore, improving MSME financial well-being is a relevant issue because financially stable MSMEs can support business continuity, improve family welfare, and contribute to broader economic sustainability (Kementerian Koordinator Bidang Perekonomian Republik Indonesia, 2023; Farida & Arifin, 2022).

Despite their strategic contribution, many MSMEs continue to experience financial vulnerability. Financial well-being in the MSME context refers to the ability of business owners or managers to meet business financial needs, maintain income and cash-flow stability, manage debt and obligations, and feel secure about future financial conditions. Financially healthy MSMEs are expected to manage their resources effectively and sustain business operations in the long term. However, this condition cannot be achieved only through business activity. MSME owners also need sufficient financial knowledge, access to appropriate financial services, and behavioral willingness to use financial products that support business sustainability (Joo, 2008; Trisuci, 2023).

Islamic finance offers an important alternative for MSMEs, especially for business owners who prefer financial services based on Sharia principles. Islamic banking products are designed to avoid *riba*, *gharar*, and *maysir*, while promoting fairness, transparency, partnership, and risk-sharing principles. Products such as Islamic savings, *murabahah* financing, *mudharabah*, *musyarakah*, and other Sharia-compliant services may support MSME capital needs and business transactions. However, the benefits of Islamic banking depend on whether MSME owners understand Islamic financial products, have access to Islamic financial institutions, and intend to use Islamic banking products in their business activities (Adiyanto & Purnomo, 2021; Alimi & As'ad, 2023; Wahyuni et al., 2024).

Islamic financial literacy is one of the main factors that may improve MSME financial well-being. Islamic financial literacy refers to the ability to understand Islamic financial principles, recognize Sharia-compliant products, and apply Islamic financial values in financial decision-making. Financial literacy theory explains that literacy is not limited to knowledge, but also includes the ability to apply financial understanding in real financial behavior (Huston, 2010). In the Islamic finance context, MSME owners with stronger Islamic financial literacy are expected to make better decisions regarding financing, savings, investment, debt management, and business financial planning according to Sharia principles. Previous studies have shown that Islamic financial literacy can support MSME performance and influence financing decisions through Sharia-based contracts (Wulandari, 2023; Wahyuni et al., 2024).

In addition to literacy, Islamic financial inclusion is also important for MSME development. Financial inclusion refers to the ability of individuals and businesses to access and use formal financial services at affordable costs. In the Islamic context, financial inclusion emphasizes access to products and institutions that comply with Sharia principles. Financial inclusion theory argues that access to formal financial services enables individuals and businesses to save, obtain capital, conduct transactions, manage risks, and invest more effectively (Demirguc-Kunt & Klapper, 2012). For MSMEs, Islamic financial inclusion may reduce dependence on informal or interest-based financing and provide opportunities to access fairer financial services that are aligned with religious values (Puspitasari et al., 2020; Farida & Arifin, 2022).

However, Indonesia still faces a considerable gap between Islamic financial literacy and Islamic financial inclusion. The National Survey of Financial Literacy and Inclusion in 2024 reported that Islamic financial literacy reached 39.11%, while Islamic financial inclusion was only 12.88%. In comparison, national financial literacy and financial inclusion reached 65.43% and 75.02%, respectively. This condition

indicates that public knowledge of Islamic finance has not been fully followed by the actual use of Islamic financial products and services. This gap is important for MSMEs because financial knowledge may not automatically improve financial well-being unless it is translated into intention and actual financial behavior (Otoritas Jasa Keuangan & Badan Pusat Statistik, 2024).

The problem is also visible at the local level. Klaten Regency has 50,322 MSME units, which indicates a large potential market for Islamic financial services. However, the availability of Islamic banking services remains relatively limited compared with conventional banking services. Several Islamic banking service points, such as Bank Syariah Indonesia and Bank Syariah Almabrur, are available in Klaten, but their distribution may not fully match the large and geographically dispersed MSME population. Limited access may reduce MSME opportunities to use Islamic banking products, particularly among business owners located outside urban areas (Dinas Koperasi Usaha Kecil Menengah dan Perdagangan, 2025; Bank Syariah Indonesia, 2025; Bank Syariah Almabrur, 2025).

Previous studies have examined Islamic financial literacy, Islamic financial inclusion, MSME performance, and intention to use Islamic banking products. Wulandari (2023) examined Islamic financial literacy and inclusion in relation to MSME performance. Farida and Arifin (2022) analyzed Islamic financial inclusion and MSME welfare. Adiyanto and Purnomo (2021), Alimi and As'ad (2023), Jaelani and Mutaqin (2023), and Abadi et al. (2022) investigated the relationship between Islamic financial literacy, financial inclusion, and interest or intention to use Islamic financial products. Although these studies provide valuable insights, the existing literature remains fragmented because fewer studies integrate Islamic financial literacy, Islamic financial inclusion, intention to use Islamic banking products, and MSME financial well-being in a single mediation model.

This study addresses this research gap by examining the mediating role of intention to use Islamic banking products. The theory of planned behavior explains that intention is the closest predictor of behavior and is influenced by attitude, subjective norm, and perceived behavioral control (Ajzen, 1991). In this study, Islamic financial literacy may shape positive attitudes toward Islamic banking because MSME owners who understand Sharia financial principles are more likely to recognize the benefits of Islamic financial products. Meanwhile, Islamic financial inclusion may strengthen perceived behavioral control because access to Islamic financial institutions can make MSME owners feel more capable of using Islamic banking services. Therefore, intention to use Islamic banking products may become a behavioral bridge that links knowledge and access with financial well-being.

Based on this background, this study formulates several research questions. First, does Islamic financial literacy affect MSME financial well-being? Second, does Islamic financial inclusion affect MSME financial well-being? Third, do Islamic financial literacy and Islamic financial inclusion affect intention to use Islamic banking products? Fourth, does intention to use Islamic banking products affect MSME financial well-being? Fifth, does intention to use Islamic banking products mediate the relationship between Islamic financial literacy, Islamic financial inclusion, and MSME financial well-being?

The objective of this study is to analyze the direct effects of Islamic financial literacy and Islamic financial inclusion on MSME financial well-being, examine their effects on intention to use Islamic banking products, analyze the effect of intention to use Islamic banking products on financial well-being, and test the mediating role of intention in the relationship between Islamic financial literacy, Islamic financial inclusion, and financial well-being. This study was conducted among MSME owners and managers in the trade and industrial sectors in Klaten Regency, Indonesia. Using a quantitative causal-associative design, primary data were collected through offline questionnaires from 100 MSME respondents selected using

purposive sampling. The data were analyzed using SPSS 25 and PROCESS Macro Model 4 with bootstrapping.

The findings show that Islamic financial literacy and Islamic financial inclusion have positive and significant effects on MSME financial well-being and intention to use Islamic banking products. Intention to use Islamic banking products also has a positive and significant effect on financial well-being. The mediation analysis reveals that intention to use Islamic banking products significantly mediates the relationship between Islamic financial literacy and financial well-being, but does not significantly mediate the relationship between Islamic financial inclusion and financial well-being. These results indicate that Islamic financial knowledge becomes more meaningful when it encourages MSME owners to intend to use Islamic banking products, while access alone may not be sufficient when product adoption remains limited.

This study contributes to the Islamic finance literature by integrating financial literacy theory, financial inclusion theory, the theory of planned behavior, and the financial well-being perspective in an MSME-based mediation model. The study also provides empirical evidence from Klaten Regency, a local context that has a large MSME population but still faces challenges in Islamic banking adoption. Practically, the results suggest that Islamic banks, regulators, and local governments need to strengthen practical Islamic financial literacy programs, expand meaningful access to Islamic financial services, simplify Islamic banking procedures, and provide direct assistance to MSMEs. These efforts are necessary so that Islamic financial inclusion does not stop at availability, but develops into actual usage and contributes to sustainable MSME financial well-being.

RESULT AND DISCUSSION

The respondents in this study were 100 MSME owners and managers in Klaten Regency. Based on age, 10 respondents were between 20 and 30 years old, 33 respondents were between 31 and 41 years old, 42 respondents were between 42 and 52 years old, and 15 respondents were between 53 and 65 years old. This indicates that most respondents were in the 42–52 age category. Based on gender, 62 respondents were female and 38 were male, indicating that female MSME actors dominated the sample. Based on business sector, 55 respondents operated in the industrial sector and 45 operated in the trade sector. Based on business age, 69 respondents had run their businesses for more than five years, 21 respondents for three to four years, and 10 respondents for one to two years. Based on banking account type, 46 respondents used conventional banks, 35 used both Islamic and conventional banks, and only 19 used Islamic banks exclusively.

The respondent profile provides important contextual insight. Most MSME owners had been operating for more than five years, meaning that the respondents had practical business experience. However, the fact that only 19% used Islamic banks exclusively indicates that Islamic banking adoption remains limited. This supports the background argument that Islamic finance in Klaten faces an access-usage gap. Even when MSMEs are aware of Islamic finance, many still rely on conventional banking services.

The descriptive statistics show that the mean value of Islamic financial literacy was 25.73, with a minimum of 20, a maximum of 29, and a standard deviation of 2.457. Islamic financial inclusion had a mean of 25.77, a minimum of 19, a maximum of 29, and a standard deviation of 2.296. Financial well-being had a mean of 32.37, a minimum of 25, a maximum of 38, and a standard deviation of 2.729. Intention

to use Islamic banking products had a mean of 25.50, a minimum of 20, a maximum of 30, and a standard deviation of 2.721.

Table 3. Descriptive statistics

Variable	N	Minimum	Maximum	Sum	Mean	Std. deviation
Islamic financial literacy	100	20.00	29.00	2573.00	25.7300	2.45713
Islamic financial inclusion	100	19.00	29.00	2577.00	25.7700	2.29560
Financial well-being	100	25.00	38.00	3237.00	32.3700	2.72902
Intention to use Islamic banking products	100	20.00	30.00	2550.00	25.5000	2.72104

The validity test shows that all questionnaire items were valid because each r-count value exceeded the r-table value of 0.196. Islamic financial literacy items had r-count values ranging from 0.347 to 0.772. Islamic financial inclusion items had r-count values ranging from 0.354 to 0.834. Financial well-being items had r-count values ranging from 0.249 to 0.736. Intention to use Islamic banking products items had r-count values ranging from 0.436 to 0.806. These results indicate that all items were appropriate for further analysis

Table 4. Summary of validity test

Variable	Item range	r-table	Interpretation
Islamic financial literacy	0.347–0.772	0.196	Valid
Islamic financial inclusion	0.354–0.834	0.196	Valid
Financial well-being	0.249–0.736	0.196	Valid
Intention to use Islamic banking products	0.436–0.806	0.196	Valid

The reliability test shows that all variables were reliable. The Cronbach's Alpha value for Islamic financial literacy was 0.733, Islamic financial inclusion was 0.680, financial well-being was 0.638, and intention to use Islamic banking products was 0.725. All values exceeded the 0.60 threshold, indicating that the measurement instruments had acceptable internal consistency.

Table 5. Reliability test

Variable	Cronbach's Alpha	Standard	Interpretation
Islamic financial literacy	0.733	0.60	Reliable
Islamic financial inclusion	0.680	0.60	Reliable
Financial well-being	0.638	0.60	Reliable
Intention to use Islamic banking products	0.725	0.60	Reliable

The normality test used the Kolmogorov-Smirnov test on the unstandardized residual. The test statistic was 0.065 with an Asymp. Sig. value of 0.200. Since the significance value was greater than 0.05, the residuals were normally distributed. The multicollinearity test showed tolerance values above 0.10 and VIF values below 10 for all variables. Islamic financial literacy had a tolerance value of 0.412 and VIF of 2.427. Islamic financial inclusion had a tolerance value of 0.405 and VIF of 2.468. Intention to use Islamic banking products had a tolerance value of 0.445 and VIF of 2.249. Therefore, no multicollinearity problem was detected. The heteroscedasticity test showed significance values of 0.083 for Islamic financial literacy, 0.203 for Islamic financial inclusion, and 0.289 for intention to use Islamic banking products. Since all values were above 0.05, the model did not suffer from heteroscedasticity.

Table 6. Classical assumption tests

Test	Indicator	Value	Interpretation
Normality	Kolmogorov-Smirnov significance	0.200	Normal residuals
Multicollinearity	VIF Islamic financial literacy	2.427	No multicollinearity
Multicollinearity	VIF Islamic financial inclusion	2.468	No multicollinearity
Multicollinearity	VIF intention to use Islamic banking products	2.249	No multicollinearity
Heteroscedasticity	Sig. Islamic financial literacy	0.083	No heteroscedasticity
Heteroscedasticity	Sig. Islamic financial inclusion	0.203	No heteroscedasticity
Heteroscedasticity	Sig. intention to use Islamic banking products	0.289	No heteroscedasticity

The coefficient of determination shows an adjusted R-square of 0.413. This means that Islamic financial literacy, Islamic financial inclusion, and intention to use Islamic banking products explain 41.3% of the variation in financial well-being, while the remaining 58.7% is explained by other variables not included in the model. The F-test shows an F-statistic of 24.176 with a significance value of 0.000. This indicates that the variables jointly have a significant effect on financial well-being.

Table 7. Model summary and simultaneous test

Indicator	Value
R	0.656
R-square	0.430
Adjusted R-square	0.413
Std. error of estimate	2.09164
F-statistic	24.176
Sig. F	0.000

The mediation analysis begins with the a-path from Islamic financial literacy to intention to use Islamic banking products. The coefficient was 0.7621 with a t-statistic of 9.3893 and a p-value of 0.0000. The confidence interval ranged from 0.6010 to 0.9231. Therefore, Islamic financial literacy has a positive and significant effect on intention to use Islamic banking products. This supports H3.

Table 8. Effect of Islamic financial literacy on intention to use Islamic banking products

Model	Coefficient	SE	t	p	LLCI	ULCI
Constant	5.8918	2.0978	2.8086	0.0060	1.7289	10.0548
Islamic financial literacy	0.7621	0.0812	9.3893	0.0000	0.6010	0.9231

The effect of Islamic financial inclusion on intention to use Islamic banking products was also positive and significant. The coefficient was 0.8233, with a t-statistic of 9.5567 and a p-value of 0.0000. The confidence interval ranged from 0.6523 to 0.9942. Therefore, Islamic financial inclusion has a positive and significant effect on intention to use Islamic banking products. This supports H4.

Table 9. Effect of Islamic financial inclusion on intention to use Islamic banking products

Model	Coefficient	SE	t	p	LLCI	ULCI
Constant	4.2847	2.2286	1.9226	0.0574	-0.1380	8.7074
Islamic financial inclusion	0.8233	0.0862	9.5567	0.0000	0.6523	0.9942

The regression of financial well-being on Islamic financial literacy and intention to use Islamic banking products shows that both variables are significant. Islamic financial literacy had a coefficient of 0.3353 with a p-value of 0.0083. Intention to use Islamic banking products had a coefficient of 0.3503 with a p-value of 0.0024. These findings support H1 and H5 in the literacy model. They also show that intention does not eliminate the direct effect of Islamic financial literacy, suggesting partial mediation.

Table 10. Effect of Islamic financial literacy and intention on financial well-being

Model	Coefficient	SE	t	p	LLCI	ULCI
Constant	14.8096	2.4270	6.1020	0.0000	9.9926	19.6265
Islamic financial literacy	0.3353	0.1245	2.6934	0.0083	0.0882	0.5825

The regression of financial well-being on Islamic financial inclusion and intention to use Islamic banking products also shows significant direct effects. Islamic financial inclusion had a coefficient of 0.5613 with a p-value of 0.0000. Intention to use Islamic banking products had a coefficient of 0.2298 with a p-value of 0.0347. These findings support H2 and H5 in the inclusion model. However, significance in

this regression does not automatically prove mediation, because mediation must be tested through the indirect effect

Table 11. Effect of Islamic financial inclusion and intention on financial well-being

Model	Coefficient	SE	t	p	LLCI	ULCI
Constant	12.0466	2.4108	4.9969	0.0000	7.2618	16.8315
Islamic financial inclusion	0.5613	0.1271	4.4142	0.0000	0.3089	0.8136

The indirect effect of Islamic financial literacy on financial well-being through intention to use Islamic banking products was 0.2669, with a BootSE of 0.1170. The bootstrap confidence interval ranged from 0.0424 to 0.4986. Because the interval did not include zero, the mediation effect was significant. Therefore, H6 is supported. This means that Islamic financial literacy improves financial well-being not only directly but also indirectly by increasing intention to use Islamic banking products.

Table 12. Indirect effect of Islamic financial literacy on financial well-being

Path	Effect	BootSE	BootLLCI	BootULCI	Interpretation
Islamic financial literacy → Intention → Financial well-being	0.2669	0.1170	0.0424	0.4986	Significant mediation

The indirect effect of Islamic financial inclusion on financial well-being through intention to use Islamic banking products was 0.1892, with a BootSE of 0.1196. The bootstrap confidence interval ranged from -0.0488 to 0.4157. Because the interval included zero, the mediation effect was not significant. Therefore, H7 is not supported. This indicates that intention to use Islamic banking products does not significantly mediate the relationship between Islamic financial inclusion and financial well-being.

Table 13. Indirect effect of Islamic financial inclusion on financial well-being

Path	Effect	BootSE	BootLLCI	BootULCI	Interpretation
Islamic financial inclusion → Intention → Financial well-being	0.1892	0.1196	-0.0488	0.4157	No mediation

Overall, the hypothesis testing results show that six hypotheses are supported and one hypothesis is rejected. Islamic financial literacy and Islamic financial inclusion both significantly affect financial well-being and intention to use Islamic banking products. Intention to use Islamic banking products significantly affects financial well-being. However, mediation is only found in the literacy pathway, not in the inclusion pathway.

The first finding shows that Islamic financial literacy has a positive and significant effect on MSME financial well-being. This means that MSME owners with stronger understanding of Islamic financial principles tend to have better financial well-being. The finding supports financial literacy theory, which

argues that knowledge and application of financial concepts help individuals make better financial decisions (Huston, 2010). In the MSME context, literacy enables business owners to understand financing options, avoid harmful debt practices, manage cash flows, and evaluate financial products according to Sharia principles. The result is also consistent with Joo's (2008) theory of financial well-being, which emphasizes that financial security is shaped not only by income but also by financial management capability.

The result supports Wulandari (2023), who found that Islamic financial literacy improves MSME performance, and Wahyuni et al. (2024), who showed that literacy affects MSME financing decisions through Sharia contracts. In Klaten Regency, Islamic financial literacy can help MSME owners understand the differences between Islamic and conventional products, including the logic of profit sharing, sale-based financing, and Sharia-compliant savings. This knowledge can reduce uncertainty and increase the ability to select financing that supports business sustainability. However, the finding also suggests that literacy must be practical rather than merely conceptual. MSME owners need not only to know that *riba* is prohibited but also to understand how Islamic banking contracts work in real business situations.

The second finding shows that Islamic financial inclusion has a positive and significant effect on MSME financial well-being. This indicates that MSME owners who have better access to Islamic financial institutions and products tend to report better financial well-being. The result supports financial inclusion theory, which states that access to formal financial services helps small businesses save, obtain capital, manage risk, and conduct transactions efficiently (Demirguc-Kunt & Klapper, 2012). In Islamic finance, access to Sharia-compliant services is especially important because it allows Muslim business owners to manage business finances without violating religious principles.

The result is consistent with Farida and Arifin (2022), who found that Islamic financial inclusion supports MSME welfare through broader access to fair financing. It also aligns with Ahmad et al. (2023), who found that financial inclusion contributes to small business financial performance. In Klaten, however, the inclusion challenge remains visible. Islamic banking service points are limited relative to the number of MSMEs. This means that the positive effect of inclusion may be constrained by accessibility, service quality, and outreach. For inclusion to improve financial well-being more strongly, access must be accompanied by product suitability, simplified procedures, and active support for MSMEs.

The third finding shows that Islamic financial literacy has a positive and significant effect on intention to use Islamic banking products. This supports the theory of planned behavior because literacy can shape positive attitudes toward Islamic banking. When MSME owners understand the principles, contracts, and benefits of Islamic banking, they are more likely to intend to use those products. Knowledge reduces perceived uncertainty and increases confidence. This is particularly important because many MSME owners may hesitate to use Islamic banking products due to limited understanding of procedures, contract terminology, or perceived complexity.

This finding is consistent with Adiyanto and Purnomo (2021), Alimi and As'ad (2023), and Jaelani and Mutaqin (2023), who found that Islamic financial literacy increases interest or intention to use Islamic financial products. In Klaten, the result suggests that improving literacy can be an effective strategy for increasing Islamic banking adoption among MSMEs. However, literacy programs should be designed in simple and practical forms. MSME actors may benefit more from case-based training, contract simulations, comparison between conventional loans and Islamic financing, and direct consultation with Islamic banking officers.

The fourth finding shows that Islamic financial inclusion has a positive and significant effect on intention to use Islamic banking products. This indicates that better access to Islamic financial institutions,

products, and programs increases MSME willingness to use Islamic banking. The result is consistent with the theory of planned behavior because access improves perceived behavioral control. When Islamic banking services are easier to reach and use, MSME owners feel more capable of adopting them. Accessibility reduces psychological and administrative barriers.

This finding supports Abadi et al. (2022) and Lazriyani and Yarham (2023), who found that inclusion contributes to interest or decisions to use Islamic banking products. However, access does not automatically become usage. The study's respondent profile shows that 46% of respondents still use conventional banks only, while only 19% use Islamic banks exclusively. This means that although inclusion increases intention statistically, many MSMEs remain attached to conventional banking due to familiarity, convenience, service networks, or perceptions that Islamic banking procedures are more complex. Therefore, Islamic banking institutions should not only expand access but also improve service design and customer experience for MSMEs.

The fifth finding shows that intention to use Islamic banking products has a positive and significant effect on financial well-being. This result confirms the behavioral logic of the study: MSMEs that intend to use Islamic banking products are more likely to achieve better financial well-being. The intention to use Islamic banking products may lead MSME owners to organize business transactions through Islamic accounts, seek Sharia-compliant financing, and use savings or deposits to manage funds. These behaviors can support structured financial management, reduce exposure to interest-based debt, and increase financial security.

This finding is consistent with Arif (2024), who found that Islamic microfinance supports MSME welfare, and Yanti (2020), who discussed the role of Islamic banking in welfare. The result also supports Joo's (2008) theory that financial well-being depends on the ability to manage finances wisely and reduce financial stress. However, intention should ideally be followed by actual behavior. In future studies, the variable should be developed beyond intention toward actual usage intensity, product variety, financing amount, or duration of Islamic banking relationship.

The sixth finding shows that intention to use Islamic banking products significantly mediates the relationship between Islamic financial literacy and financial well-being. This is one of the most important findings of the study. It means that Islamic financial literacy improves financial well-being partly because it increases the intention to use Islamic banking products. In other words, knowledge must be translated into behavioral intention before it can produce stronger financial outcomes. This finding explains the mechanism of the knowing-doing gap: literacy becomes more valuable when it leads to actual financial choices and product adoption.

This mediation result supports the theory of planned behavior and financial literacy theory simultaneously. Islamic financial literacy shapes attitude and confidence, which then encourages intention to use Islamic banking. The intention then supports financial well-being because Islamic banking products can help MSMEs manage business funds more sustainably. The result is also consistent with Alimi and As'ad (2023), Wulandari (2023), and Adiyanto and Purnomo (2021), who emphasize the link between literacy and Islamic banking adoption. For policy, this means that literacy programs should include clear pathways to product use. Training should not stop at explaining Islamic finance concepts; it should guide MSMEs toward opening accounts, preparing financing documents, and selecting suitable products.

The seventh finding shows that intention to use Islamic banking products does not significantly mediate the relationship between Islamic financial inclusion and financial well-being. This result is theoretically and practically important. Although inclusion directly improves financial well-being and

significantly affects intention, the indirect effect through intention is not statistically significant. This suggests that access alone may not be sufficient to generate financial well-being through intention. In the Klaten context, inclusion may improve well-being through other pathways such as general access to financial information, business networks, or direct use of services by some respondents. However, intention may not be strong enough as a bridge when actual adoption remains limited.

The rejected mediation hypothesis provides evidence of an access-usage gap. The descriptive data show that only 19% of respondents used Islamic banks exclusively, while 46% used conventional banks only. This indicates that even when Islamic finance is accessible or known, many MSMEs do not fully shift to Islamic banking. Several factors may explain this result, including limited branch distribution, low trust, product mismatch, administrative complexity, stronger familiarity with conventional banks, and insufficient practical assistance. Therefore, inclusion should be understood as more than access. As Demirguc-Kunt and Klapper (2012) suggest, meaningful inclusion requires usage and quality, not only availability.

The findings have important implications for Islamic banking institutions. Islamic banks should develop MSME-oriented services that are simple, practical, and responsive to local business needs. The mediation result suggests that literacy can be converted into intention and well-being, but inclusion requires more than physical access. Islamic banks need proactive strategies such as mobile services, digital onboarding, community-based financing education, simplified contract explanations, and product packages for micro and small businesses. Without these efforts, MSMEs may remain aware of Islamic banking but continue using conventional services.

The results also have implications for regulators and local government. The low national Islamic financial inclusion rate and the local access limitations in Klaten indicate that Islamic financial inclusion policy should be more targeted. OJK, Bank Indonesia, local governments, Islamic banks, and MSME associations need to collaborate in strengthening Islamic financial literacy and inclusion. Programs should combine education, access expansion, product simplification, and post-training assistance. Local MSME communities can become strategic channels because they already have trust-based networks and can help bridge Islamic banks with business owners.

From an academic perspective, this study contributes to Islamic finance literature by integrating financial literacy, financial inclusion, behavioral intention, and financial well-being. The results show that the effects of literacy and inclusion are not identical. Literacy improves well-being both directly and indirectly through intention, while inclusion improves well-being directly but not through intention. This distinction enriches the literature by showing that knowledge-based and access-based mechanisms may operate differently. Future research should explore additional mediators such as trust, perceived ease of use, religiosity, service quality, digital financial capability, and actual product usage.

This study has several limitations. First, the sample consists of 100 MSMEs in Klaten Regency, so the findings may not be generalized to all Indonesian MSMEs. Second, the study uses purposive sampling, which limits population-level representativeness. Third, the mediator is measured as intention to use Islamic banking products rather than actual usage intensity. Fourth, the study does not include other potentially important variables such as trust in Islamic banks, religiosity, digital access, service quality, business size, and income stability. Future studies should use larger samples, compare multiple regions, include actual usage variables, and test more complex models using structural equation modeling

CONCLUSION

This study concludes that Islamic financial literacy and Islamic financial inclusion have positive and significant effects on MSME financial well-being in Klaten Regency. Islamic financial literacy and Islamic financial inclusion also positively and significantly affect intention to use Islamic banking products. Intention to use Islamic banking products has a positive and significant effect on financial well-being. The mediation test shows that intention to use Islamic banking products significantly mediates the relationship between Islamic financial literacy and financial well-being, but does not significantly mediate the relationship between Islamic financial inclusion and financial well-being. These findings indicate that Islamic financial knowledge becomes more impactful when translated into intention and usage of Islamic banking products, whereas access alone is insufficient if MSMEs do not actively adopt Islamic banking services. Theoretically, this study supports financial literacy theory, financial inclusion theory, the theory of planned behavior, and financial well-being theory by showing how knowledge, access, intention, and well-being interact in the MSME context. Practically, Islamic banks, regulators, and local governments should strengthen practical literacy programs, simplify Islamic banking procedures, improve service accessibility, and provide direct assistance to MSMEs so that Islamic financial inclusion becomes active usage and contributes more strongly to sustainable financial well-being. Future studies should expand the sample, include actual Islamic banking usage, and test additional mediators such as trust, religiosity, service quality, and digital financial capability

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