

The Mediating Role of Digital Financial Inclusion in the Effects of Perception of KUR and Islamic Financial Behavior on MSME Capital Decisions

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ABSTRACT

Objectives: This study aims to examine how MSME owners' perceptions of the People's Business Credit (KUR) program and their Islamic financial behavior influence capital decision-making. Specifically, it evaluates both the direct effects of KUR perceptions and Islamic financial behavior on capital decisions and the indirect effects operating through digital financial inclusion, which is expected to function as a bridging mechanism by improving access to information and digital financial services. By clarifying these pathways, the study also seeks to provide evidence that can support government stakeholders and MSME owners in strengthening digital financial inclusion initiatives that facilitate better informed and more effective capital decisions.

Methodology: The subject of this study is the owner of MSMEs in East Priangan Region Indonesia consisting of 7 regencies/cities with a sample count of 250 MSME, as for data collection using purposive sampling technique. The analysis tool used is SEM-PLS Ver 4.

Finding: The results indicate that KUR perceptions have a significant direct effect on capital decisions, whereas Islamic financial behavior does not significantly influence capital decisions directly. Digital financial inclusion significantly mediates the effects of both KUR perceptions and Islamic financial behavior on capital decisions.

Conclusion: These findings suggest that digital financial inclusion plays a central role in translating program perceptions and financial behavior into capital decision-making among MSMEs. Strengthening an inclusive and equitable digital finance ecosystem may help MSME owners improve their knowledge and access to financial services, thereby supporting better capital allocation decisions.

Keywords: Perception of KUR; Islamic Financial Behavior; Digital Financial Inclusion; Capital Decision; MSME.

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INTRODUCTION

Today's digital financial sector has become one of the main foundations for economic transformation. This is not only felt by large companies but also MSMEs, because financial technology penetrates all levels of society without borders. Financial digitalization is able to offer ease of access, efficiency and the ability to reach a wider market so that MSMEs can develop more easily. The role of MSMEs is very important in the growth of the Indonesian economy, with the number reaching 99% of all business units. According to the latest data from the Ministry of Cooperatives and MSMEs, the number of MSMEs in Indonesia in 2024 would reach more than 65 million units (Firman Hidranto, 2024).

Recognizing MSMEs' vital role, the Indonesian government supports their growth through the People's Business Credit (KUR/Kredit Usaha Rakyat) program, which provides low-risk, low-interest external funding access (Syahrir et al., 2016). KUR disbursement reached Rp178.07 trillion (16.25% growth) in 2020 and Rp192.59 trillion (8.16% growth) in 2021, demonstrating MSMEs' strong reliance on such financing for business development (Cirprandy Riopaldo Tambunan, 2023).

Indonesia, as a predominantly Muslim country, has a society that applies Islamic law in daily life, including MSMEs that apply Islamic principles to their businesses. In conducting business, MSME players adhere to principles influenced by various factors. Owners with Islamic principles in their business life will avoid haram activities.

The post pandemic environment has driven accelerated financial inclusion in emerging markets through the increased adoption of digital financial services, as individuals seek contactless, accessible, and remote banking solutions (Dluhopolskyi et al., 2023). The rapid advancement of digital technologies has democratized access to financial services, extending affordable options to previously underserved populations (Widyastuti et al., 2024). Financial inclusion encompasses the processes, tools, and institutions that facilitate access to essential and cost-effective financial services for individuals and businesses (Adel, 2024).

Organizations use industry benchmarking to assess digital technologies' strategic value and adopt best practices from peers, strengthening their digital capabilities (Chatzoglou & Michailidou, 2019). Traditional approaches to obtaining information and resources are becoming less effective and increasingly costly, creating financial difficulties. To stay competitive, businesses must align their strategies with developmental goals, making digital transformation a necessity. Research confirms its positive impact on financial performance (Zhou & Li, 2023) and data-processing efficiency (Ferreira et al., 2019), enabling firms to integrate information, respond to changes, and enhance dynamic capabilities. For MSMEs, understanding government credit programs (e.g., KUR) and accessing related information improves capital decision-making, particularly regarding external financing risks and structures (Gao et al., 2024). MSMEs adhering to Islamic principles and leveraging digital financial inclusion can more easily align funding choices with their beliefs.

This digital financial inclusion will facilitate and become a link between MSMEs' perceptions of KUR and Islamic Financial Behavior. Access to digitized financial technology will enable them to make more accurate capital decisions and they can choose capital decisions in accordance with the principles and information obtained. So, it is suspected that digital financial inclusion is able to mediated the perception of KUR and Islamic Financial Behavior on Capital Decisions for MSMEs in East Priangan.

The research gap in this study can be identified from previous research on perceptions of KUR, which has mainly examined their relationship with MSME income and business

development (Darmawan et al., 2022). Other studies on KUR have employed only qualitative methods and have emphasised farmers' perceptions of KUR (Ibnu et al., 2025). Research on Islamic finance has mostly been conducted in Middle Eastern countries, such as Oman, where Islamic financial decision making was examined (Al Balushi et al., 2018), and Libya (Gait & Worthington, 2008). In Malaysia, studies have focused only on the intention to use Islamic financing products and have not linked them to capital decisions (Jaffar & Musa, 2016), while in Indonesia, research has focused only on the influence of non-economic factors (Novianto et al., 2025). Meanwhile, studies on digital financial inclusion have been conducted in various parts of the world. A study by Banik and Roy (2023) covered 31 developing countries but focused on measuring the level of the Comprehensive Digital Financial Inclusion Index (CDFII). In addition, other studies have also been conducted in developing countries, but they have not addressed capital decisions (Tay et al., 2022). Therefore, this study aims to fill the existing research gap by investigating the influence of Perception of KUR and Islamic Financial Behavior on MSME capital decisions, with Digital Financial Inclusion acting as a mediating variable.

Based on the background and the identified research gap above, this study addresses the following research questions:

1. Does Perception of KUR affect MSME Capital Decisions?
2. Does Islamic Financial Behavior affect MSME Capital Decisions?
3. Does Digital Financial Inclusion affect MSME Capital Decisions?
4. Does Islamic Financial Behavior affect Digital Financial Inclusion?
5. Does Perception of KUR affect Digital Financial Inclusion?
6. Does Digital Financial Inclusion mediate the relationship between Islamic Financial Behavior and MSME Capital Decisions?
7. Does Digital Financial Inclusion mediate the relationship between Perception of KUR and MSME Capital Decisions?

LITERATURE REVIEW

Theory of Planned Behavior

The Theory of Planned Behavior (TPB), proposed by Ajzen (1991), explains that an individual's behavior is influenced by their intention, which is shaped by attitudes, social pressures (subjective norms), and perceived control over the behavior. This theory offers a strong foundation for explaining financing decisions, as MSME owners are more likely to choose a particular source of funding when they evaluate it positively, perceive social support for its use, and believe that they have the ability to access and manage it. In this study, perceptions of KUR may capture MSME owners' assessment of the scheme's usefulness, accessibility, and suitability for business financing, while Islamic financial behavior may reflect value based preferences that shape financing choices and capital related decisions. From this perspective, TPB provides a relevant lens for understanding how financing preferences are formed. Digital financial inclusion complements this process by broadening MSME owners' access to financial information, formal financial institutions, and digital financial services, thereby facilitating the translation of favourable financing perceptions and Islamic financial values into actual capital decisions.

Pecking Order Theory

The pecking order theory further explains that firms tend to prioritize internal funds, followed by debt, and finally equity, partly because information problems and financing frictions affect the relative costs of each funding source (Donaldson, 1961; Myers, 1984). In this context, government efforts to enhance credit information availability can reduce information asymmetry and improve MSMEs' financial inclusion (OECD, 2020). Digital financial inclusion is therefore expected to support MSMEs' capital decisions particularly financing choices by expanding access to financial information and formal digital financial services that help owners evaluate funding alternatives, which provides a clear basis for Digital Financial Inclusion affect Capital Decision. This mechanism also underpins the proposed mediations, when access and information remain limited, favourable perceptions of KUR or certain financial behavioral orientations may not be fully translated into concrete financing actions, however, stronger digital financial inclusion can function as the pathway through which MSME owners convert Perception of KUR into capital decisions and reflect Islamic Financial Behavior in their capital decisions by enabling more informed comparisons across financing options and reducing barriers to using formal financial services.

Hypothesis Development

The Influence of Perception of KUR on Capital Decisions

The People's Business Credit (KUR) program, established in 2007 under Presidential Instruction No. 6, provides working capital and investment financing to creditworthy but undercollateralized MSMEs in Indonesia (Kemenko Perekonomian, 2016; Kemenkeu, 2024). Prior evidence indicates that stronger KUR application efforts are associated with higher business growth intentions (Darmawan et al., 2022), implying that how MSME owners view and respond to KUR is relevant to business related financial decisions. From a broader financing perspective, government backed initiatives can affect firms' financing opportunities and investment efficiency through local governance quality (Zhu & Kong, 2022), while diversified funding channels may support firms in balancing debt and equity decisions (Sapienza, 2002). However, government interventions such as subsidized loans may also have unintended effects, including potential distortions or financing constraints (Chen et al., 2023). Taken together, these studies suggest that MSME owners' perceptions of KUR may be associated with how they make capital decisions.

H1 : Perception of KUR has significant effect on Capital Decision

The Influence of Islamic Financial Behavior on Capital Decisions

Islamic financial behavior can be understood as financial behavior guided by Shariah principles, including the avoidance of gharar (uncertainty), riba (interest), and maysir (gambling) (Alam et al., 2017). Prior studies report that religious factors influence financial preferences and attitudes toward Islamic finance, such as greater receptiveness among Libyan firms (Gait & Worthington, 2017) and Malaysian investors' preference for Sharia compliant instruments (Klein & Weill, 2016), while Islamic finance continues to expand globally under Shariah principles (Dharani, et al., 2022). Research also identifies religious obligation as a key factor shaping attitudes toward Islamic finance, alongside behavioral control and social norms (Jaffar & Musa, 2016). In the MSME context in Indonesia, Novianto et al. (2025) find that attitudes, subjective norms, and perceived behavioral control positively influence behavioral intentions to adopt Islamic financing, and that religiosity influences the intention to adopt Islamic financing directly and indirectly through mediating attitudes. Because financing choices are

closely related to capital structure decisions (Korajczyk & Levy, 2005), and religiosity has been shown to matter for financial choices in emerging market settings (Balushi et al., 2018), this study expects Islamic financial behavior to be associated with MSME capital decisions.

H2 : Islamic Financial Behavior has significant effect on Capital Decision

The Influence of Digital Financial Inclusion on Capital Decisions

Digital financial inclusion refers to the provision of accessible, affordable, and responsibly delivered financial services through digital channels (Lauer & Lyman, 2015). For MSMEs, this matters because digital channels can widen access to formal financial services and improve the availability of information needed to evaluate financing options. Evidence also shows that digital financial inclusion became increasingly important during the COVID-19 period by supporting inclusive recovery and enabling MSMEs to maintain access to financial services and transactions (Tay et al., 2022; Dluhopolskyi et al., 2023). More broadly, fintech development is frequently discussed as a mechanism that can reduce barriers to inclusion, such as limited access, high costs, and constraints in using financial services, so that small businesses can interact more easily with formal finance (Mousa & Maabreh, 2024). In line with policy discussions, improving financial information infrastructures and access can reduce information gaps that typically disadvantage smaller firms, thereby strengthening their ability to make better financing choices (OECD, 2020). In this study, digital financial inclusion captured through indicators such as availability, usage, and digital capability should therefore be associated with stronger capital decision making among MSMEs because it expands the practical opportunity to compare, access, and manage funding alternatives in a more informed way (Banik & Roy, 2023).

H3: Digital Financial Inclusion has a significant effect on Capital Decision.

Digital Financial Inclusion as Mediator of Islamic Financial Behavior to Capital Decision

Digital financial inclusion provides underserved populations with accessible, affordable, and responsibly delivered financial services through digital channels (Lauer & Lyman, 2015). This became particularly crucial during COVID-19, as digital channels supported inclusive economic recovery for low income households and MSMEs (Tay et al., 2022). By overcoming traditional banking limitations, digital financial inclusion can expand MSMEs' access to capital and support productive activities (Li et al., 2022). In Muslim majority contexts, Islamic social finance instruments such as zakat, waqf, and microfinance are also discussed as mechanisms that enhance financial inclusion and reduce inequality (Macchiavello, 2017; Zauro et al., 2016), and financial technology may extend the reach of Islamic institutions to marginalized groups. Taken together, these studies support positioning digital financial inclusion as a channel through which Islamic oriented financial practices can be linked to MSMEs' capital-related outcomes. Accordingly, this study proposes that digital financial inclusion mediates the relationship between Islamic financial behavior and capital decisions.

H4: Digital Financial Inclusion mediates the relationship between Islamic Financial Behavior and Capital Decision.

Digital Financial Inclusion as Mediator of Perception of KUR to Capital Decision

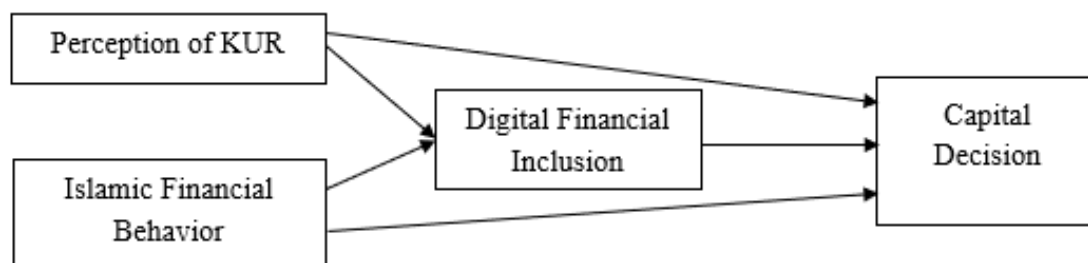
Building a favorable perception of KUR matters because it can increase MSME owners' willingness to use the scheme for business development, and prior evidence shows that stronger KUR application efforts are associated with higher business growth intentions (Darmawan et al., 2022). As a government backed initiative, KUR can shape capital structure decisions by

widening financing opportunities and improving investment efficiency through better local governance (Zhu & Kong, 2022), helping MSMEs diversify funding channels and balance debt and equity choices (Sapienza, 2002), although subsidized credit interventions may also generate unintended constraints or distort market behavior (Chen et al., 2023). At the same time, MSMEs often face persistent financing barriers that may lead to business failure, bankruptcy, or liquidation (Bandara et al., 2021; Mousa & Maabreh, 2024), highlighting the importance of digital finance in emerging markets. Strategic government intervention can improve MSMEs' access to financial services when policies foster supportive ecosystems and Fintech solutions are designed around MSMEs' needs (Feng et al., 2023), and sustained Fintech integration also depends on government collaboration, education initiatives, and regulatory frameworks that promote equitable and sustainable sector growth (Abu et al., 2025). Therefore, digital financial inclusion is expected to function as a bridging mechanism through which favorable KUR perceptions are translated into capital decisions, because greater digital inclusion expands access to financial information and digital financial services that enable MSME owners to evaluate and utilize financing options more effectively.

H5: Digital Financial Inclusion mediates the relationship between Perception of KUR and Capital Decision.

Based on the discussion above, the research framework can be illustrated as follows:

Figure 1. Conceptual Framework



METHOD

This study employed a quantitative survey design. The unit of analysis comprised MSME owners or managers who are responsible for capital and financing decisions in the Priangan region, West Java, Indonesia, covering seven regencies/cities: Tasikmalaya City, Tasikmalaya Regency, Banjar, Garut, Ciamis, Sumedang, and Pangandaran. Data were collected using a structured questionnaire measured on a five point Likert scale. Respondents were approached through MSME community networks across the study area, and purposive sampling was applied with two eligibility criteria: (1) the respondent is the MSME owner/manager and the primary decision maker for capital/financing matters, and (2) the respondent has prior awareness of KUR (i.e., has heard of or knows about the KUR program). A total of 250 MSME owners or managers participated in the survey. The sample size is considered sufficient for PLS-SEM based on the ten-times rule, which suggests that the minimum sample should be at least ten times the highest number of structural paths directed at any endogenous construct (Barclay et al., 1995; Chin, 1998). Data analysis was conducted using SmartPLS 4, following a two-stage procedure comprising the assessment of the measurement model (reliability and validity) and the evaluation of the structural model.

Respondent Characteristics

The characteristics of respondents in this study can be seen in Table 1 below :

Table 1. Characteristics Of Respondents

Characteristics	Categories	Total	Percentage
Gender	Female	147	58,8%
	Male	103	41,2%
SMSE's Age	< 1 Year	31	12,4%
	1 – 3 Year	80	32%
	3 – 5 Year	41	16,4%
	> 5 Year	98	39,2%
SMSE's Address	Tasikmalaya City	85	34%
	Tasikmalaya Regency	55	22%
	Banjar	19	7,6%
	Garut	9	3,6%
	Ciamis	46	18,4%
	Sumedang	4	1,6%
	Pangandaran	32	12,8%
SMSE's Owner Age	< 20 Year	3	1,2%
	20 – 30 Year	91	36,4%
	31 – 40 Year	68	27,2%
	> 40 Year	88	35,2%
SMSE's Type	Craft	11	4,4%
	Service	24	9,6%
	Trade	56	22,4%
	Fashion	38	15,2%
	Culinary	117	46,8%
	Agribusiness	4	1,6%

Table 2. Operationalization of Variables

Variable	Indicators
Perception of KUR	<ol style="list-style-type: none"> 1. Trust 2. Collateral 3. Term 4. Risk 5. Bank Interest 6. Agreement (Hasnati, 2019)
Islamic Financial Behavior	<ol style="list-style-type: none"> 1. Non-prohibited (Haram) goods/service 2. Non prohibited (Haram) in allocation/propose 3. Not prohibited other than the substance 4. Not invalid (incomplete) of the akad (contract) (Risman, 2024)
Digital Financial Inclusion	<ol style="list-style-type: none"> 1. Penetration of Digital Financial Service (DFS) 2. Availability 3. Usage of Digital Financial Service (DFS)

Variable	Indicators
Capital Decision	4. Level of Skills and ICT Knowledge for using Digital Financial Service (DFS)
	5. (Banik&Roy, 2023)
	1. Capital Structure
	2. Utilization of additional capital
	3. Barriers to accessing external capital
	4. Business conditions after investing capital (Nugroho & Listyawan, 2011)

RESULTS AND DISCUSSION

Result

Evaluation of the Measurement Model (Outer Model)

Convergent validity is assessed by examining the factor loadings. The factor loadings obtained in this study are presented as follows:

Table 3. Outer Loading Value

Variable	Indicators	Outer Loading	AVE	Results
Islamic Financial Behavior	IFB.1	0.686	0.614	Valid
	IFB.2	0.616		
	IFB.3	0.606		
	IFB.4	0.738		
	IFB.5	0.831		
	IFB.6	0.754		
	IFB.7	0.862		
	IFB.8	0.873		
	IFB.9	0.900		
	IFB.10	0.877		
	IFB.11	0.809		
	IFB.12	0.778		
Digital Financial Inclusion	DFI.1	0.787	0.637	Valid
	DFI.2	0.823		
	DFI.3	0.789		
	DFI.4	0.842		
	DFI.5	0.815		
	DFI.6	0.715		
	DFI.7	0.829		
	DFI.8	0.779		
	DFI.9	0.860		
	DFI.10	0.850		
	DFI.11	0.669		
Perception of KUR	KUR.1	0.709		
	KUR.2	0.619		
	KUR.3	0.556		
	KUR.4	0.733		

Variable	Indicators	Outer Loading	AVE	Results
Capital	KUR.5	0.770	0.524	Valid
	KUR.6	0.825		
	KUR.7	0.785		
	KUR.8	0.787		
	KUR.9	0.801		
	KUR.10	0.795		
	KUR.11	0.600		
	KUR.12	0.625		
	KUR.13	0.732		
	Decision	CD.1		
CD.2		0.737		
CD.3		0.736		
CD.4		0.752		
CD.5		0.692		
CD.6		0.705		
CD.7		0.736		
CD.8		0.832		
CD.9		0.822		
CD.10		0.823		

Based on the outer loading values above, it can be seen that all indicators have values above 0.5. Based on the outer loading value with a value between 0.5 and 0.6 it is still acceptable and meets the validity requirements, apart from that the AVE value in this study is fulfilled because it is above 0.5 for all variables (Ghozali, 2021).

Table 4. Reliability Value

	Cronbach's Alpha	Composite Reliability	Result
Capital Decision (CD)	0.919	0.932	Reliable
Digital Financial Inclusion (DFI)	0.942	0.950	
Islamic Financial Behavior (IFB)	0.942	0.949	
Perception of KUR (KUR)	0.923	0.934	

Referring to Table 4, all research variables exhibit Cronbach's Alpha values exceeding 0.70. According to Hair et al. (2021), a Cronbach's Alpha value above 0.70 indicates that the data are reliable and can be considered dependable.

Table 5. HTMT (Dicriminant Validity)

Construct	Original sample (O)	Sample mean (M)	2.5%	97.5%
DFI <-> IFB	0.250	0.255	0.149	0.370
CD <-> IFB	0.155	0.174	0.105	0.270
CD <-> DFI	0.372	0.373	0.240	0.512
KUR <-> IFB	0.160	0.182	0.111	0.282
KUR <-> DFI	0.372	0.378	0.224	0.533
KUR <-> CD	0.490	0.496	0.324	0.644

Table 6. Fornell-Larcker Criterion

	IFB	DFI	CD	KUR
IFB	0.783			
DFI	0.248	0.798		
CD	0.146	0.367	0.760	
KUR	0.149	0.364	0.472	0.724

Table 7. Inner Model Collinearity (VIF)

Path	VIF
IFB -> DFI	1.023
IFB -> CD	1.070
DFI -> CD	1.206
KUR -> DFI	1.023
KUR -> CD	1.157

Table 8. Coefficient of Determination (R²)

	R-square	R-square adjusted
DFI	0.171	0.164
CD	0.268	0.259

Table 9. Effect Size (f²)

Structural Path	F ²
IFB → DFI	0.046
IFB → CD	0.002
DFI → CD	0.054
KUR → DFI	0.132
KUR → CD	0.178

Table 10. PLSpredict (LV Summary)

	Q ² predict	RMSE	MAE
DFI	0.140	0.942	0.698
CD	0.190	0.916	0.641

Table 11. CVPAT (LV Summary)

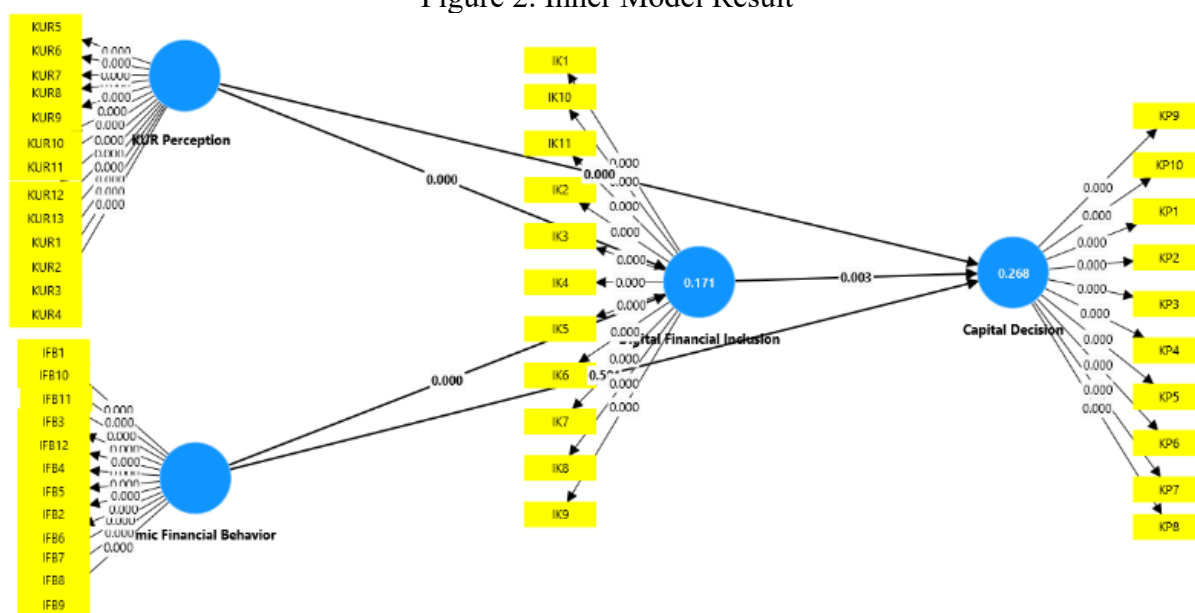
	PLS loss	IA loss	Average loss difference	t value	P value
DFI	0.464	0.507	- 0.043	2.210	0.028
CD	0.564	0.628	- 0.064	1.978	0.049
Overall	0.512	0.565	- 0.053	2.269	0.024

Discriminant validity was assessed through both the HTMT approach and the Fornell-Larcker criterion. HTMT values ranged from 0.155 to 0.490, well below the commonly recommended thresholds (<0.85 or <0.90) (Henseler et al., 2015). In addition, the square roots of AVE (IFB = 0.783; DFI = 0.798; CD = 0.760; KUR = 0.724) were higher than the correlations between constructs, providing further support for discriminant validity (Fornell & Larcker, 1981). Multicollinearity was not a concern, as inner VIF values were low (1.023-1.206) and below conventional cut-offs (Hair et al., 2017). In terms of explanatory power, the model accounts for 17.1% of the variance in DFI (R² = 0.171; adj. 0.164) and 26.8% of the variance in CD (R² = 0.268; adj. 0.259), indicating modest but meaningful explanation in a behavioral MSME context (Hair et al., 2017). Effect size results (f²) show that KUR perceptions

contribute the most to the model ($KUR \rightarrow CD = 0.178$; $KUR \rightarrow DFI = 0.132$), whereas the effects of $DFI \rightarrow CD$ (0.054) and $IFB \rightarrow DFI$ (0.046) are small and $IFB \rightarrow CD$ is negligible (0.002), consistent with standard effect size benchmarks (Cohen, 1988). Finally, out of sample predictive performance was supported by positive construct level Q^2 predict values for DFI (0.140) and CD (0.190) and by significant CVPAT results against the indicator average benchmark (DFI $p = 0.028$; CD $p = 0.049$; overall $p = 0.024$). Overall, the measurement model meets validity requirements, the structural model is free from collinearity problems, and KUR perceptions stand out as the strongest driver of both digital financial inclusion (DFI) and capital decisions (CD) in this study.

Structure Model Test

Figure 2. Inner Model Result



The significance of the structural relationships was assessed using bootstrapping. The findings for both direct and indirect effects are presented in Tables 12 and 13.

Table 12. Direct Effect

	Hypothesis	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values	Decision
Perception of KUR -> Capital Decision	H1	0.388	0.400	0.078	4.943	0.000	Accepted
Islamic Financial Behavior -> Capital Decision	H2	0.035	0.039	0.052	0.673	0.501	Rejected
Digital Financial Inclusion -> Capital Decision	H3	0.218	0.210	0.074	2.931	0.003	Accepted

Table 13. Indirect Effect

	Hypothesis	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values	Decision
Islamic Financial Behavior -> Digital Financial Inclusion -> Capital Decision	H4	0.043	0.043	0.019	2.260	0.024	Accepted
Perception of KUR -> Digital Financial Inclusion -> Capital Decision	H5	0.073	0.072	0.030	2.447	0.014	Accepted

Table 14. Mediation Summary

Relationship (X → Y)	Direct effect β (p)	Indirect via DFI β (p)	Total effect β (p)	Mediation type
IFB → CD	0.035 (0.501)	0.043 (0.024)	0.078 (0.160)	Indirect-only mediation
KUR → CD	0.388 (<0.001)	0.073 (0.014)	0.461 (<0.001)	Partial (complementary) mediation

Mediation type was interpreted based on the significance of the direct and indirect effects (i.e., significant indirect with non-significant direct indicates indirect-only mediation, significant direct and indirect effects indicate partial/complementary mediation). Digital financial inclusion partially mediates the effect of KUR perceptions on capital decisions (direct $\beta = 0.388$, $p < 0.001$; indirect $\beta = 0.073$, $p = 0.014$; total $\beta = 0.461$, $p < 0.001$). For Islamic financial behavior, the direct effect is not significant ($p = 0.501$) but the indirect effect via digital financial inclusion is significant ($p = 0.024$), indicating that its influence operates mainly through digital inclusion.

Discussion

The Influence of Perception of KUR on Capital Decisions

Based on Table 12 above it can be seen that the value of P-Values is worth 0.000 then the hypothesis (H1) is accepted so that it can be concluded that Perception of KUR has a significant influence on capital decisions. Good perception of KUR among MSME owners makes them consider external capital decisions is a good thing for their business.

Economic policy uncertainty is expected to directly influence firm decision making and operational strategies. Research indicates that such uncertainty diminishes the perceived value of government-provided market protection, leading to decreased investment by firms (Gulen & Ion, 2016) (Akron et al., 2020). This means that government policies such as KUR can affect how MSMEs organize their capital allocation and capital decisions. MSMEs that have a good perception of KUR and government policies will be more confident in using KUR as an element in their capital structure (Darmawan et al., 2022). Furthermore, research by Supari & Anton, (2022) indicates that government backed loans and subsidies enhance MSME access to finance, skills development, and overall performance. Research from Spain (Bertoni et al., 2019) indicates that government backed participatory loans substantially foster the expansion of entrepreneurial enterprises. The government needs to form a good perception of KUR in the mind of MSME owners to make them believe in KUR and provide them with protection so that they can develop and improve their financial performance.

The Influence of Islamic Financial Behavior on Capital Decisions

Table 12 indicates a P-value of 0.501, leading to the rejection of hypothesis (H2), then Islamic financial behavior does not significantly influence capital decisions. The need for capital remains irrespective of religious affiliation, with both Muslim and non-Muslim entities requiring external funding. External loan selection is driven by individual needs and preferences.

Other research suggests that religious preference is not main factor in the selection between Islamic and conventional banking institutions, or is not the primary driver of Islamic finance adoption (Dusuki & Abdullah, 2007). This finding is corroborated by (Abdesamed, K. H., & Abd Wahab, K, 2015), who similarly report that religious factors do not significantly influence MSME decisions regarding Islamic versus conventional bank loans. And other research found that : (1) adherence to Islamic rules is not a central concern for MSMEs adopting Islamic finance; and (2) religious MSME owners may doubt the genuine adherence to Islamic principles in offered products, thus hindering adoption. This indicates to Islamic banks targeting small business owners that religious factors are not the primary driver of Islamic finance adoption (Balushi et al., 2018). Therefore, religious principles are not main factors in the capital decisions of East Priangan MSME owners.

The Effect of Digital Financial Inclusion on Capital Decisions

Based on Table 12 above, it can be seen that the value of P-Values is worth 0.003, then the hypothesis (H3) is accepted so that it can be concluded that Digital Financial Inclusion has a significant influence on capital decisions.

Digital transformation significantly enhances capital allocation efficiency within firms. mechanistic analyses demonstrate that this improvement stems from increased information transparency, reduced agency costs, and the mitigation of financing constraints (Fu & Guo, 2025). Government intervention to improve the availability of credit information is a key step in reducing informational asymmetry. This is shown to improve financial inclusion for MSMEs, and making it easier for them to access necessary financing (OECD Publishing, 2020). This means that the government needs to build a digital financial inclusion ecosystem well so that all MSME owners can access the information needed to create the right capital strategy and needed by MSMEs so that the capital decisions they have will be right and efficient

The Influence of Islamic Financial Behavior on Capital Decisions Through Digital Financial Inclusion

Based on Table 13 above it can be seen that the value of P-Values is worth 0.024 then the hypothesis (H4) is accepted so that it can be concluded that Islamic Financial Behavior have significant effect on Capital Decisions Through Digital Financial Inclusion.

Owners of MSMEs who have Islamic values applied in their business will seek information and use available digital financial access and get more information about external capital. Currently technological advances continue to occur, ready or not MSMEs need to prepare information in running a business in accordance with its principles. Policymakers should account for decision-makers' personal attributes and attitudes, perceived norms, and perceived control when designing MSME support mechanisms. This research should enable Islamic banks to create financing programs addressing the unique needs of MSME owner-managers, thereby promoting Islamic financial institution adoption and broader Islamic finance deployment. Our findings indicate that MSME owners already adhering to Islamic financial principles demonstrate strong independent external capital decision-making; however, digital

financial inclusion can further enhance their capital management, strategic planning, and overall capital allocation decisions. Digital transformation significantly improves capital allocation efficiency through enhanced information access. (Fu & Guo, 2025).

The Influence of Perception of KUR on Capital Decisions Mediated by Digital Financial Inclusion

Based on Table 13 above, it can be seen that the value of P-Values is worth 0.014, then the hypothesis (H5) is accepted so that it can be concluded that Digital Financial Inclusion is able to mediate the perception of KUR towards capital decisions.

Mikro, Small and medium sized enterprises (MSMEs), despite their importance, often face significant financial challenges, such as limited access to capital, frequently resulting in business failure, bankruptcy, or liquidation (Bandara et al., 2021) (Mousa & Maabreh, 2024). Furthermore, research in emerging markets highlights the crucial role of digital finance, where strategic government intervention can substantially improve MSMEs' access to financial services (Feng et al., 2023) these studies recommend a collaborative policy approach, focusing on creating supportive ecosystems and ensuring that financial technology (Fintech) solutions are specifically designed to meet the unique needs of SMEs, thereby fostering sustainable economic growth. Continuous evaluation and optimization of these policies are critical to supporting MSME growth and adapting to dynamic market conditions.

Successful Fintech integration into MSME financing strategies requires ongoing government collaboration, education initiatives, and a regulatory framework fostering equitable and sustainable Fintech sector growth. This comprehensive approach is crucial for governments to fully realize Fintech's potential in empowering MSMEs financially and translating technological advancements into tangible economic benefits for small and medium-sized enterprises (Abu et al., 2025). This means that with digital financial inclusion, the perception of KUR of the MSMEs owners in East Priangan can increase due to the increased information and knowledge needed to make better capital decisions and sustainable economic growth.

CONCLUSION

The findings show that Perception of KUR has a significant direct effect on Capital Decision, while Islamic Financial Behavior does not have a significant direct effect. However, Digital Financial Inclusion significantly mediates the effects of both Perception of KUR and Islamic Financial Behavior on Capital Decision. This indicates that digital access, financial information, and the ability to use digital financial services play an important role in helping MSME owners turn their perceptions and financial values into actual financing decisions.

In this respect, the study reinforces the relevance of the Theory of Planned Behavior in the context of digital finance, as favourable perceptions and behavioural orientations appear to be more effectively translated into action when MSME owners are supported by stronger digital financial inclusion. The study also adds to the discussion on Islamic financial behavior in MSMEs by showing that its role in capital decision-making becomes more meaningful when business owners are connected to accessible and usable digital financial services.

From a practical point of view, the results suggest that improving MSME capital decisions cannot rely only on the provision of financing schemes such as KUR. MSME owners also need practical support in understanding digital financial products, comparing funding alternatives, assessing repayment capacity, and accessing reliable financial information through digital

channels. This means that banks, KUR providers, and MSME support institutions should not stop at credit distribution, but also provide simple digital onboarding, hands on financial education, and assistance in using digital financial platforms. This study is limited by the sample size in relation to the MSME population in the Priangan Timur region and by the use of purposive sampling. Future studies may involve wider samples and broader MSME coverage, while also examining other factors that may strengthen digital financial inclusion and improve the generalisability of the findings.

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