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ANALISIS PERAN LITERASI KEUANGAN SYARIAH DALAM MENINGKATKAN KEBERLANJUTAN UMKM ERA DIGITAL DI KOTA BLITAR

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ABSTRAK

Usaha Mikro, Kecil, dan Menengah (UMKM) memiliki peran strategis dalam perekonomian daerah, termasuk di Kota Blitar. Perkembangan ekonomi digital membuka peluang sekaligus tantangan bagi keberlanjutan UMKM, khususnya dalam aspek pengelolaan keuangan. Penelitian ini bertujuan untuk menganalisis peran literasi keuangan syariah dalam meningkatkan keberlanjutan UMKM di era digital di Kota Blitar. Penelitian ini menggunakan pendekatan kuantitatif dengan metode survei terhadap 120 pelaku UMKM yang dipilih menggunakan teknik *purposive sampling*. Data dikumpulkan melalui kuesioner berskala Likert dan dianalisis menggunakan regresi linear sederhana. Hasil penelitian menunjukkan bahwa literasi keuangan syariah berpengaruh positif dan signifikan terhadap keberlanjutan UMKM di era digital. Nilai koefisien determinasi menunjukkan bahwa literasi keuangan syariah mampu menjelaskan sebagian variasi keberlanjutan UMKM, sedangkan sisanya dipengaruhi oleh faktor lain di luar penelitian ini. Temuan ini menegaskan pentingnya peningkatan literasi keuangan syariah sebagai upaya untuk mendukung keberlanjutan UMKM di tengah perkembangan ekonomi digital.

Keywords: *Islamic financial literacy, MSMEs, business sustainability, digital era, Blitar City*

ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in regional economic development, including in Blitar City. The growth of the digital economy presents both opportunities and challenges for MSME sustainability, particularly in financial management. This study aims to analyze the role of Islamic financial literacy in enhancing MSME sustainability in the digital era in Blitar City. The research employed a quantitative approach using a survey method with 120 MSME actors selected through purposive sampling. Data were collected using a Likert-scale questionnaire and analyzed using simple linear regression. The results indicate that Islamic financial literacy has a positive and significant effect on MSME sustainability in the digital era. The coefficient of determination shows that Islamic financial literacy explains part of the variation in MSME sustainability, while the remaining variation is influenced by other factors. These findings highlight the importance of strengthening Islamic financial literacy to support MSME sustainability amid ongoing digital

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transformation.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are one of the main pillars of the national economy, playing a major role in workforce development and increasing community income. According to Jeannii, MSMEs have made a significant contribution to economic growth and poverty reduction in balanced countries. (Situngkir et al. 2025). In various regions, including Blitar City, MSMEs are a driving force behind the local economy, contributing to regional economic growth. The Ministry of Cooperatives and SMEs also emphasized that MSMEs are the backbone of the regional economy.

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the national economy, contributing more than 60% to Gross Domestic Product (GDP) and absorbing approximately 97% of Indonesia's workforce. Therefore, MSMEs are a strategic sector in driving economic growth, income equality, and strengthening the regional economy (Coordinating Ministry for Economic Affairs, 2025; Ministry of Finance, 2024). In the context of Blitar City, MSMEs are also a driving force of the local economy. Data from the Blitar City Government indicates that as of August 4, 2025, there were 6,794 MSMEs and their products targeted for halal certification assistance. Therefore, MSMEs need to be continuously strengthened in terms of legality, competitiveness, and business management (Blitar City Government, 2025).

The development of the digital economy opens opportunities for MSMEs to expand their markets, increase business efficiency, strengthen innovation, and access technology-based financial services. However, digitalization also presents challenges, as MSMEs often face limited awareness, internal resources, skills, and financial capacity to adapt to technological changes (OECD, 2024). These challenges are increasingly important because the sustainability of MSMEs is determined not only by their ability to use digital technology but also by their ability to manage finances appropriately, in a planned manner, and in accordance with business needs, including through an understanding of Islamic financial principles. The level of Islamic financial literacy among Indonesians remains relatively low, as the 2024 National Survey on Financial Literacy and Inclusion (SNLIK) showed that the national financial literacy index reached 65.43%, while the Islamic financial literacy index only reached 39.11% (OJK, 2024).

Several previous studies have discussed the influence of financial literacy and digital literacy on the sustainability of Islamic-based MSMEs, as well as the relationship between Islamic financial literacy and MSME development. However, studies specifically examining Islamic financial literacy as a supporting factor for MSME sustainability in the digital era in the context of Blitar City are still limited. (Maulana & Suyono, 2023; Purba, 2026). Based on these conditions, this study aims to analyze the role of Islamic financial literacy in improving the sustainability of MSMEs in the digital era in Blitar City. It is hoped that it will provide theoretical contributions to the development of Islamic financial literacy studies and practical contributions for MSMEs, local governments, and Islamic financial institutions in designing business mentoring strategies that are more relevant to MSME needs in the digital era.

The balance of the digital economy has brought significant changes in the management and operational patterns of MSMEs. Kotler stated that digitalization enables businesses to reach a broader market at more efficient costs. Digitalization opens up vast opportunities for MSMEs to expand their markets, increase their financial efficiency, and access various technology-based financial services. However, these changes also require adaptability and an adequate understanding of MSME behavior, as the OEICCD states that adaptation to technology is key to business sustainability in the digital era.

One of the main challenges faced by MSMEs in the digital era is business sustainability. According to Rahmawati, business sustainability is strongly influenced by the ability to manage finances and long-term planning.(Rahmawati et al. 2026). Many MSMEs are unable to survive long-term due to limited financial management skills, a lack of understanding of financial products, and a lack of sustainable business planning. In the context of Indonesia's predominantly Muslim society, Islamic finance is a growing and relevant alternative financial system for MSMEs. Antonio stated that the principles of fairness, transparency, and the prohibition of usury in Islamic finance align with ethical and sustainable business development. However, studies on Islamic financial literacy have largely focused on aspects of financial inclusion, decisions to use Islamic financial products, or improving business performance. Research specifically linking Islamic financial literacy to MSME sustainability in the digital era remains relatively limited.

Therefore, the novelty of this research lies in its analysis of Islamic financial literacy as a supporting factor for MSME sustainability in the face of changes in the digital economy, particularly in the context of MSMEs in Blitar City. This research examines Islamic financial literacy not only as an understanding of Islamic financial products and principles, but also as the ability of MSMEs to manage finances, make business decisions, utilize digital financial services, and maintain business continuity.

Sharia financial literacy is a key factor in helping MSMEs understand and optimally utilize Sharia financial products and services. According to Reiza, citing the Financial Services Authority (OJK), Sharia financial literacy encompasses knowledge, skills, and confidence in managing finances in accordance with Sharia principles. (Reza and Isyanto 2025). However, the level of Islamic financial literacy among MSMEs remains relatively high compared to conventional financial literacy, as reported by the Financial Services Authority (OJK) in its National Survey of Financial Literacy and Inclusion report. Previous studies have shown that financial literacy significantly impacts the performance and sustainability of MSMEs. Syam explained that financial literacy helps businesses make more informed financial decisions. (Syam and Damasinta 2025).

Studies conducted by the Financial Services Authority (OJK) and other researchers indicate that MSMEs with a high level of financial literacy tend to have more structured and sustainable business management. Other researchers also reveal that Islamic financial literacy has the potential to increase business trust in Islamic financial institutions and encourage the use of financial products that align with Islamic principles. However, studies specifically examining Islamic financial literacy and the sustainability of MSMEs are still relatively limited. In digital era, the utilization of financial services based on technology such as mobile banking, digital payments, and online financing is increasing. This is in line with Rohman's opinion, which states that security in the digital world is very important to be carried out, therefore an extra security system is needed. (Rohman, Charis, and Yuelisa 2026).

According to Hakiim in Bank Indonesia, using a digital payment system makes transactions very easy and increases business efficiency. (Hakim and Elisabeth 2025). This situation demands that MSMEs not only understand digital aspects but also adhere to the Sharia principles inherent in these services. Blitar City, as one of the cities with rapid MSME growth, possesses diverse business behavior characteristics, both in terms of business scale, type of business, and level of digital technology utilization. This makes Blitar City a relevant location for studying Sharia financial literacy in the MSME context. Despite this, there is still a gap in information regarding the extent to which Islamic financial literacy plays a role in supporting the sustainability of MSMEs in Blitar City. According to Aliifanriizal, the lack of financial literacy has resulted in MSMEs' behavior being less than optimal in managing their business finances. (Alifahrizal 2025). Some MSMEs still rely on traditional financial practices without considering Sharia aspects and long-term planning.

Previous research has generally focused on financial literacy in general or MSME performance, while research that integrates Sharia financial literacy, business sustainability, and digital finance into a single study is still rare, especially at the urban level. According to Creisweill, contextual research is crucial for a deeper understanding of economic phenomena at the local level. (Creswell and Goldberg 2025). These conditions indicate a need for more specific and contextual research to understand the role of Islamic financial literacy in improving the sustainability of MSMEs, especially in regions experiencing rapid economic digitalization. With increased attention from the government and financial institutions to the sustainability of Islamic MSMEs, the results of this research are expected to provide an insight into the conditions of Islamic financial literacy and the behavior of MSMEs in Blitar City. According to Mulyadi, the results of the imperiiis research can be the basis for making more targeted policies. (Mulyadi 2025). Furthermore, this research is also expected to provide consideration for stakeholders in designing more effective Islamic financial education and mentoring programs for MSMEs.

Based on the aforementioned description, the objective of this research is to analyze the role of Islamic financial research in improving the sustainability of MSMEs in the digital era in Blitar City, thereby providing academic and practical contributions to the balance of MSMEs based on Islamic finance. This is in line with Sugiyono's opinion which states that good research must provide theoretical and practical benefits for balancing knowledge and solving problems in society.

LITERATURE REVIEW

Previous research has demonstrated that financial analysis has a significant role in improving the performance and sustainability of MSMEs. Andriiani stated that financial analysis helps businesses make more rational and sustainable financial decisions, especially regarding cash flow management and financing. (Mas and Andriani 2025). Several studies also mention that the behavior of MSMEs with a good level of financial literacy is often able to manage business risks more efficiently. Furthermore, Sukardii explains that Islamic financial literacy plays a role in increasing the understanding of business behavior regarding Islamic principles, thereby encouraging the use of appropriate Islamic financial products and increasing trust in the Islamic financial system. (Sukardi et al. 2025). However, most research still focuses on conventional financial literacy or Islamic financial literacy separately, without directly linking it to the sustainability of MSMEs in the digital era, particularly in regional contexts.

Conceptually, Islamic financial literacy is understood as the behavioral ability of MSMEs to understand, manage, and utilize financial products and services that align with Islamic principles in running their businesses. According to the Financial Services Authority, Islamic financial literacy encompasses knowledge, skills, and beliefs that influence attitudes and financial behavior based on Islamic principles. The sustainability of MSMEs is reflected in the business's ability to survive, balance, and adapt to changes in the business environment, including digitalization, as explained by the OEICD that business sustainability is influenced by managerial capacity and the ability to adapt to economic changes. Based on this financial framework, sharia financial finance is seen as a factor that influences the sustainability of MSMEs in the digital era. Therefore, the hypothesis proposed in this research is that sharia financial regulations have a positive influence on the sustainability of MSMEs in the digital era of Bliitar City.

RESEARCH METHOD

This study uses a quantitative approach with a survey method, aiming to analyze the relationship between Islamic financial literacy and the sustainability of MSMEs in the digital era in Blitar City. According to Damaniik Sugiyono, quantitative methods are used to study a specific population or sample by collecting data using research instruments and statistical data analysis. (Damanik et al. 2025). The population in this study is all the behavior of MSMEs operating in Blitar City, while the sample is determined using purposive sampling techniques with criteria of MSMEs that have been running a business for at least one year and using or maintaining financial services. The independent variable in this study is sharia financial literacy, while the independent variable is the sustainability of MSMEs in digital eira, which is operationally defined through indicators of understanding sharia finance, business financial management, and the ability to maintain and balance the business. The assessment instrument is in the form of a questionnaire using the Liikeirt scale which has been tested for its validity and reliability. The data analysis techniques used are descriptive statistical analysis and financial economic analysis as an idea to understand the influence of sharia financial finance on the sustainability of MSMEs, as stated by Ghozalii that financial analysis is used to measuring the relationship and influence between iindeipeindein variables and deipeindein variables (Hasiholan and Ghozali 2025).

RESULTS AND DISCUSSION

Based on the publication *Kota Blitar Dalam Angka 2024* in the section on Banking, Cooperatives, and Prices, the total number of MSMEs, particularly micro-enterprises, in Blitar City in 2023 was recorded at 13,965 units. The data were obtained from the Office of Cooperatives, Micro, Small and Medium Enterprises, and Manpower of Blitar City, as compiled in the publication of Statistics Indonesia (BPS). Based on subdistrict distribution, MSMEs were spread across Sukorejo with 4,566 units, Kepanjenkidul with 5,049 units, and Sananwetan with 4,343 units. The total number shown in the micro-enterprise category table was 13,958 units. This indicates that the distribution of MSMEs in Blitar City is relatively even, although the largest proportion is located in Kepanjenkidul.

Kecamatan	Kategori Usaha							Jumlah
	Pertanian	Peternakan	Pengrajin	Perindustrian	Perdagangan	Jasa	Tidak Ada	
Sukorejo	262	...	...	1.614	2.018	672	-	4.566
Kepanjenkidul	463	...	...	968	1.708	713	1.197	5.049
Sananwetan	171	...	...	1.248	2.124	800	-	4.343
Kota Blitar	**896**	**...**	**...**	**3.830**	**5.850**	**2.185**	**1.197**	**13.958**

Figure 1.1. Number of Micro-Enterprises by Subdistrict and Business Category in Blitar City, 2023*(Puspitorini et al., 2025)*

In addition to the number of business units, the BPS publication also presents the development of micro-enterprise turnover. The total turnover of micro-enterprises in Blitar City was recorded at IDR 685,929.94 million per month in 2022 and increased to IDR 736,876.56 million per month in 2023. This increase indicates growth in MSME economic activities. Based on regional distribution, the highest turnover in 2023 was recorded in Sananwetan, amounting to IDR 293,320.21 million per month, followed by Sukorejo with IDR 252,433.99 million per month and Kepanjenkidul with IDR 191,122.36 million per month. These differences indicate that MSME sustainability may also be influenced by variations in the business ecosystem and management capacity in each area.

The relevance of the sharia aspect in this study is also strengthened by the existence of community economic institutions that provide sharia-based financing services. Based on cooperative data in Blitar, there are six units of Sharia Savings, Loans, and Financing Cooperatives (KSPPS) in the cooperative category. This indicates the availability of institutional infrastructure that can serve as a reference point for MSME actors in accessing Islamic financial services.

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Table 1. List of Cooperatives in the Blitar Area Applying a Sharia-Based Model

No.	Name of Cooperative	Type of Cooperative	Address / Location	Description
1	KSPPS BMT PETA Blitar Branch	KSPPS	Jl. Anjasmoro No. 47, Kepanjenlor Village, Kepanjenkidul Subdistrict, Blitar City	Islamic microfinance institution
2	Blitar Muhammadiyah Sharia Cooperative	Sharia Cooperative	Jl. Ir. Soekarno No. 13, Blitar City	Managed by Muhammadiyah organization
3	An Nisa Sharia Consumer Cooperative	Sharia Consumer Cooperative	Blitar City	Actively conducts Annual Member Meetings
4	Podo Joyo Sharia Cooperative	Sharia Cooperative	Jl. Mastrip No. 08, Togogan, Srengat, Blitar	Located in the Blitar area
5	Al Mizan Sharia Multipurpose Cooperative	Sharia Multipurpose Cooperative	Wlingi, Blitar Regency	Applies a profit-sharing principle
6	Mitra Makmur Sharia Savings and Loans Cooperative	Sharia Savings and Loans Cooperative	Talun, Blitar	Applies murabahah contracts

From the perspective of digital transformation, the national context shows that digital payments are increasingly being used. Bank Indonesia reported that QRIS utilization had reached approximately 57 million users, with 39.3 million merchants, of which 93.16% were MSMEs. This shows that the digital payment environment creates both opportunities and demands for adaptation among MSMEs. The expansion of the QRIS ecosystem can also be seen in the 2025 achievement report, which stated that the number of QRIS users reached 57.6 million, with around 40 million merchants in 2025. These figures strengthen the assumption that MSMEs, including those in regional areas, are increasingly encouraged to use digital instruments in their transactions.

However, digital adaptation is often not accompanied by adequate financial understanding, particularly in relation to Islamic finance. At the national level, the 2022 National Survey on Financial Literacy and Inclusion (SNLIK) is frequently cited as showing that Islamic financial literacy was only around 9.1%, while Islamic financial inclusion reached 12.12%. These figures were far lower than the national financial literacy level. This situation provides an important basis for examining the effect of Islamic financial literacy on MSME sustainability.

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Recent developments also show that financial literacy has once again become an important policy concern. On February 9, 2026, it was reported that the Financial Services Authority (OJK), Statistics Indonesia (BPS), and the Indonesia Deposit Insurance Corporation (LPS) expanded the scope of the 2026 SNLIK to the provincial level with a larger number of respondents. This indicates the increasing urgency of strengthening financial literacy and inclusion.

1. Sample Determination and Descriptive Analysis

The population of MSMEs in Blitar City was N = 13,965 units, distributed as follows:

- Sukorejo = 4,566 units
- Kepanjenkidul = 5,049 units
- Sananwetan = 4,343 units

The sample size was set at n = 120 respondents using a *purposive sampling* technique. The proportion of samples in each subdistrict was calculated using the following proportional allocation formula:

$n_i = (N_i / N) \times n$

Based on this formula, the sample distribution was obtained as follows:

- Sukorejo:
  $n = (4{,}566 / 13{,}965) \times 120 \approx 39$ respondents
- Kepanjenkidul:
  $n = (5{,}049 / 13{,}965) \times 120 \approx 43$ respondents
- Sananwetan:
  $n = (4{,}343 / 13{,}965) \times 120 \approx 38$ respondents

The variables were measured using a 1–5 Likert scale. The mean score was calculated using the following formula:

$\bar{X} = \Sigma X / n$

The calculation results showed that:

- The average score of Islamic financial literacy was 3.42, categorized as moderate.
- The average score of MSME sustainability was 3.67, categorized as fairly good.

2. Instrument Quality Test

a. Validity Test

The validity test was conducted using item-total correlation with the Pearson correlation formula:

$$r_{xy} = [n\Sigma XY - (\Sigma X)(\Sigma Y)] / \sqrt{\{[n\Sigma X^2 - (\Sigma X)^2][n\Sigma Y^2 - (\Sigma Y)^2]\}}$$

The decision-making criteria were as follows:

- If r-count > r-table, the item is considered valid.
- With $n = 120$ and $\alpha = 0.05$, the r-table value was approximately 0.179.

The test results showed that all items had:

r-count > 0.179

Therefore, all items were declared valid.

b. Reliability Test

The reliability test was conducted using Cronbach's Alpha formula:

$$\alpha = [k / (k - 1)] [1 - (\Sigma\sigma_i^2 / \sigma_t^2)]$$

The test results were as follows:

- Islamic financial literacy:
  $\alpha = 0.82$
- MSME sustainability:
  $\alpha = 0.85$

Since the Cronbach's Alpha values were greater than 0.70, all instruments were considered reliable.

3. Simple Linear Regression Test

A simple linear regression test was used to determine the effect of Islamic financial literacy on MSME sustainability in the digital era in Blitar City. The regression model used in this study is as follows:

$$Y = a + bX$$

Where:

Y = MSME sustainability

X = Islamic financial literacy

a = constant

b = regression coefficient

Table 2. Results of the Simple Linear Regression Test

Independent Variable	Dependent Variable	Regression Coefficient (β)	Significance Value	Description
Islamic Financial Literacy	MSME Sustainability	00.48	0.001	Positive and significant effect

Based on Table 2, the regression coefficient of Islamic financial literacy was 0.48. This indicates that Islamic financial literacy has a positive effect on MSME sustainability. In other words, the higher the level of Islamic financial literacy among MSME actors, the greater the possibility of business sustainability. The significance value of 0.001 is lower than 0.05, indicating that Islamic financial literacy has a positive and significant effect on MSME sustainability in the digital era in Blitar City. Therefore, the research hypothesis is accepted.

4. Coefficient of Determination

Table 3. Results of the Coefficient of Determination Test

Model	R Square (R^2)	Percentage of Effect	Percentage of Other Factors	Description
Islamic Financial Literacy on MSME Sustainability	00.23	23%	77%	The effect is relatively limited

Based on Table 3, the R^2 value of 0.23 indicates that Islamic financial literacy explains 23% of the variation in MSME sustainability in Blitar City. Meanwhile, the remaining 77% is influenced by other factors outside the research model, such as managerial capability, access to digital markets, business capital, product innovation, business competition, government support, and the ability of MSME actors to utilize digital technology. Therefore, Islamic financial literacy is an important factor in supporting MSME sustainability, but it is not the only factor determining business continuity.

DISCUSSION

This study involved 120 MSME actors in Blitar City, selected using a *purposive sampling* technique, with the proportion of respondents adjusted based on the distribution of

MSMEs in each subdistrict. This sampling approach is relevant because data from Statistics Indonesia of Blitar City indicate that micro-enterprises are distributed across various subdistricts and business categories. Therefore, regional representation is necessary so that the research findings can more accurately reflect the condition of MSMEs in Blitar City.

Data were collected using a questionnaire with a 1–5 Likert scale. The descriptive analysis showed that the average score of Islamic financial literacy was 3.42, which falls into the moderate category. Meanwhile, the average score of MSME sustainability was 3.67, which falls into the fairly good category, particularly in the indicators of business resilience and adaptation to digital transactions. These findings indicate that MSME actors in Blitar City already have a basic understanding of Islamic finance, although this understanding still needs to be improved to support more sustainable business management.

The quality of the research instrument was tested through validity and reliability tests. The validity test was conducted using item-total correlation, with the criterion that an item is considered valid if its correlation coefficient is greater than the r-table value at the 5% significance level. The results showed that all question items in the Islamic financial literacy variable and the MSME sustainability variable had correlation values above the minimum threshold. Therefore, all items were declared valid.

Furthermore, the reliability test was conducted using Cronbach's Alpha coefficient. The results showed a Cronbach's Alpha value of 0.82 for the Islamic financial literacy variable and 0.85 for the MSME sustainability variable. These values indicate that the research instrument has a good level of internal consistency and is therefore appropriate for further analysis.

The simple linear regression test showed that Islamic financial literacy has a positive and significant effect on MSME sustainability in the digital era in Blitar City. This is indicated by the regression coefficient value of $\beta = 0.48$ and a significance value of $p = 0.001$, which is lower than 0.05. Therefore, the research hypothesis is accepted. This means that the higher the level of Islamic financial literacy among MSME actors, the higher the level of business sustainability.

Islamic financial literacy has an effect because MSME actors who understand Islamic financial principles tend to be more careful in making financing decisions. They are also better able to distinguish financial products that suit their business needs, more disciplined in managing cash flow, and more aware of the importance of fair, transparent, and non-harmful transactions. Such understanding can help MSME actors maintain business financial stability, avoid financing that exceeds their capacity, and strengthen business resilience amid changes in the digital economy.

The findings of this study are in line with previous research by Primandari et al., which showed that financial literacy has a significant effect on MSME performance and sustainability in Indonesia. These findings also support the study by Al Adil et al., which explained that Islamic financial literacy and Islamic financial inclusion have a positive effect on MSME performance in Banda Aceh City. However, the results of this study differ from the research conducted by Kusuma et al. in Solo Raya, which found that financial literacy did not affect business sustainability, although financial inclusion influenced MSME sustainability and performance.

These differences may be caused by differences in research location, respondent characteristics, variable indicators, and research context. This study specifically places Islamic financial literacy as the main variable in the context of MSME sustainability in the digital era, whereas several previous studies focused more on general financial literacy, business performance, or financial inclusion.

The coefficient of determination test showed an R^2 value of 0.23. This means that Islamic financial literacy can explain 23% of the variation in MSME sustainability in Blitar City, while the remaining 77% is influenced by other factors outside the research model. This value indicates that Islamic financial literacy is indeed an important factor, but it is not the only determinant of MSME sustainability.

The influence of Islamic financial literacy, which explains only 23% of the variation in MSME sustainability, can be understood because business sustainability is a complex and multidimensional issue. MSMEs do not only require financial understanding but also managerial capability, marketing strategy, access to digital markets, sufficient business capital, product innovation, the ability to compete, and support from the government and related institutions. In other words, MSME actors with sufficient Islamic financial literacy may still face difficulties in maintaining their businesses if they do not have broad market access, adequate capital, innovative products, or sufficient digital adaptation skills.

In the digital era, MSME sustainability is increasingly influenced by the ability of business actors to utilize technology. Digitalization provides opportunities for MSMEs to improve performance, productivity, innovation, and competitiveness. However, small businesses often lag behind due to low awareness, limited internal resources, lack of skills, and financial constraints. This condition explains why Islamic financial literacy alone cannot explain all variations in MSME sustainability.

MSME actors who understand Islamic finance still need the ability to use digital media for promotion, transaction recording, digital payments, customer management, and market expansion. If digital skills remain low, the impact of financial literacy on business sustainability will also be limited.

Other factors that influence MSME sustainability include managerial capability. MSME actors need the ability to prepare business plans, manage inventory, organize labor, record income and expenses, and evaluate business development. In addition, access to digital markets is also an important factor because many consumers have shifted to online platforms, social media, and digital payment services.

Business capital is another determining factor because limited capital can hinder the purchase of raw materials, production capacity improvement, packaging development, and business promotion. On the other hand, product innovation is needed so that MSMEs can adjust to changing consumer needs. Increasingly intense business competition also requires MSMEs to have advantages in terms of product quality, price, service, and brand identity.

Government support is also needed, particularly in the form of training, mentoring, licensing assistance, marketing support, digitalization programs, and business capacity development. The policy direction of the Ministry of MSMEs also emphasizes the importance of increasing MSME capacity, strengthening the entrepreneurship ecosystem, and connecting MSMEs with productive resources.

The low level of Islamic financial literacy at the national level further strengthens the importance of the findings of this study. Based on the 2025 National Survey on Financial Literacy and Inclusion, the Islamic financial literacy index reached 43.42%, while Islamic financial inclusion reached only 13.41%. This shows that there is still a gap between public understanding of Islamic finance and the use of Islamic financial services.

This gap indicates that the existence of Islamic financial institutions, Islamic cooperatives, and Islamic financing services does not automatically mean that MSMEs can utilize them optimally. MSME actors need to understand the principles, contracts, benefits, risks, and procedures of Islamic financial products. Therefore, improving Islamic financial literacy is important so that MSMEs not only recognize the existence of Islamic financial products but are also able to choose products that suit their business needs and capacity.

The practical implication of this study is the need for Islamic financial literacy programs that are more applicable and aligned with the needs of MSMEs in Blitar City. Local governments can develop training programs that do not only discuss Islamic finance in theory but also include practical aspects such as cash flow recording, business budgeting, financing planning, risk management strategies, and the safe use of digital financial services.

Islamic financial institutions can strengthen education for MSME actors regarding financing contracts, profit-sharing mechanisms, customer obligations, financing risks, and the suitability of products with business scale. Islamic cooperatives can also act as mentoring institutions that are close to MSME actors through business consultation, member development, and the provision of financing that is easier to understand.

For MSME actors, the results of this study highlight the importance of improving financial discipline, separating personal and business finances, recording transactions regularly, understanding contracts before taking financing, and using digital technology to strengthen marketing and business management.

Overall, the findings of this study confirm that Islamic financial literacy has a positive role in improving MSME sustainability in the digital era in Blitar City. However, because the R^2 value is only 23%, Islamic financial literacy should be viewed as one supporting factor, not as the only determinant of business sustainability. MSME sustainability will be stronger if the improvement of Islamic financial literacy is supported by managerial capability, access to digital markets, sufficient capital, product innovation, the ability to face competition, and policy support from the government and related institutions.

These findings contribute to the understanding that strengthening MSMEs in the digital era cannot be achieved merely by expanding financial access. It must also be accompanied by the improvement of Islamic financial literacy and continuous business mentoring.

CONCLUSION & SUGGESTION

Based on the research results, it can be concluded that Islamic financial literacy plays a role in improving the sustainability of MSMEs in the digital era in Blitar City. A sufficient understanding of Islamic financial management can help MSMEs manage their business finances, select appropriate financing, understand the principles of fair and transparent transactions, and adapt to the use of digital financial services. Thus, Islamic financial literacy is a crucial factor in supporting MSMEs' survival, growth, and resilience in the face of changes in the digital economy. Therefore, MSMEs are advised to actively improve their understanding of Islamic finance through practical training, mentoring, or educational programs, particularly regarding financial record-keeping, separating personal and business finances, selecting Islamic financial products, financing planning, and using digital services safely and in accordance with Islamic principles. Furthermore, local governments, Islamic financial institutions, and Islamic cooperatives are also expected to strengthen business literacy and mentoring programs for MSMEs so that literacy improvements are not merely theoretical but can be truly implemented in daily business activities. For future researchers, it is recommended to add other variables that also have the potential to influence MSME sustainability, such as managerial skills, digital market access, venture capital, product innovation, level of competition, government support, and the use of financial technology. Future research can also use a larger sample size, a broader research area, and more complex analytical methods, such as multiple regression or Structural Equation Modeling (SEM), so that the results can provide a more in-depth picture of the factors influencing MSME sustainability in the digital era.

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