

The Influence of Understanding of Sharia Contracts, Fear of Riba, and Financial Literacy on the Preference for Sharia Financing among Culinary MSMEs in Pangkalpinang City

Zavela Oktarana^{1*}, Savira Aprilia², Satria Widodo³, Rahil Imainul Aprilian⁴

^{1,2,3,4} Department of Accounting, Faculty of Economics and Business, Universitas Bangka Belitung, Indonesia

*) Corresponding Author (e-mail: zavelaoktarana@gmail.com)

Abstract

Objective & object:

This study aimed to empirically analyze the influence of Understanding of Sharia Contracts, Fear of Riba, and Financial Literacy on the Preference for Sharia Financing among culinary MSMEs in Pangkalpinang City. The object of this study was culinary MSME owners or managers who had been operating for at least two years and were aware of Islamic financial products.

Methods:

This study employed a quantitative approach using Structural Equation Modeling-Partial Least Squares (SEM-PLS) with SmartPLS version 4. Primary data were collected through questionnaires distributed to 100 culinary MSMEs in Pangkalpinang using purposive sampling. The measurement model was evaluated through convergent validity, discriminant validity, and reliability testing, while the structural model was assessed through path coefficients, R^2 , Q^2 , effect size (f^2), and model fit.

Results & Conclusions:

The results revealed that Understanding of Sharia Contracts and Fear of Riba did not significantly influence the Preference for Sharia Financing, whereas Financial Literacy had a strong and significant positive effect. These findings suggested that rational-cognitive factors played a more dominant role than religious-emotional considerations in shaping financing preferences among Muslim entrepreneurs.

Limitations:

This study was limited to culinary MSMEs in Pangkalpinang City and did not account for moderating variables such as Islamic educational background or previous experience with Sharia banking.

Implications:

The findings implied that Islamic financial institutions and local governments should prioritize practical financial literacy programs, contract simulations, and contextual communication to strengthen the adoption of Sharia-compliant financing among MSMEs. Future research could integrate moderating factors to deepen understanding of the intention-behavior gap in Islamic finance adoption.

Keywords: Sharia Contract Understanding; Fear of Riba; Financial Literacy; Sharia Financing Preference; MSMEs

Abstrak

Tujuan & obyek:

Penelitian ini bertujuan untuk menganalisis secara empiris pengaruh Pemahaman Akad Syariah, Ketakutan terhadap Riba, dan Literasi Keuangan terhadap Preferensi Pembiayaan Syariah pada pelaku UMKM kuliner di Kota Pangkalpinang. Objek penelitian ini adalah pemilik atau pengelola UMKM kuliner yang telah menjalankan usaha minimal dua tahun dan memiliki pengetahuan mengenai produk keuangan syariah.

Metode:

Penelitian ini menggunakan pendekatan kuantitatif dengan metode Structural Equation Modeling-Partial Least Squares (SEM-PLS) melalui perangkat lunak SmartPLS versi 4. Data primer dikumpulkan melalui kuesioner yang disebarakan kepada 100 pelaku UMKM kuliner di Pangkalpinang dengan teknik purposive sampling. Model pengukuran dievaluasi melalui validitas konvergen, validitas diskriminan, dan uji reliabilitas, sedangkan model struktural dinilai melalui path coefficient, R^2 , Q^2 , effect size (f^2), dan model fit.

Hasil & Simpulan:

Hasil penelitian menunjukkan bahwa Pemahaman Akad Syariah dan Ketakutan terhadap Riba tidak berpengaruh signifikan terhadap Preferensi Pembiayaan Syariah, sedangkan Literasi Keuangan berpengaruh positif dan signifikan secara kuat. Temuan ini mengindikasikan bahwa faktor rasional-kognitif lebih dominan dibandingkan faktor religius-emosional dalam membentuk preferensi pembiayaan pelaku usaha Muslim.

Keterbatasan:

Penelitian ini terbatas pada UMKM kuliner di Kota Pangkalpinang dan belum mempertimbangkan variabel moderasi seperti latar belakang pendidikan Islam atau pengalaman sebelumnya dengan perbankan syariah.

Implikasi:

Temuan ini mengimplikasikan bahwa lembaga keuangan syariah dan pemerintah daerah perlu memprioritaskan program literasi keuangan praktis, simulasi akad, dan komunikasi kontekstual untuk memperkuat adopsi pembiayaan syariah di kalangan UMKM. Penelitian selanjutnya dapat mengintegrasikan faktor moderasi untuk memperdalam pemahaman tentang kesenjangan niat-perilaku dalam adopsi keuangan syariah.

Kata kunci: Pemahaman Akad Syariah; Ketakutan terhadap Riba; Literasi Keuangan; Preferensi Pembiayaan Syariah; UMKM

1. Introduction

In the current era of economic modernization, the growth of Islamic finance has become an integral part of the global financial system. The expansion of Islamic financial institutions reflects an increasing awareness among Muslims to align their economic activities with sharia principles, which prohibit interest (riba), uncertainty (gharar), and speculative transactions (maysir). In Indonesia—the country with the world's largest Muslim population—the Islamic finance sector plays an increasingly strategic role in supporting the national economy, particularly in empowering Micro, Small, and Medium Enterprises (MSMEs). According to Otoritas Jasa Keuangan (OJK) and Badan Pusat Statistik (BPS) (2024), MSMEs contribute over 60 percent to

Indonesia's Gross Domestic Product (GDP), yet only a small portion have utilized Islamic financing facilities. This situation highlights the gap between the availability of Islamic financial products and the public's actual preference for them.

The preference for Sharia-based financing reflects not only economic rationality but also the moral and spiritual values that guide individual decision-making. However, empirical evidence indicates that many Muslim entrepreneurs still rely on conventional financing, despite recognizing the prohibition of *riba*. Several studies (Hertika et al., 2016; Lathifah & Yuliafitri, 2022) show that this discrepancy arises from limited understanding of sharia contracts, insufficient financial literacy, and perceptions of inconvenience in Islamic financial services. Therefore, understanding behavioral factors influencing financing preferences is essential for strengthening the inclusiveness of Islamic finance.

Previous studies have examined the influence of sharia financial literacy on MSME performance (Rizqullah & Irawan, 2023), the impact of fintech and financial literacy on MSME development (Sulistiyowati et al., 2024), and the role of *riba* understanding on intentions to become sharia bank customers (Lathifah & Yuliafitri, 2022). However, these studies have predominantly focused on general MSME populations or specific regions in Java and Sumatra, with limited attention given to the culinary sector in emerging Islamic finance markets such as Pangkalpinang City. Furthermore, few studies have simultaneously integrated cognitive (Understanding of Sharia Contracts), moral-emotional (Fear of Riba), and rational-competence (Financial Literacy) dimensions within a single framework based on the Theory of Planned Behavior. This study addresses this gap by empirically testing these three dimensions among culinary MSMEs in Pangkalpinang—a region where the culinary sector dominates the MSME landscape (Badan Pusat Statistik Kota Pangkalpinang, 2025), yet Islamic banking penetration remains relatively low compared to other regions in Indonesia.

Pangkalpinang City was selected as the research location for three reasons. First, the culinary sector constitutes the largest proportion of MSMEs in Pangkalpinang, making it a strategic sector for Islamic finance expansion. Second, despite being a majority Muslim area, the adoption of Islamic financing among culinary MSMEs remains low, indicating a potential gap between religious affiliation and financial behavior. Third, as the capital city of Bangka Belitung Islands Province, Pangkalpinang serves as an economic hub whose business practices may influence surrounding regions, making it a critical locus for understanding Islamic finance adoption in the region.

From a behavioral perspective, the Theory of Planned Behavior (TPB) proposed by Ajzen (1991) provides a strong foundation for explaining how attitudes, subjective norms, and perceived behavioral control influence intention and behavior. In the context of Islamic finance, understanding sharia contracts reflects cognitive knowledge and attitudes toward sharia-compliant behavior; fear of *riba* represents the moral and normative dimension; while financial literacy captures the element of perceived control reflecting a person's confidence in making financial decisions. These three dimensions

interact to shape the preference of Muslim entrepreneurs in choosing Islamic or conventional financing.

This study aims to empirically analyze the influence of Understanding of Sharia Contracts, Fear of Riba, and Financial Literacy on the Preference for Sharia Financing among culinary MSMEs in Pangkalpinang City. The research seeks to answer the following questions:

RQ1: Does Understanding of Sharia Contracts significantly influence the Preference for Sharia Financing among culinary MSMEs in Pangkalpinang?

RQ2: Does Fear of Riba significantly influence the Preference for Sharia Financing among culinary MSMEs in Pangkalpinang?

RQ3: Does Financial Literacy significantly influence the Preference for Sharia Financing among culinary MSMEs in Pangkalpinang?

By addressing these questions, this study aims to provide theoretical and practical contributions to Islamic behavioral finance. Theoretically, it enriches the application of TPB in explaining behavioral patterns within the context of Islamic financial adoption. Practically, it offers insights for policymakers, Islamic financial institutions, and local governments in designing targeted literacy programs and outreach strategies to strengthen the acceptance of sharia-based financial systems among MSMEs.

2. Literature Review

2.1. Theory of Planned Behavior (TPB)

The Theory of Planned Behavior (TPB), proposed by Ajzen (1991), is an extension of the Theory of Reasoned Action (Fishbein & Ajzen, 1975). It posits that an individual's behavior is guided by behavioral intention, which is shaped by three determinants: attitude toward the behavior, subjective norms, and perceived behavioral control. Attitude toward the behavior refers to the individual's evaluation of performing the behavior as favorable or unfavorable. Subjective norms represent the perceived social pressures to perform or avoid the behavior, while perceived behavioral control reflects the individual's perception of their capability to perform the behavior.

In the context of Islamic financing, TPB provides a theoretical foundation to explain how Muslim entrepreneurs decide whether to adopt Sharia-based financial systems. Understanding of Sharia Contracts (X_1) corresponds to the attitudinal component, as it reflects one's cognitive evaluation of the ethical and religious validity of Islamic transactions. Fear of Riba (X_2) aligns with the subjective norms component, capturing the moral and social pressures to avoid interest-based transactions. Meanwhile, Financial Literacy (X_3) corresponds to perceived behavioral control, reflecting the individual's perceived ability to understand, manage, and engage with Islamic financial products effectively (Hair et al., 2021; Rizqullah & Irawan, 2023).

Through TPB, this study integrates both cognitive and moral dimensions of financial behavior. It explains that the decision to prefer Islamic financing is not only influenced by religious adherence but also by rational assessment and perceived competence in managing Sharia-based financial mechanisms. Thus, TPB serves as a robust

framework for analyzing how knowledge, beliefs, and perceived control interact to shape financing preferences among Muslim business owners.

2.2. Understanding of Sharia Contracts

Sharia contracts (aqd) represent the fundamental legal and moral structure of Islamic financial transactions. A contract in Islamic jurisprudence is a mutual agreement between two or more parties to conduct an economic exchange in compliance with Sharia principles (Afifah et al., 2025). These principles are operationalized through various contract forms such as murabahah (cost-plus sale), mudharabah (profit-sharing partnership between capital provider and entrepreneur), musyarakah (joint venture partnership), and ijarah (leasing).

Understanding Sharia contracts involves not only recognizing their terminologies but also comprehending their ethical, procedural, and economic implications. Faujiah (2023) found that while many individuals are familiar with the basic terms of Islamic contracts, their practical understanding remains limited, leading to misconceptions that Islamic and conventional financial systems are similar due to the presence of profit margins or installments. Suhaimi et al. (2022) further emphasized that the implementation of Sharia contracts often faces challenges due to insufficient public education and lack of exposure to the practical application of fatwas issued by Indonesia's National Sharia Council (DSN-MUI). Consequently, many customers select Islamic financial products not because of their awareness of the contracts' religious significance but due to practical considerations such as convenience and institutional reputation.

From the TPB perspective, Understanding of Sharia Contracts reflects the attitudinal component that shapes an individual's intention toward Sharia-compliant behavior. A deeper comprehension of Islamic contracts enhances positive attitudes toward Islamic financing. However, when understanding remains superficial or conceptual, it may not sufficiently transform into actual financial behavior.

H1: Understanding of Sharia Contracts has a positive and significant influence on the Preference for Sharia Financing.

2.3. Fear of Riba

Riba, or interest, is strictly prohibited in Islam because it entails exploitation and violates the principle of justice. The Qur'an (Al-Baqarah: 275-279) explicitly condemns riba, making its avoidance a fundamental aspect of Islamic financial ethics. Theoretically, fear of riba should serve as a strong internal motivation for Muslims to avoid conventional banking and adopt Islamic financial instruments.

However, empirical findings suggest that this moral awareness does not always translate into behavioral change. Sutono (2024) observed that although students of Islamic economics possess high awareness regarding the prohibition of riba, many still engage in conventional financial activities for practical reasons. Similarly, H. Siregar (2021) revealed that even in religiously strong regions such as Aceh, social and cultural influences often override theological convictions in financial decision-making. This gap between belief and behavior reflects what scholars describe as religious dissonance—

a psychological state where one's religious values conflict with pragmatic financial decisions (Lathifah & Yuliafitri, 2022). In such cases, while individuals acknowledge the sinfulness of *riba*, their choices are often guided by convenience, accessibility, and perceived efficiency of conventional systems.

Within the TPB framework, Fear of Riba is situated in the subjective norms dimension, representing the moral and social expectations that influence behavioral intention. Yet, if perceived behavioral control—such as access to Islamic financial services or understanding of Islamic mechanisms—is low, the impact of such moral norms becomes weak.

H2: Fear of Riba has a positive and significant influence on the Preference for Sharia Financing.

2.4. Financial Literacy

Financial literacy refers to an individual's ability to understand, analyze, and manage financial resources effectively and responsibly (OECD, 2023). In Islamic finance, financial literacy extends beyond conventional financial knowledge to include ethical and spiritual dimensions that govern economic behavior. Rizqullah and Irawan (2023) asserted that Sharia financial literacy enhances Muslim entrepreneurs' capacity to differentiate between conventional and Islamic financial systems, leading to more ethical decision-making. Similarly, Ayu et al. (2025) demonstrated that higher financial literacy significantly improves micro-enterprise success, as knowledgeable entrepreneurs manage capital more prudently and avoid interest-bearing transactions. Nurwulandari (2023) and Urefe et al. (2024) further emphasized that financial literacy fosters sustainable decision-making and strengthens individuals' confidence in engaging with formal financial systems.

Within the TPB model, Financial Literacy represents perceived behavioral control, as individuals with higher literacy feel more capable of navigating financial options and implementing decisions aligned with their values. Consequently, financial literacy acts as a cognitive determinant that bridges the gap between intention and actual behavior.

H3: Financial Literacy has a positive and significant influence on the Preference for Sharia Financing.

2.5. Preference for Sharia Financing

Preference for Sharia financing refers to the tendency or inclination of individuals to choose Islamic financing products over conventional ones. This preference is shaped by a combination of religious, economic, and social factors. In the context of MSMEs, the decision to adopt Sharia financing is influenced not only by religious adherence but also by practical considerations such as profit-sharing mechanisms, risk-sharing arrangements, and the perceived fairness of Islamic financial contracts.

According to Putri (2023), consumer preferences for Islamic financial products are influenced by perceived ease of use, perceived usefulness, feature availability, financial literacy, and security. Similarly, Hertika et al. (2016) identified determinants of customer interest in choosing Sharia financing, including product knowledge,

religiosity, and institutional trust. These findings suggest that preference is a multidimensional construct that integrates cognitive, affective, and behavioral components.

In this study, Preference for Sharia Financing (Y) is positioned as the dependent variable, reflecting the extent to which culinary MSME owners in Pangkalpinang are inclined to choose Sharia-compliant financing over conventional alternatives.

3. Research Method

3.1. Research Design

The quantitative approach was employed in this study as it provides a structured and objective framework to analyze the relationship between the independent variables—Understanding of Sharia Contracts (X_1), Fear of Riba (X_2), and Financial Literacy (X_3)—and the dependent variable, namely Preference for Sharia Financing (Y). This approach allows the researcher to test hypotheses empirically and determine the magnitude of influence between variables using statistical modeling. In conducting this research, the Structural Equation Modeling Partial Least Squares (SEM-PLS) technique was applied using SmartPLS version 4, as it is suitable for studies involving latent variables and non-normally distributed data. This method also enables simultaneous testing of both measurement and structural models.

3.2. Population and Sampling

The population in this study consists of all culinary MSMEs operating in Pangkalpinang City. According to data from Badan Pusat Statistik (BPS) Kota Pangkalpinang (2025), there are approximately 1,200 culinary MSMEs registered in the city. This population includes various types of culinary businesses such as restaurants, cafes, food stalls, catering services, and small-scale food producers.

The sampling technique used was purposive sampling, a non-probability approach where participants are selected based on specific criteria relevant to the study's objectives. The inclusion criteria were: (1) owners or managers of culinary MSMEs in Pangkalpinang City; (2) businesses that have been operational for at least two consecutive years; (3) individuals who are aware of and/or have experience with Islamic financial products; and (4) respondents willing to participate voluntarily.

A total of 100 valid responses were collected. The justification for this sample size is based on the 10 times rule recommended by Hair et al. (2021), which suggests that the minimum sample size should be 10 times the number of indicators used in the model. This study uses 16 indicators across four constructs; therefore, the minimum required sample is 160. However, following recent PLS-SEM literature, sample adequacy should also consider statistical power (Hair et al., 2021; Sarstedt et al., 2022). With 100 respondents and a significance level of 5%, the statistical power for detecting medium effect sizes ($f^2 = 0.15$) exceeds 0.80, which is considered acceptable. Additionally, prior studies in Islamic finance using SEM-PLS have successfully employed sample sizes ranging from 80 to 150 respondents (Rizqullah & Irawan, 2023; Yusmelia et al., 2024).

3.3. Research Instrument

The research instrument employed was a structured questionnaire designed using a five-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). The questionnaire consisted of two main sections: Section I covered respondent demographics (gender, age, educational background, and years of business operation), while Section II contained statements measuring the variables under study.

3.4. Data Collection Procedure

Primary data were collected through structured questionnaires distributed directly to culinary MSME owners or managers in Pangkalpinang City. The data collection process was conducted over a period of two months (June–July 2025). Questionnaires were distributed via two methods: (1) direct distribution to business locations, and (2) online distribution through Google Forms for respondents who preferred digital submission. Prior to filling out the questionnaire, respondents were provided with a brief explanation of the study's purpose and assured of the confidentiality of their responses. Informed consent was obtained from all participants.

3.5. Data Analysis Technique

The data were analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS) with SmartPLS version 4. The analysis procedure consisted of two main stages: (1) Measurement Model Evaluation (Outer Model), assessing convergent validity (outer loading, AVE), discriminant validity (HTMT or Fornell-Larcker), and reliability (Composite Reliability, Cronbach's Alpha); and (2) Structural Model Evaluation (Inner Model), assessing path coefficients, t-statistics, p-values, R^2 , Q^2 predictive relevance, effect size (f^2), and model fit indicators (SRMR). Hypothesis testing was conducted using bootstrapping with 5,000 resamples to determine the significance of the relationships between variables.

4. Results and Discussion

4.1. Results

This study aimed to examine how Understanding of Sharia Contracts (X_1), Fear of Riba (X_2), and Financial Literacy (X_3) influence the Preference for Sharia Financing (Y) among culinary MSMEs in Pangkalpinang City. The data collected from 100 respondents were analyzed using *Structural Equation Modeling Partial Least Squares* (SEM-PLS) with SmartPLS 4. The evaluation process included both the measurement model and structural model.

Table 1. Summary of Article Analysis

No	Researcher(s) & Year	Title	Methodology	Main Findings
1	Suherman et al. (2024)	<i>The Influence of Sharia Financial Literacy and Perceived Usefulness on the Decision of the Muslim Generation to Choose Shopee Paylater</i>	Quantitative approach with multiple linear regression analysis	Sharia financial literacy has a significant negative effect on the decision to use Shopee Paylater, while perceived usefulness has a significant positive effect.
2	Utamie & Selvina (2024)	<i>The Influence of Sharia Financial Literacy, E-Service Quality, and Security Assurance on the Interest in Using Sharia Peer-to-Peer Lending Fintech</i>	Quantitative approach with multiple linear regression analysis	Sharia financial literacy, e-service quality, and security assurance significantly affect users' interest in adopting Sharia-based P2P lending platforms.
3	Siregar et al. (2025)	<i>Influence of Sharia Financial Literacy and the Use of Sharia Fintech Lending on MSME Development</i>	Quantitative approach with multiple linear regression analysis applied to MSME actors in Medan	Both Sharia financial literacy and Sharia fintech lending have a positive and significant impact on MSME development.
4	Rizqullah & Irawan (2023)	<i>The Influence of Sharia Financial Literacy on MSME Performance: A Case Study of KPMI Entrepreneurs on Java Island</i>	Quantitative approach using Structural Equation Modeling (SEM-PLS)	Sharia financial literacy has a significant positive effect on MSME performance within the Indonesian Muslim Entrepreneur Community (KPMI).
5	Yusmelia et al. (2024)	<i>The Influence of Sharia Financial Literacy, Knowledge, Trust, and Ease on the Interest in Using Financial Technology</i>	Quantitative approach using Structural Equation Modeling (SEM-PLS)	Knowledge and trust significantly influence interest in using Sharia fintech, while literacy, ease, and risk do not have significant effects.
6	Sulistiyowati et al. (2024)	<i>The Impact of Fintech and Financial Literacy on MSME Development Through Access to Finance</i>	Literature review on economics, management, and finance articles	The existence of fintech and financial literacy—through improved access to finance—positively affects MSME growth.
7	Faujiah (2023)	<i>Understanding of Religious Figures on Mudharabah Contracts in Sharia Financing Products</i>	Qualitative approach using frequency distribution via questionnaires	50% of religious figures understand the <i>mudharabah</i> contract, 35% do not understand, and the rest have limited understanding.
8	Sutono (2024)	<i>Sharia Economics Students' Understanding of the Prohibition of Riba in Conventional Banking Institutions</i>	Qualitative approach using in-depth interviews	Students understand <i>riba</i> as bank interest that is prohibited and exploitative, viewing conventional banking as contradictory to Islamic principles.

No	Researcher(s) & Year	Title	Methodology	Main Findings
9	Lathifah & Yuliafitri (2022)	<i>Understanding Riba, Product Knowledge, and Attitudes: Influences on Intentions to Become Sharia Bank Customers</i>	Quantitative descriptive approach using questionnaires	Understanding of <i>riba</i> and product knowledge do not significantly affect intention, while attitude toward Islamic banks has a significant effect.
10	Urefe et al. (2024)	<i>Enhancing Small Business Success through Financial Literacy and Education</i>	Literature review on the role of financial literacy and education	Financial literacy enhances cash flow management, decision-making, taxation, and strategic planning, leading to sustainable small business success.
11	Fata & Nursyidah (2022)	<i>Holistic Effect of Understanding Mudharabah Financing Contracts and Financial Reporting Aspects on Interest in Entrepreneurship in the Sharia Economic Context</i>	Quantitative descriptive method with validity, reliability, classical assumption tests, multiple regression, F-test, and t-test	Financial reporting understanding has a positive significant effect on entrepreneurial interest, while <i>mudharabah</i> contract understanding has no significant effect.
12	Hartutik (2019)	<i>Understanding and Selecting Sharia or Conventional Financing Among Small Entrepreneurs in Pasuruan Regency Devout of Islamic Culture</i>	Qualitative phenomenological approach through interviews, observation, and document analysis	Most entrepreneurs lack understanding of Sharia contracts and financial records; financing choices are based on convenience rather than religious preference.
13	Aprialita et al. (2024)	<i>The Impact of Financial Literacy, Fintech Utilization, and Risk Literacy on MSME Business Continuity in Yogyakarta</i>	Quantitative approach using multiple linear regression on 100 MSME respondents	Financial and risk literacy significantly affect MSME sustainability, while fintech utilization shows no significant influence.
14	Suhaimi et al. (2022)	<i>Islamic Law Analysis of Guidelines for Implementing Contracts in Nuri Sharia Savings and Loan Cooperatives (KSPPS) East Java</i>	Qualitative descriptive approach with normative juridical method	The implementation of contracts at KSPPS Nuri Jatim generally complies with DSN-MUI fatwas, though some technical adjustments exist in <i>mudharabah</i> and <i>wadi'ah yad dhamanah</i> applications.
15	Nurwulandari (2023)	<i>Analysis of the Impact of Financial Technology and Financial Literacy on MSME Business Sustainability</i>	Quantitative approach with multiple linear regression on 42 culinary MSMEs in Sumedang	Both financial technology and literacy have a positive and significant impact on MSME business sustainability.

Source: Compiled by the authors (2025)

4.1.1. Measurement Model Evaluation

The outer model was tested to ensure the validity and reliability of the research indicators. The evaluation included convergent validity, discriminant validity, and reliability testing.

4.1.2. Structural Model Evaluation

After validating the measurement model, the inner model was assessed to examine the relationships among variables. The results of the bootstrapping test (5,000 resamples) revealed the following outcomes:

Table 2. Hypothesis Testing Results

Hypothesis	Relationship	Path Coefficient	t-Statistic	p-value	Result
H1	Understanding of Sharia Contracts → Preference for Sharia Financing	0.112	1.410	0.159	Not Supported
H2	Fear of Riba → Preference for Sharia Financing	0.083	1.128	0.260	Not Supported
H3	Financial Literacy → Preference for Sharia Financing	0.634	9.825	0.000	Supported

Source: Data processed (2025)

The R^2 value for the dependent variable (Preference for Sharia Financing) was 0.541, indicating that approximately 54.1% of the variation in Sharia financing preference can be explained by the three independent variables. The remaining 45.9% is influenced by other factors not included in the model, such as accessibility, product trust, and marketing communication by Islamic financial institutions.

4.1.3. Key Findings

Understanding of Sharia Contracts (X_1) did not have a significant impact on the Preference for Sharia Financing (Y). This indicates that theoretical knowledge or awareness of Islamic contracts alone is insufficient to shape financing preferences.

Fear of Riba (X_2) also showed no significant influence on financing preference. Despite high religious awareness, emotional or moral fear does not automatically lead to behavioral change in financial choices.

Financial Literacy (X_3) had a strong and significant positive effect on the preference for Sharia financing. This finding suggests that practical financial knowledge and capability play a dominant role in shaping MSMEs' financing decisions. Entrepreneurs who understand profit-sharing mechanisms, financial management, and risk evaluation are more confident in adopting Islamic financing products.

4.2. Discussion

The results of this study reveal that cognitive and rational factors rather than purely moral or emotional ones are more influential in shaping financial behavior among MSME actors. These findings are consistent with the Theory of Planned Behavior (TPB), which emphasizes that behavior is influenced by attitude, subjective norms, and perceived behavioral control (Ajzen, 1991).

4.2.1. The Role of Sharia Contract Understanding

The non-significant relationship between Understanding of Sharia Contracts and Preference for Sharia Financing suggests that knowledge alone does not necessarily translate into behavioral intention. While respondents may recognize terms like *murabahah*, *mudharabah*, or *ijarah*, their comprehension often remains conceptual

rather than practical. This aligns with findings by Faujiah (2023) and Suhaimi et al. (2022), who observed that limited exposure to real-world contract applications weakens individuals' ability to translate Sharia understanding into financing behavior. In the context of Pangkalpinang, this may be attributed to a lack of educational outreach by Islamic financial institutions or insufficient public dissemination of DSN-MUI fatwas regarding contract mechanisms. From the TPB perspective, understanding of Sharia contracts represents the attitudinal component. A weak attitudinal basis results in low behavioral intention, implying that education programs must not only provide conceptual knowledge but also practical simulations and case-based learning to enhance behavioral transformation.

4.2.2. The Role of Fear of Riba

The variable Fear of Riba was expected to exert a strong moral influence on financing preferences; however, statistical analysis shows otherwise. This finding reveals the presence of what Lathifah and Yuliafitri (2022) describe as religious dissonance—a gap between moral awareness and behavioral action. While respondents are aware of the sinfulness of riba, practical considerations such as ease of access, product flexibility, and speed of service often override moral deterrence. This indicates that subjective norms (social and religious expectations) alone cannot ensure behavioral compliance unless supported by enabling conditions, such as accessible and competitive Sharia financial services. This finding is also consistent with H. Siregar (2021), who found that even in religiously devout regions, pragmatic financial motivations often outweigh moral considerations. In other words, fear of riba serves as a moral driver, but it requires reinforcement through knowledge and institutional support to become a sustainable behavioral influence.

4.2.3. The Role of Financial Literacy

Among the three predictors, Financial Literacy demonstrated the strongest and most significant influence on the preference for Sharia financing. This suggests that rational competence—not just religious motivation—is the most decisive factor in shaping financial choices. Respondents with higher levels of financial literacy display better understanding of profit-sharing principles (*nisbah bagi hasil*), cost management, and investment evaluation. As a result, they exhibit greater trust and confidence in Islamic financial products. This finding aligns with Ayu et al. (2025), who emphasized that financially literate entrepreneurs tend to make ethical and efficient financial decisions that enhance business sustainability. From a TPB perspective, financial literacy corresponds to perceived behavioral control, reflecting individuals' confidence in their ability to perform a behavior. Higher literacy improves this perceived control, bridging the gap between intention and actual action.

5. Conclusion

This study aimed to analyze the influence of Understanding of Sharia Contracts, Fear of Riba, and Financial Literacy on the Preference for Sharia Financing among culinary MSMEs in Pangkalpinang City using the SEM-PLS approach. The results revealed that Understanding of Sharia Contracts and Fear of Riba do not have a

significant effect on the preference for Sharia financing. This finding suggests that while MSME owners may possess theoretical knowledge and moral awareness regarding Islamic financial principles, these factors have not yet been fully translated into actual financing behavior. Many entrepreneurs still prioritize practical considerations such as ease of access, flexible requirements, and cost efficiency over theological aspects like the prohibition of *riba*.

Conversely, Financial Literacy shows a strong and significant positive effect on the preference for Sharia financing. This highlights that MSMEs with greater financial knowledge and skills are more capable of understanding the mechanisms and benefits of Sharia-compliant financial products. They can make more rational decisions, assess risks more effectively, and choose financing options that align with both business goals and ethical considerations. From a practical standpoint, the findings indicate that efforts to increase MSME participation in Islamic finance should not rely solely on religious or moral campaigns. Instead, emphasis should be placed on improving financial literacy through education, training, and accessible information about Sharia financing systems. Specifically, Bank Syariah Indonesia (BSI) Kantor Cabang Pangkalpinang and the Dinas Koperasi dan UKM Kota Pangkalpinang can operationalize these findings by: (1) organizing practical training programs on Sharia financing mechanisms (*murabahah*, *mudharabah*, *musyarakah*) for culinary MSME owners; (2) developing simulation tools that allow entrepreneurs to compare conventional and Sharia financing options based on real business scenarios; (3) providing contextual communication materials that explain profit-sharing mechanisms (*nisbah bagi hasil*) in simple, non-technical language; and (4) integrating financial literacy modules into existing MSME development programs conducted by local government offices.

Although this study is limited to culinary MSMEs in Pangkalpinang City, its results provide important insights into behavioral patterns influencing Sharia financing decisions. Future research could expand the scope to include other sectors or regions and incorporate moderating variables such as previous banking experience or educational background. Longitudinal studies would also be valuable to examine how financing preferences evolve over time. Overall, this study contributes to the growing body of Islamic finance literature by showing that rational and literacy-based factors play a more decisive role than moral deterrence, underscoring the importance of building both financial capability and ethical internalization to strengthen the foundation of Islamic finance.

Acknowledgements

The author would like to express sincere gratitude to all individuals and institutions that contributed to the completion of this study. Appreciation is extended to the MSME respondents in Pangkalpinang City who willingly participated and provided valuable insights during data collection. Special thanks are also addressed to academic advisors and supervisors for their constructive feedback, guidance, and encouragement throughout the research process. The author also acknowledges the support of Islamic financial institutions and local authorities that facilitated access to

relevant data and information. Lastly, heartfelt appreciation is expressed to family, colleagues, and peers who provided motivation, moral support, and inspiration during the preparation of this research. May this work contribute positively to the development of Islamic financial literacy and encourage broader adoption of Sharia-compliant financing practices among MSMEs in Indonesia.

References

- Afifah, U., Purwanto, & Fitriyani, Y. (2025). Analisis praktik pembiayaan musyarakah di Baitul Maal wat Tamwil Saudara Grabag Magelang: Perspektif Fatwa DSN MUI No. 08/DSN-MUI/IV/2000. *Al-Sulthaniyah*, 14(2), 235–251. <https://doi.org/10.37567/al-sulthaniyah.v14i2.3802>.
- Ajzen, I. (1991). The theory of planned behavior. *Organizational Behavior and Human Decision Processes*, 50(2), 179–211. [https://doi.org/10.1016/0749-5978\(91\)90020-T](https://doi.org/10.1016/0749-5978(91)90020-T).
- Aprialita, E. A., Putri, W. H., & Hasthoro, H. A. (2024). The impact of financial literacy, fintech utilization, and literacy of risk in fintech on MSMEs business continuity in Yogyakarta. In *Proceedings of the 1st International Conference on Economic, Management, and Accounting (ICEMA)* (pp. 120–131). KnE Social Sciences.
- Ayu, D. F., Silalahi, A. N., & Febriyano, F. (2025). Pengaruh literasi keuangan syariah terhadap keberhasilan usaha mikro. *Deflasi: Jurnal Ekonomi*, 4(1), 1–9.
- Badan Pusat Statistik Kota Pangkalpinang. (2025, August 5). *Jumlah usaha mikro, kecil, dan menengah (UMKM) menurut jenisnya di Kota Pangkalpinang, 2022* [Data set]. <https://pangkalpinangkota.bps.go.id/id/statistics-table/2/MTEylzl=/jumlah-usaha-mikro-kecil-dan-menengah-umkm-menurut-jenisnya-di-kota-pangkalpinang.html>.
- Fata, K., & Nursyidah. (2022). Holistic effect of understanding of mudharabah financing acad and financial reporting aspect on interest in entrepreneurship in the sharia economic context. *International Journal of Economic, Business, Accounting, Agriculture Management and Sharia Administration (IJEBAAS)*, 2(6), 1375–1385. <https://doi.org/10.54443/ijeabas.v2i6.800>.
- Faujiah, S. M. (2023). Understanding of religious figures on mudharabah contracts in sharia financing products in Rembatan Wetan Village. *Al-Arfa: Journal of Sharia, Islamic Economics and Law*, 1(1), 29–36. <https://doi.org/10.61166/arfa.v1i1.4>.
- Fishbein, M., & Ajzen, I. (1975). *Belief, attitude, intention, and behavior: An introduction to theory and research*. Addison-Wesley.
- Hair, J. F., Hult, G. T. M., Ringle, C. M., & Sarstedt, M. (2021). *A primer on partial least squares structural equation modeling (PLS-SEM)* (3rd ed.). SAGE Publications.
- Hartutik. (2019). Understanding and selecting sharia or conventional financing among small entrepreneurs, in Pasuruan Regency devout of Islamic culture (Phenomenology studies). *KnE Social Sciences*, 3(26), 549–563. <https://doi.org/10.18502/kss.v3i26.5400>.
- Hertika, E., Saiful, & Suranta, E. (2016). Determinan minat nasabah dalam memilih pembiayaan syariah. *Jurnal Fairness*, 6(3), 165–186.

- Lathifah, R. S., & Yuliafitri, I. (2022). Understanding riba, product knowledge, and attitudes: Influences on intentions to become sharia bank customers. *Li Falah: Jurnal Studi Ekonomi dan Bisnis Islam*, 7(1), 33–46.
- Nurwulandari, A. (2023). Analysis of the impact of financial technology and financial literacy on MSME business sustainability. *Lead Journal of Economy and Administration*, 1(4), 40–51.
- OECD. (2023). *OECD/INFE 2023 international survey of adult financial literacy*. OECD Publishing. <https://doi.org/10.1787/56003a32-en>.
- Otoritas Jasa Keuangan, & Badan Pusat Statistik. (2024, August 2). *Siaran pers bersama: OJK dan BPS umumkan hasil Survei Nasional Literasi dan Inklusi Keuangan (SNLIK) tahun 2024*. Otoritas Jasa Keuangan. <https://ojk.go.id/id/berita-dan-kegiatan/siaran-pers/Pages/OJK-dan-BPS-Umumkan-Hasil-Survei-Nasional-Literasi-dan-Inklusi-Kuangan-Tahun-2024.aspx>.
- Putri, N. S. (2023). *Pengaruh persepsi kemudahan, persepsi kegunaan, ketersediaan fitur, literasi keuangan dan keamanan terhadap preferensi konsumen menggunakan BSI Mobile pada masyarakat Banyumas* [Skripsi, Universitas Islam Negeri Profesor Kiai Haji Saifuddin Zuhri Purwokerto]. <https://repository.uinsaizu.ac.id/22266/>.
- Rizqullah, F. Z., & Irawan, A. (2023). The influence of sharia financial literacy on MSMEs performance: The study case in Indonesian Muslim Entrepreneur Community (KPMI) on Java Island. *Journal of Business and Management*, 12(1).
- Sarstedt, M., Ringle, C. M., & Hair, J. F. (2022). Partial least squares structural equation modeling. In C. Homburg, M. Klarmann, & A. Vomberg (Eds.), *Handbook of market research* (pp. 587–632). Springer. https://doi.org/10.1007/978-3-319-57413-4_15.
- Siregar, H. (2021). *Analisis pengaruh budaya, sosial, pribadi dan psikologis masyarakat Propinsi Aceh terhadap perilaku dalam memilih finance syariah* [Disertasi doktoral, Universitas Islam Negeri Sumatera Utara]. <http://repository.uinsu.ac.id/13686/>.
- Siregar, Z. A., Nurbaiti, & Syahbudi, M. (2025). Influence literacy finance syariah and use syariah fintech lending on the development of MSMEs. *Journal of Applied Business Administration*, 9(1), 71–83. <https://doi.org/10.30871/jaba.v9i1.9267>.
- Suhaimi, S., Mukit, A., El Fany, N., & Kamil, M. (2022). Islamic law analysis of guidelines for implementing contracts in Nuri savings and loans and sharia financing cooperatives (KSPPS) East Java. *International Conference on Islamic Economic (ICIE)*, 1(2), 295–309. <https://doi.org/10.58223/icie.v1i2.182>.
- Suherman, A. C., Subagio, N. A., & Mahardiyanto, A. (2024). The influence of sharia financial literacy and perceived usefulness on the decision of the Muslim generation to choose the Shopee Paylater. *Tasharruf: Journal Economics and Business of Islam*, 9(1), 48–63. <https://doi.org/10.30984/tjebi.v9i1.2957>.
- Sulistiyowati, S. N., Pranoto, A. J., & Mas'adah, N. (2024). The impact of fintech and financial literacy on MSME development through access to finance. *DiE: Jurnal Ilmu Ekonomi dan Manajemen*, 15(1), 79–87. <https://doi.org/10.30996/die.v15i1.10594>.

- Sutono. (2024). Sharia economics students' understanding of the prohibition of riba in conventional bank institutions. *Cakrawala: Repositori IMWI*, 7(2), 101–112.
- Urefe, O., Odonkor, T. N., Chiekezie, N. R., & Agu, E. E. (2024). Enhancing small business success through financial literacy and education. *Magna Scientia Advanced Research and Reviews*, 11(2), 297–315. <https://doi.org/10.30574/msarr.2024.11.1.0123>.
- Utamie, Z. R., & Selvina, M. (2024). Pengaruh literasi keuangan syariah, e-service quality, dan jaminan rasa aman terhadap minat menggunakan fintech peer to peer lending syariah pada generasi milenial di Kota Bandar Lampung. *Qulubana: Jurnal Manajemen Dakwah*, 5(2), 456–473. <https://doi.org/10.54396/qlb.v5i2.1565>.
- Yusmelia, A., Suryadi, N., & Nasrah, H. (2024). Pengaruh literasi keuangan syariah, pengetahuan, kepercayaan dan kemudahan terhadap minat menggunakan financial technology. *Jurnal Tabarru': Islamic Banking and Finance*, 7(2), 504–514. [https://doi.org/10.25299/jtb.2024.vol7\(2\).17597](https://doi.org/10.25299/jtb.2024.vol7(2).17597).