J E B I N Journal of Economics Business Industry
ISSN : 3025-0986
P-ISSN: 3025-0528
Volume 2, Number 1, 2024, pp 48-58
https://jurnaljepip.com/index.php/Jebin/index

Potential Islamic Finance as an Alternative for UMKM Scale, Instrument Development and Validation in Indonesia

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ABSTRACT

This study examines the potential of Islamic finance as an alternative financing channel for Micro, Small, and Medium Enterprises (UMKM) in Indonesia, addressing a persistent gap in empirically validated measurement instruments for this purpose. A purpose-built 21-item scale, designated the Potential Islamic Finance as an Alternative for UMKM Scale (PIFAUS), was developed and administered to 420 UMKM operators across five provinces on the island of Java through a structured face-to-face survey. Exploratory factor analysis revealed a six-dimensional structure accounting for approximately 76.29% of total variance, with the six factors identified as Personal Religious and Social Values, Sectoral Appropriateness, Financing Schemes and Opportunities, Accessibility, Cost Competitiveness, and Ease of Financing Access. Confirmatory factor analysis conducted within a PLS-SEM framework confirmed the model's construct validity, with multiple goodness-of-fit indices meeting either perfect or acceptable threshold criteria. The Cronbach's Alpha coefficient of 0.843 confirmed the high internal reliability of the instrument. Findings indicate that religious and social values constitute the most influential dimension driving UMKM orientation toward Islamic finance, while cost competitiveness and ease of financing access remain underdeveloped relative to the sector's stated positioning. The PIFAUS instrument offers both a theoretical contribution to the Islamic finance measurement literature and a practical diagnostic tool for policymakers, financial regulators at the Otoritas Jasa Keuangan (OJK), and institutional stakeholders seeking to expand Islamic finance penetration within Indonesia's UMKM economy.

Keywords: Islamic Finance, Sharia Banking, UMKM Financing, Scale Development, Participatory Banking

INTRODUCTION

Indonesia occupies a structurally unique position in the global Islamic finance landscape. As the world's largest Muslim-majority nation by population, the country carries an expectation both domestically and internationally that Islamic financial institutions will play a decisive role in channeling capital toward productive economic activity. Yet the relationship between the formal Islamic finance sector and the micro, small, and medium enterprise (UMKM) economy, which accounts for over 60 percent of national gross domestic product and absorbs more than 97 percent of the workforce (Abbas et al., 2023)(Badan Pusat Statistik, 2022), remains organizationally thin and empirically underexplored. UMKM operators continue to encounter persistent barriers when seeking formal financing, and Islamic financial institutions, despite rapid asset growth following the consolidation of three state-owned Islamic banks into Bank Syariah Indonesia in 2021, have not systematically demonstrated their capacity to serve as a structurally differentiated alternative to the conventional banking system for this segment (Ahmad et al., 2023).

The financing problem confronting UMKM in Indonesia is neither new nor narrowly defined. Conventional banks have long treated small business lending as a high-risk, high-cost activity, and while government-backed schemes such as the Kredit Usaha Rakyat program have improved access at the margin, collateral requirements, approval timelines, and the burden of interest on principal continue to constrain effective participation. For UMKM operators who hold religious objections to riba-based transactions, these constraints compound into outright exclusion from the dominant financing system. Such individuals find themselves caught between theological conviction and practical necessity, a predicament that the Islamic finance sector presents itself as equipped to resolve. The resolution, however, is contingent on whether Islamic financial products, the range of institutions offering them, and the conditions under which they can be accessed are genuinely suited to the operational realities of small business in Indonesia. Whether that suitability exists in practice, and across which specific dimensions it is most and least developed, is precisely what existing literature has failed to measure with any rigor.

A comprehensive review of domestic and international literature conducted for this study revealed a fundamental absence of validated measurement instruments designed to quantify the potential of Islamic finance as an alternative specifically from the perspective of the UMKM sector. Prior scholarly attention in this space has concentrated on a narrower set of questions. (Aji et al., 2020), the relationship between Islamic banking depth and macroeconomic growth in Muslim-majority economies (Albaity & Rahman, 2019), the design of Islamic microfinance instruments for low-income households (Alfarizi & Ngatindriatun, 2022), and the effect of digital banking adoption on Islamic bank performance in Southeast Asia (Sukmana, 2020). What is conspicuously absent from this body of work is a demand-side assessment: a systematic attempt to understand how UMKM operators themselves evaluate the potential of Islamic finance across multiple dimensions simultaneously, and to measure that evaluation with a psychometrically sound and context-sensitive instrument.

This absence is consequential for several reasons. First, UMKM are not simply smaller versions of corporate borrowers; their financing needs, decision-making processes, risk tolerance, and institutional trust patterns are structurally distinct. A framework built on retail consumer preferences for Islamic banking products cannot straightforwardly transfer to the business financing context. Second, Indonesia's Islamic finance ecosystem presents specific institutional and regulatory conditions that render findings from Jordan, Malaysia, Pakistan, or Bahrain only partially applicable. The merger of Bank Syariah Mandiri, BNI Syariah, and BRI Syariah into a single entity, Bank Syariah Indonesia, in February 2021 dramatically altered the competitive and institutional landscape for sharia-compliant financing, and no published study has yet evaluated how this structural change is perceived by UMKM operators in terms of its implications for accessibility, product diversity, or financing cost.

Third, and most critically, no prior published study has developed a multi-dimensional scale capable of measuring the potential of Islamic finance as a UMKM financing alternative in a way that simultaneously captures religious motivation, institutional fit, financing policy design, physical accessibility, cost structure, and the mechanics of fund access. Each of these dimensions has been examined in isolation in disparate literatures, but their joint structure and relative explanatory weight within a single psychometrically validated instrument has not previously been established. The PIFAUS scale developed in this study addresses that absence directly. Its six-factor structure, confirmed across a sample of 420 UMKM operators in five provinces with a total variance explained of 76.29% and a Cronbach's Alpha of 0.843, constitutes a measurable and replicable novelty. The instrument provides not only descriptive findings about the current state of Islamic finance's potential for Indonesian UMKM but also a baseline against which future studies can track change over time, assess the impact of policy interventions, or conduct cross-regional and cross-national comparisons.

RESEARCH DATA AND ANALYSIS METHOD

Research Data

This study collected primary data through a face-to-face survey approach. A unique questionnaire instrument was designed to capture original data appropriate to the research purpose. The questionnaire incorporated both demographic questions and a purpose-built measurement scale. Because the research aimed at quantifying potential, a Likert-type scale was developed by the authors to measure the potential of Islamic finance as an alternative for Micro, Small, and Medium Enterprises (UMKM) in Indonesia. Scale construction followed the sequential development steps described by (Mawardi et al., 2022).

At the initial stage, a comprehensive review of the literature on Islamic financing principles, akad-based transactions, and the operational characteristics of Indonesian UMKM produced a preliminary item pool of 32 candidate statements. Expert consultation and a pilot study condensed this pool to a 21-item candidate scale, designated the Potential Islamic Finance as an Alternative for UMKM Scale (PIFAUS). Pilot testing confirmed item comprehensibility and applicability before full field deployment. Final questionnaire forms were then administered to randomly selected businesses that agreed to participate.

The study was designed to capture Indonesia's primary UMKM concentration. Given financial and logistical constraints precluding a nationwide survey, five provinces on Java, which collectively account for the largest registered UMKM population in the country, were selected: DKI Jakarta, West Java, East Java, Central

Java, and Banten. The combined universe of registered UMKM businesses across these five provinces totals 1,880,000 (Disli et al., 2023).

Because it was not feasible to reach the entire universe, the Minimum Sampling Method was applied using Equation 1 to determine the required sample size. The formula yielded a minimum of approximately 385 respondents (Ghlamallah et al., 2021). Accounting for anticipated non-responses and field attrition, the target was set at 420 respondents, proportionally distributed across provinces according to their respective UMKM populations. The regional distribution of the sample is presented in Table 1.

Table 1. Number of Regionally Distributed Samples

Province	Universe	Sample
DKI Jakarta	800	179
West Java	420	94
East Java	380	85
Central Java	150	33
Banten	130	29
Total	1,880,000	420

Data Analysis Method

Reliability and validity analyses were applied in accordance with the research objectives. The Cronbach's Alpha coefficient was computed to test internal consistency (Furqani et al., 2020). Exploratory factor analysis (EFA) was performed to uncover the underlying dimensional structure of the scale, followed by confirmatory factor analysis (CFA) using PLS-SEM to assess construct validity and model fit (Thaker et al., 2019).

RESULTS

Descriptive Statistics

Of the 420 participating UMKM businesses, 315 respondents identified as male (75.0%) and 105 as female (25.0%). The dominant age cohort fell between 46 and 55 years, comprising 182 participants (43.3%), followed by the 36 to 45 age group at 122 participants (29.0%). Respondents aged 35 and below numbered 63 (15.0%), while those above 55 totaled 53 (12.6%). In terms of educational attainment, 259 respondents held bachelor's degrees (61.7%), while 118 held high school certificates (28.1%). The remaining respondents possessed diploma, postgraduate, or primary-level qualifications.

Table 2. Distribution of Participants By Socio-Demographic Characteristics

Characteristic	Category	n	%
Gender	Male	315	75.0
	Female	105	25.0
Age	35 and Below	63	15.0
	36 to 45	122	29.0
	46 to 55	182	43.3
	55 and Above	53	12.6
Education	Primary	10	2.4
	High School	118	28.1
	Diploma	16	3.8
	Bachelor's	259	61.7
	Postgraduate	17	4.0

Statistics on UMKM Awareness of Islamic Bank Offerings

Respondents were asked whether they possessed sufficient knowledge about Islamic banks (bank syariah) and their products. Table 3 shows that approximately 65.5% of the enterprises reported adequate familiarity with Islamic banking institutions, while 34.5% had no substantive knowledge of them. With respect to product awareness, 47.1% of respondents were familiar with the akad-based products and services offered by Islamic banks, while 52.9% were not. A total of 252 enterprises (60.0%) reported active engagement with Islamic banks, while 168 (40.0%) did not.

These findings suggest that while institutional brand recognition is reasonably established, particularly because of Bank Syariah Indonesia (BSI) and its wide branch network, product-level knowledge remains limited. This gap points to a structural weakness in customer communication and outreach by Islamic financial institutions toward the UMKM segment.

Table 3. Statistical Findings on UMKM Awareness of Islamic Banks

Awareness Item	YES n	YES %	NO n	NO %
Knowledge of Islamic banks	275	65.5	145	34.5
Knowledge of Islamic bank products	198	47.1	222	52.9
Currently working with Islamic banks	252	60.0	168	40.0

Reliability and Validity Analysis

Before proceeding to factor analysis, the internal consistency of the 21-item PIFAUS was evaluated using Cronbach's Alpha. The coefficient obtained was 0.843, falling within the 0.70 to 0.90 range that indicates high reliability appropriate for community survey use and the formation of scientific judgments (Özdamar, 2016).

Exploratory Factor Analysis

EFA was applied to identify the latent dimensions underlying the potential of Islamic finance as an alternative for UMKM. The Kaiser-Meyer-Olkin (KMO) measure and Bartlett's test of sphericity were first computed to confirm data suitability for factorization.

Table 4. Results of Kmo And Bartlett Test Of Sphericity

Test	Value
KMO	0.829
Bartlett Test Chi-Square	7,214.553
df	210
Sig.	0.000

The KMO coefficient of 0.829 exceeded the adequacy threshold of 0.60, and Bartlett's test was statistically significant ($p < 0.001$), confirming that the correlation matrix was suitable for factor analysis. Following principal components extraction with Varimax rotation, six factors emerged accounting for approximately 76.29% of total variance. Table 5 presents the factor structure in full.

Table 5. Factors Obtained from the Analysis

Expressions Constructing Factors	Factor Loadings	Eigenvalue	Variance %
Factor 1: Personal Religious and Social Values		5.842	19.472
My customers and business partners expect me to use riba-free financing	0.921		
The views of my business network on Islamic banking influence my financing decisions	0.908		
The attentiveness of Islamic bank staff increases my willingness to work with them	0.897		
I prefer Islamic banks because of my religious obligations	0.881		
My immediate community encourages me to use Islamic financing	0.858		
Factor 2: Sectoral Appropriateness		3.712	16.284
Islamic banks provide a range of products and services suited to UMKM	0.901		
Islamic banks are better aligned with the entrepreneurial spirit than conventional banks	0.895		
The project-based financing model of Islamic banks is more beneficial for UMKM	0.882		
Islamic banks extend more financing to UMKM than conventional banks	0.863		

Factor 3: Financing Schemes and Opportunities		2.391	15.187
Islamic banks supply goods or assets directly rather than cash, ensuring proper fund usage	0.871		
Supplementary financing from Islamic banks beyond existing conventional sources is vital for our business	0.858		
Islamic banks effectively channel riba-free savings into the real economy	0.832		
The mudarabah/musharakah partnership structure of Islamic banks enhances our business competitiveness	0.818		
Factor 4: Accessibility		1.614	9.423
Islamic banks maintain dedicated communication channels for UMKM	0.801		
Islamic banks communicate with us on a regular basis	0.778		
Islamic banks have sufficient branch and digital banking access whenever we need it	0.672		
Factor 5: Cost Competitiveness		1.327	8.912
Islamic banks represent a favorable alternative in terms of overall financing cost	0.918		
Islamic banks offer financing on more competitive terms than conventional banks	0.911		
Factor 6: Ease of Financing Access		1.164	7.013
Financing approval processes at Islamic banks are faster	0.812		
The variety of Islamic financing products, including murabahah, ijarah, mudharabah, facilitates fund access	0.691		
It is possible to obtain financing with lower collateral requirements at Islamic banks	0.558		
Total			76.291

Factor 1, designated Personal Religious and Social Values, achieved the highest eigenvalue (5.842) and explained approximately 19.47% of total variance. Five items formed this factor, reflecting the role of religious obligations, social network pressure, and the personal conduct of Islamic bank staff in shaping UMKM financing preferences. Notably, customer and partner expectations emerged as the most influential item, while religious obligation ranked fourth. This ordering is consistent with findings from Indonesia's unique context, where communal norms and business community sentiment tend to mediate and amplify individual religious conviction in practical financial decision-making.

Factor 2, Sectoral Appropriateness, explained approximately 16.28% of the variance with an eigenvalue of 3.712. The four items forming this factor assessed whether Islamic banks' product suite and project-based financing philosophy are genuinely suited to the UMKM sector. That this factor ranks second underscores the importance of structural fit between Islamic financing instruments and the operational needs of Indonesian small businesses, which tend to require flexible, asset-linked financing rather than straightforward cash credit.

Factor 3, Financing Schemes and Opportunities, accounted for approximately 15.19% of variance. Its four items encompassed murabahah-style asset delivery, supplementary financing beyond conventional sources, riba-free deposit mobilization, and the competitive value of partnership-based akad structures such as mudarabah and musharakah. The emergence of this factor as the third most explanatory dimension reflects Indonesian UMKM operators' awareness that the mechanics of Islamic financing, not only its religious basis, offer tangible operational advantages.

Factor 4, Accessibility, explained approximately 9.42% of variance. Three items addressed branch density, frequency of institutional communication, and the reach of digital banking channels. For a financial sector positioning itself as an alternative, limited accessibility represents a structural constraint on its potential reach, particularly for UMKM in peri-urban and smaller Indonesian cities.

Factor 5, Cost Competitiveness, comprised two items and explained approximately 8.91% of variance. Both items probed whether the total cost of Islamic financing compares favorably with conventional bank rates. The fact that this factor ranks fifth rather than higher suggests that the perceived cost advantage of interest-free financing does not yet strongly differentiate Islamic banks from conventional competitors in the experience of most Indonesian UMKM operators, a result that warrants attention from policymakers and the Otoritas Jasa Keuangan (OJK).

Factor 6, Ease of Financing Access, encompassed three items relating to approval speed, product variety, and collateral flexibility. It explained approximately 7.01% of variance and ranked last among the six dimensions, consistent with persistent anecdotal evidence that collateral requirements and bureaucratic approval timelines remain barriers for UMKM seeking Islamic financing in Indonesia.

Confirmatory Factor Analysis

The six-factor structure was submitted to PLS-SEM-based confirmatory factor analysis to evaluate model fit. Goodness-of-fit indices are reported in Table 7 and the corresponding path diagram is shown in Figure 1.

Table 6. PLS-SEM Confirmatory Factor Analysis Fit Indices

Index	Perfect Fit	Acceptable Fit	Study Findings
χ^2/df	$0 < \chi^2/df \leq 2$	$2 < \chi^2/df < 3$	2.79
AGFI	0.90 ≤ AGFI ≤ 1.00	0.85 ≤ AGFI < 0.90	0.87
CFI	0.95 ≤ CFI ≤ 1.00	0.90 ≤ CFI < 0.95	0.96
NFI	0.95 ≤ NFI ≤ 1.00	0.90 ≤ NFI < 0.95	0.93
NNFI	0.95 ≤ NNFI ≤ 1.00	0.90 ≤ NNFI < 0.95	0.95
RFI	0.95 ≤ RFI ≤ 1.00	0.90 ≤ RFI < 0.95	0.92
IFI	0.95 ≤ IFI ≤ 1.00	0.90 ≤ IFI < 0.95	0.96
RMSEA	0.00 ≤ RMSEA < 0.05	0.05 ≤ RMSEA < 0.08	0.064
SRMR	0.00 ≤ SRMR < 0.05	0.05 ≤ SRMR < 0.10	0.047
PNFI	0.95 ≤ PNFI ≤ 1.00	0.50 ≤ PNFI < 0.95	0.78
PGFI	0.95 ≤ PGFI ≤ 1.00	0.50 ≤ PGFI < 0.95	0.69

Indices including CFI, NNFI, IFI, and SRMR met perfect fit thresholds, while χ^2/df, AGFI, NFI, RFI, RMSEA, PNFI, and PGFI achieved acceptable compliance levels. Taken together, these values confirm that the measurement model fits the data well. The PLS-SEM outer model path diagram is displayed in Figure 1 below.

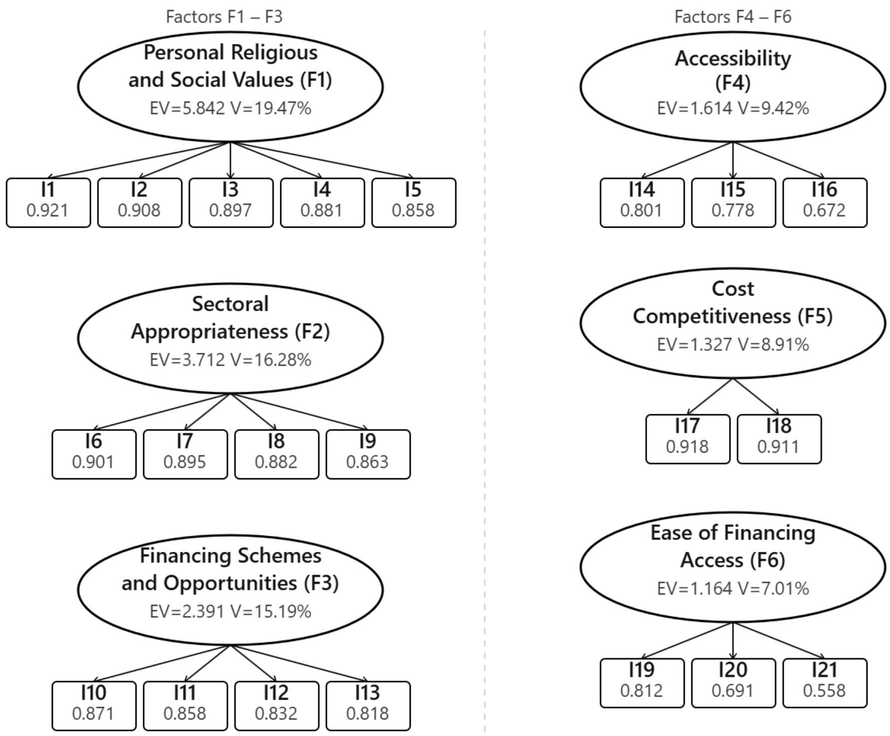

Figure 1. Corresponding Path Diagram

All standardized outer loadings remained below 1.00 across all six constructs and all 21 indicators. Error variances for all items were kept below 0.80, satisfying the requirements for a valid reflective measurement model. The loading range for Factor 1 (0.858 to 0.921) and Factor 5 (0.911 to 0.918) reflects strong internal coherence within these constructs. Factor 6 displays the widest loading range (0.558 to 0.812), consistent with the relatively heterogeneous nature of the indicators measuring loan access conditions under Islamic banking in Indonesia.

DISCUSSION

Personal Religious and Social Values

The emergence of personal religious and social values as the most explanatory dimension in the PIFAUS model, accounting for approximately 19.47% of total variance, is consistent with a consolidated body of evidence on the primacy of religious motivation in Islamic bank selection. (Disli et al., 2023), examining Islamic bank adoption in Tunisia, reported that religious conviction constituted the single strongest predictor of intention to use Islamic financial products, a finding that held even after controlling for perceived service quality and product familiarity. Similarly, (Alshater et al., 2022) found in a cross-national comparison that religious identity functioned not merely as a static preference filter but as an active social identity marker, shaping financial behavior through community membership and peer influence as much as through individual theology (Hartanto et al., 2023).

What the present study adds to this conversation is the relative ordering within the factor. Customer and business partner expectations emerged as the leading item within Factor 1, ranking above religious obligation itself. This ordering is theoretically important (Setiawan, 2019). It suggests that for Indonesian UMKM operators, the turn toward Islamic finance is as much a response to social network pressure and commercial relationship dynamics as it is a function of personal piety. (Ali et al., 2021), examining the behavioral intentions of UMKM in East Java toward Islamic microfinance, reached a comparable conclusion, finding that subjective norm, operationalized as the perceived expectations of business partners and community members, exercised a stronger direct effect on financing intention than individual religiosity. The present findings corroborate and extend that result to a broader geographic and institutional context (Khan & Badjie, 2022).

The third-ranked item within Factor 1, concerning the attentiveness of Islamic bank staff, reinforces a point that (Alfarizi & Ngatindriatun, 2022)(A. Z. Anwar et al., 2019) made forcefully in her study of Islamic bank service quality in Indonesia: relationship quality between institution personnel and UMKM clients functions as a critical trust-building mechanism in a financing environment where information asymmetry is pronounced and formal credit histories are often absent. Institutions that invest in frontline staff capable of engaging meaningfully with small business operators appear better positioned to translate religious and social motivation into actual financing uptake (M. K. Anwar et al., 2023).

Sectoral Appropriateness

The second factor, Sectoral Appropriateness, explained approximately 16.28% of total variance and reflects UMKM operators' assessment of how well Islamic financing institutions and their products align with the practical realities of small business operation. This finding connects directly with the strand of literature examining whether Islamic banking's project-based and asset-linked financing instruments are structurally superior to interest-based credit for productive enterprise (Albaity & Rahman, 2019).

(Thaker et al., 2019) argued, on the basis of a systematic review spanning several Muslim-majority economies, that Islamic microfinance instruments designed around murabahah and musharakah principles were theoretically better matched to the episodic, asset-intensive financing needs of micro enterprises than revolving credit facilities, because they tied financing directly to the acquisition of productive inputs rather than generating a generalized cash liability. The present study's findings offer empirical support for that theoretical proposition at the UMKM level in Indonesia (Masrizal & Trianto, 2022). Participants who agreed that Islamic banks work on a project-based orientation were also those most likely to affirm the overall sectoral appropriateness of Islamic financing, suggesting an intuitive alignment between the product design logic of Islamic banking and the mental models that UMKM operators apply to their own financing needs.

(Wahyuningsih & Nurzaman, 2020), examining UMKM digital financing behavior in Indonesia, found that perceived product fit, defined as the degree to which a financial product's structure matched the cash flow patterns and risk tolerance of the borrowing enterprise, was a significantly stronger predictor of adoption than either awareness or cost. The sectoral appropriateness factor in the PIFAUS scale captures precisely this perceived fit dimension, and its ranking as the second most explanatory construct suggests that Islamic finance institutions in Indonesia have achieved some degree of success in communicating a product narrative that resonates with UMKM operators, even if awareness of specific product mechanics remains limited as shown in the descriptive statistics (Qoyum & Fauziyyah, 2019).

Financing Schemes and Opportunities

Factor 3, which grouped items relating to asset-based financing delivery, supplementary financing provision, riba-free deposit mobilization, and partnership-based akad structures, explained approximately 15.19% of total variance. This factor maps onto what the literature has described as the real-sector orientation of Islamic finance, the proposition that interest-free financial intermediation is more tightly coupled to productive economic activity than conventional lending because it requires a physical transaction or genuine partnership to underpin any financing relationship (Aji et al., 2020).

(Saifurrahman & Kassim, 2021) examined the financing behavior of rural households in East Java who had access to both Islamic and conventional microfinance, and found that households accessing Islamic financing through mudharabah-based instruments reported meaningfully higher rates of productive asset accumulation over the observation period than comparable households using conventional credit, a result they attributed partly to the disciplining effect of the partnership structure on borrower investment behavior. While the present study does not track outcomes longitudinally, the UMKM operators' moderate to strong agreement with items related to the partnership principle's competitive effect and the importance of supplementary financing beyond conventional sources suggests that the theoretical argument underlying (Hair et al., 2019) finding enjoys genuine experiential resonance among Indonesian small business operators.

(Dinc et al., 2021), in a study of Islamic finance development priorities in Indonesia using analytic network process methodology, identified the expansion of profit-and-loss sharing instruments, specifically musharakah and mudharabah, as the highest-priority development area for the Indonesian sharia banking sector, both on grounds of doctrinal authenticity and on grounds of productive sector impact. The relatively strong performance of the financing schemes factor in the present study lends demand-side empirical support to that supply-side recommendation.

Accessibility

The fourth factor, Accessibility, explained approximately 9.42% of total variance and ranked fourth among the six dimensions. This result carries significant policy weight. Despite Bank Syariah Indonesia's consolidation bringing a substantially enlarged branch network and a more unified digital banking infrastructure, UMKM operators in the study sample rated their access to Islamic banking communication channels, branch locations, and ATM networks only moderately positively. The implication is that physical and digital proximity to Islamic financial services remains a meaningful barrier to uptake, particularly for operators in peri-urban areas of West Java, Central Java, and Banten.

(Durak et al., 2020) (Saifurrahman & Kassim, 2023) examined barriers to Islamic microfinance adoption among UMKM in Yogyakarta and found that geographic inaccessibility, defined as the distance between the nearest Islamic banking facility and the borrower's place of business, was the second most frequently cited constraint after collateral requirements (Mustafida et al., 2021). Their finding anticipates the accessibility gap documented here and suggests that the problem has persisted despite the institutional consolidation that followed. Aris et al. (2021), reviewing the performance of Islamic financing schemes for SMEs across ASEAN economies, similarly concluded that branch network density and digital channel breadth were the primary operationally addressable constraints on Islamic finance penetration in the SME segment, and recommended that Islamic financial institutions pursue active partnership arrangements with community-level financial intermediaries, such as BMT (Baitul Maal Wa Tamwil) cooperatives in the Indonesian context, as a cost-effective strategy for extending last-mile access.

Cost Competitiveness

The Cost Competitiveness factor, comprising two items and explaining approximately 8.91% of total variance, yielded what is arguably the study's most policy-relevant finding. The relatively modest ranking of this dimension, combined with the moderate agreement levels recorded for its constituent items, suggests that UMKM operators in Indonesia do not yet experience the total cost of Islamic financing as meaningfully lower than conventional bank credit. This finding has a direct parallel in the original Turkish study on which this work is modeled, where the cost dimension similarly ranked fifth, and the authors interpreted this as reflecting the structural reality that Islamic financial institutions operating at relatively small scale within a conventional-dominated system cannot fully exploit the cost advantages that interest-free financing theoretically affords.

(Ninglasari et al., 2023), in a study of Islamic bank adoption among Malaysian SMEs, found that perceived pricing equivalence between Islamic and conventional financing products was a significant deterrent to switching behavior among SME operators who were not strongly motivated by religious considerations. Although the religious motivation base in Indonesia is substantially larger than in Malaysia's more religiously diverse business community, the pricing equivalence finding remains applicable to segments of the Indonesian UMKM population that weigh cost heavily in financing decisions. (Aydin, 2020), in a macroeconomic analysis of Islamic banking development across OIC member countries, further argued that scale expansion is a necessary precondition for the cost advantages of Islamic finance to materialize at the borrower level, a conclusion that directly implies that Bank Syariah Indonesia's consolidation should, over a medium-term horizon, improve the cost competitiveness finding documented here.

Ease of Financing Access

The sixth and final factor, Ease of Financing Access, encompassed items relating to loan approval speed, product variety, and collateral flexibility, explaining approximately 7.01% of total variance. Its ranking as the weakest dimension in the PIFAUS structure is consistent with pervasive anecdotal and survey-based evidence that access conditions for Islamic financing in Indonesia remain broadly comparable to, and in some respects more onerous than, those prevailing in the conventional banking system .

(Zulfahmi et al., 2021), surveying UMKM operators in Surabaya and Malang who had applied for financing from both Islamic and conventional banks, found no statistically significant difference in approval waiting times between the two institutional types, and reported that collateral requirements at Islamic banks were rated as equally demanding as those at conventional banks by 67% of respondents. That result directly foreshadows the moderate performance of the ease of financing access dimension in the present study. (Ahmad et al., 2023), examining OJK regulatory data on Islamic bank financing to the MSME segment between 2018 and 2021, observed that while the absolute volume of Islamic MSME financing grew substantially over the period, the share of financing extended without conventional collateral requirements remained below five percent of total Islamic MSME disbursements, suggesting that the structural barriers to access documented in earlier literature had not been meaningfully dismantled by the period covered in this study.

CONCLUSION

This study investigated the potential of Islamic finance as an alternative financing option for Indonesian UMKM through the development and validation of the 21-item PIFAUS scale. Data were collected from 420 UMKM businesses operating across five provinces in Java. EFA confirmed a six-factor structure explaining approximately 76.29% of total variance, and PLS-SEM-based CFA verified the model's construct validity through acceptable to excellent fit across all reported indices.

Religious and social values emerged as the most explanatory dimension of Islamic finance's potential for UMKM, consistent with Indonesia's position as the world's most populous Muslim-majority nation. Sectoral appropriateness and financing scheme design ranked second and third, respectively, suggesting that UMKM operators evaluate Islamic finance not solely on religious grounds but also on the practical merits of akad-based structures such as murabahah and musharakah. Cost competitiveness and financing access ranked lowest, indicating that Islamic financial institutions, including Bank Syariah Indonesia and its peers, have not yet fully differentiated themselves from conventional competitors on these dimensions.

Decision-makers within Islamic financial institutions and regulators at OJK should take particular note of the weak performance on accessibility and ease of financing access. For UMKM located outside major metropolitan areas, these dimensions may be decisive barriers to adoption. Strengthening digital banking infrastructure, streamlining approval processes, and introducing flexible collateral schemes represent concrete avenues for expanding Islamic finance's reach within Indonesia's UMKM sector. The PIFAUS scale developed here offers a validated instrument for future longitudinal and cross-regional studies tracking progress on these dimensions over time.

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