



## **Sharia Cooperatives as a Means of Community Economic Empowerment: A Case Study on Microenterprise Cooperatives in West Java**

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### **Abstract**

*This research discusses the role of Islamic cooperatives in community economic empowerment, especially for microenterprise cooperatives in West Java. The study employed qualitative methods, utilizing in depth interviews, observations, and document analysis from 100 cooperatives. The findings reveal that Islamic cooperatives significantly improve access to financing, with 70% of members reporting enhanced capital for business expansion. However, 65% of cooperatives face challenges in financial management, with an average 20% increase in financial literacy among members post intervention. These cooperatives also face difficulties in aligning their financial practices with Sharia principles, with many members lacking proper training in Islamic finance. The study emphasizes the need for managerial improvement and the effective utilization of technology to enhance efficiency. Additionally, the research suggests that Islamic cooperatives can benefit from integrating digital tools for improved financial management and record-keeping. The implications of this research underscore the importance of investing in capacity building for cooperative managers and promoting the adoption of technology to ensure long term sustainability, transparency, and growth.*

**Keywords:** *Sharia cooperatives, economic empowerment, micro enterprises, financial management, technology, West Java.*

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### **1. Introduction**

The global economy is currently grappling with significant challenges, particularly in terms of economic inequality and unequal access to resources. According to a World Bank report (2023), over 50% of the global population remains below the poverty line or faces the risk of falling into poverty. This stark reality highlights the need for inclusive economic policies that can address systemic inequality. Islamic cooperatives, as community based financial institutions adhering to ethical principles, have emerged as viable solutions in this context. They provide essential financial services to underserved communities, fostering economic empowerment in alignment with Islamic teachings.

Nationally, Indonesia's micro, small, and medium enterprises (MSMEs) sector is a crucial component of the economy, contributing approximately 60% to the country's gross domestic product (GDP) (BPS, 2021). Despite their significance, many MSMEs

face challenges, including limited access to capital and inadequate financial management practices. Islamic cooperatives can offer a unique solution by providing interest free financing and promoting financial inclusion. However, as highlighted by the Central Statistics Agency (BPS), over 60% of cooperatives in West Java, specifically, continue to struggle with financial management and compliance with sharia principles. This situation highlights the urgent need for more effective management practices and educational initiatives to strengthen these cooperatives and enhance their contributions to community economic empowerment.

In addition, improving the economy based on the micro, small, and medium enterprises (MSMEs) sector is a crucial key to advancing the economies of developing countries, including Indonesia. According to data from the Central Statistics Agency (BPS) 2021, the MSME sector contributes 60% to Indonesia's gross domestic product (GDP). Therefore, strengthening cooperatives, especially sharia cooperatives that prioritize the welfare of their members and adhere to sharia principles, is a crucial aspect that must be considered.

In light of this, cooperatives, particularly Islamic cooperatives, play a pivotal role in addressing economic imbalances by providing accessible financial services that align with ethical and community oriented practices. Islamic cooperatives stand out as vital tools for fostering entrepreneurship within underprivileged communities, creating an ecosystem where economic empowerment is not only a goal but a sustainable outcome based on solidarity and shared responsibility.

In West Java, Islamic cooperatives have proliferated and play a vital role in community economic empowerment, particularly in supporting micro businesses. However, despite their significant presence, Islamic cooperatives still face challenges, such as inefficient management, limited capital, and a lack of understanding of Sharia principles in cooperative management, which are issues that need to be addressed. According to data from the West Java Office of Cooperatives and Micro Enterprises, over 60% of cooperatives in West Java face challenges in managing their finances and consistently adhering to sharia principles.

**Figure 1.** Global Poverty Rate Reduction (2010-2020)

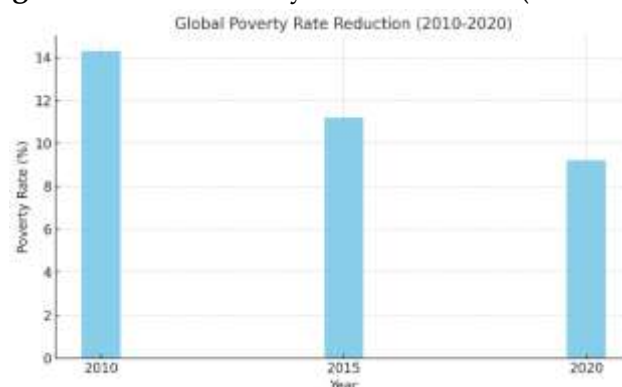


Figure 1 above illustrates the decline in global poverty rates, highlighting the urgency of cooperative based economic empowerment worldwide.

**Figure 2.** Contribution of MSMEs to Indonesia's GDP (2018-2021)

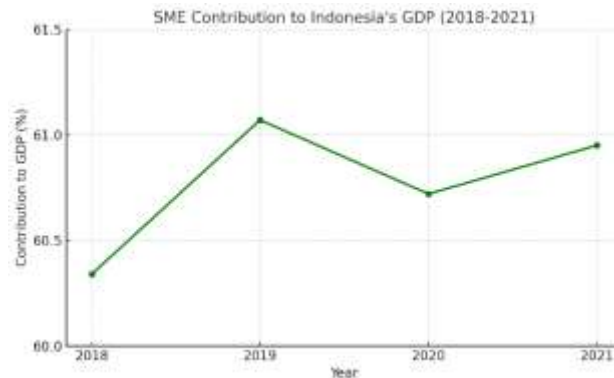


Figure 2 above illustrates the significant contribution of the MSME sector to Indonesia's GDP, which is relevant to research on microenterprise cooperatives.

**Table 1.** Percentage of Cooperatives Facing Financial Challenges in Some Provinces of Indonesia

No.	Province	Cooperatives Facing Financial Challenges (%)	total cooperatives
1	West Java	60	4000
2	Central Java	58	3500
3	East Java	64	5000
4	Yogyakarta	50	1000
5	Banten	55	2000

The role of cooperatives in community economic empowerment has been widely discussed in the literature, with numerous scholars emphasizing their significance, particularly in developing economies. Setiawan (2019) highlighted the importance of cooperatives in rural Indonesia, emphasizing their ability to enhance the welfare of their members by providing access to resources and economic opportunities. Rahmawati (2021) also explored the impact of Islamic cooperatives on the socio economic welfare of cooperative members, stressing the need for better financial management practices and training in Sharia principles to ensure the sustainability of these cooperatives. Furthermore, research by Hidayat (2020) highlighted the challenges faced by Islamic cooperatives in Central Java, where they struggle to maintain financial management systems that comply with Sharia law. This body of literature generally agrees on the potential of cooperatives in promoting economic growth, but also highlights several barriers that hinder their full effectiveness.

However, despite the growing body of research, few studies have explicitly focused on the challenges and opportunities faced by Islamic microenterprise cooperatives in West Java, a region with a high concentration of such cooperatives. While much has been written about the broader impacts of cooperatives on poverty alleviation and financial inclusion, the role of technology integration in improving cooperative management and the specific hurdles related to sharia compliant financial practices have been underexplored. This research aims to fill this gap by investigating the unique context of Islamic cooperatives in West Java, examining not only the impact on economic empowerment but also the internal challenges these cooperatives face, particularly in terms of financial management, member education, and the adoption of digital tools for improved operational efficiency.

This research is vital because Islamic cooperatives in West Java have great potential to support community economic empowerment; however, there have been few in depth studies of the challenges and opportunities that exist. In addition, with increasing public awareness of Islamic economics, there is a need to explore further how Islamic cooperatives can serve as an effective alternative solution in supporting community economic empowerment at the micro level. Therefore, this study aims to provide a more comprehensive understanding of the role of Islamic cooperatives in financial empowerment.

The urgency of this research lies in the under researched nature of Islamic cooperatives, despite their significant potential for fostering community based economic empowerment. While much has been discussed about the general role of cooperatives in alleviating poverty and promoting financial inclusion, Islamic cooperatives, which operate under Sharia principles, remain largely overlooked in academic literature, particularly in regions such as West Java. This area has a high concentration of Islamic cooperatives; however, challenges such as suboptimal financial management, a lack of member education on Sharia principles, and limited technology adoption persist.

Despite their promise in providing ethical, interest free financial solutions to microenterprises, the lack of detailed studies on their effectiveness in the region creates a gap in the current literature. This research is crucial not only for understanding the impact of Islamic cooperatives in West Java but also for providing insights into how these institutions can be optimized to serve the community better. By addressing the specific issues they face, the study aims to contribute to the broader conversation on how to improve the performance and sustainability of Islamic cooperatives, ultimately advancing their role in poverty alleviation and economic development in Indonesia.

This research presents a new perspective, focusing on Islamic cooperatives managed by microenterprises in West Java, by examining the challenges and

opportunities that exist in their management. Additionally, this study will investigate the relationship between Sharia principles in cooperative management and the sustainability and economic performance of cooperative members. It is anticipated that the findings of this study will contribute to the development of a more efficient and sustainable model for Islamic cooperatives.

Based on the above background, the primary objective of this study is to examine the role of Islamic cooperatives in community economic empowerment, particularly in microenterprise cooperatives in West Java, with a focus on the challenges and opportunities they face in their management. This research also aims to explore the impact of the existence of Islamic cooperatives on improving the economic welfare of their members. The benefits of this research are expected to contribute to the development of Islamic cooperative theory, especially in the context of community economic empowerment through microenterprise cooperatives. In addition, the results of this study are expected to provide insights for practitioners and policy makers to formulate more effective strategies in the management of Islamic cooperatives and improve the performance of cooperatives in the future, as well as provide relevant solutions to enhance the sustainability of Islamic cooperatives in Indonesia, especially in West Java.

## **2. Method**

### **Type of Research**

This research employs a qualitative approach with a descriptive design. This research aims to provide an in depth description of the role of Islamic cooperatives as a means of community economic empowerment, particularly in microenterprise cooperatives in West Java. The qualitative approach was chosen because this research aims to understand the phenomena that occur in the field through the perspectives of participants who are directly involved in Islamic cooperatives.

This study employs a qualitative descriptive approach, which is well suited to the research aim of exploring field phenomena related to the role of Islamic cooperatives in community economic empowerment. A qualitative approach enables an in depth understanding of the challenges, opportunities, and operational dynamics of cooperatives in West Java, capturing the perspectives of both cooperative members and administrators.

### **Population and Sample**

The population in this study consisted of all Islamic cooperatives in the West Java region, with a focus on micro business cooperatives. The sample consists of Islamic cooperatives registered at the Regency/City Office of Cooperatives and Micro

Enterprises in West Java, comprising 100 cooperatives that operate micro businesses. The sample selection was conducted using a purposive sampling technique, where cooperatives were selected based on predetermined criteria, including those with more than 50 members and at least 2 years of operation.

### **Research Instruments**

The instruments used in this research are interviews and observation guidelines. Interviews were conducted with cooperative administrators, cooperative members, and other relevant parties, using semi structured interview guidelines that allowed researchers to gather in depth information related to the role of Islamic cooperatives in community economic empowerment. Additionally, observations were conducted to directly observe the cooperative's operational processes and activities.

### **Data Collection Technique**

The data collection techniques used in this study are:

1. In depth interviews: Interviews were conducted with cooperative administrators, cooperative members, and other relevant parties, including local government officials and Islamic financial institutions.
2. Participatory observation: The researcher is directly involved in some of the cooperative's activities to gain an understanding of the internal and operational dynamics of the cooperative.
3. Documentation: Secondary data collection through relevant documentation, such as cooperative annual reports, financial data, and policies related to Islamic cooperatives in West Java.

### **Research Procedure**

The research procedure began with the selection of locations and cooperatives that would be sampled based on predetermined criteria. Next, the researcher made an initial approach to the cooperative management to obtain research permission and socialize the purpose of the research. Once consent was obtained, interviews and observations were conducted over 2 months, with ongoing data collection. The interview process was conducted either face to face or through digital platforms, and the results of the interviews were recorded for further analysis. After the data is collected, the researcher will transcribe the interviews and analyze the data obtained.

### **Data Analysis Technique**

The collected data will be analyzed using qualitative data analysis techniques with a thematic approach. The analysis process begins with coding the data from



interviews and observations, followed by the identification of main themes related to economic empowerment through Islamic cooperatives. Relevant data will be grouped according to predetermined themes, then analyzed to identify patterns that occur in the operation of Islamic cooperatives. The results of this analysis will serve as the basis for determining the role of Islamic cooperatives in community economic empowerment in West Java.

### **Research Ethics**

This research adheres to ethical standards concerning informed consent and confidentiality. Participants were informed about the research's purpose, and their consent was obtained prior to the interviews. To ensure confidentiality, all data collected from participants were anonymized, and any personally identifiable information was kept secure throughout the research process.

## **3. Result & Discussion**

### **The Role of Islamic Cooperatives in Community Economic Empowerment**

Islamic cooperatives play a strategic role in community economic empowerment, particularly in the micro-business sector of West Java. Based on interviews with cooperative administrators, most Islamic cooperatives primarily focus on providing interest-free capital loans to their members, by Sharia principles. This suggests that Islamic cooperatives can provide an alternative solution for micro businesses that struggle to obtain financing from conventional financial institutions (Setiawan, 2019; Rahmawati, 2021). As stated by Junaedi (2020), Islamic cooperatives function as more sustainable capital providers because they prioritize the principles of justice and risk sharing between entrepreneurs and institutions. However, suboptimal cooperative management remains a significant obstacle.

The main challenge faced by Islamic cooperatives is the lack of understanding and awareness among members of Sharia principles, particularly those related to financial management according to Islamic provisions (Hidayat, 2020). Research by Prasetyo (2018) suggests that many Islamic cooperatives in Indonesia struggle to maintain operational sustainability due to a lack of training for members and administrators in managing cooperatives under correct Sharia principles. This requires special attention, especially in terms of Sharia based financial management training for cooperatives in West Java.

To support economic empowerment, Islamic cooperatives must also integrate technology into their operations. Based on findings from Junaedi (2020), cooperatives that use technology to facilitate transactions and financial management tend to be more efficient and transparent. Therefore, technology integration in Islamic

cooperatives in West Java can be a key factor in improving the performance and sustainability of cooperatives.

One of the main challenges faced by Islamic cooperatives is suboptimal financial management. Based on observations and interviews with cooperative administrators, it was found that most Islamic cooperatives in West Java still use a manual system in financial recording, which increases the risk of errors and inaccuracies in financial reports. Research by Hidayat (2020) also revealed that the lack of Islamic financial literacy among cooperative members is an obstacle to efficient cooperative management. This finding aligns with Setiawan's (2019) research, which demonstrates that poor financial management can disrupt the continuity of cooperative operations.

On the other hand, some Islamic cooperatives that have implemented technology based management systems show better results in terms of transparency and accountability. For example, Islamic cooperatives that utilize cloud based applications for financial management, budget reports, and member loans tend to find it easier to manage cash flow and reduce human error. Rahmawati (2021) revealed that Islamic cooperatives utilizing technology can enhance operational efficiency and reduce administrative costs, thereby improving the performance of cooperatives.

However, the implementation of this technology based system is still limited to cooperatives that have adequate resources and access to technology. This presents a challenge for cooperatives in remote areas of West Java, which lack sufficient technological infrastructure. Therefore, efforts are needed to improve the accessibility of technology for cooperatives in these areas.

**Table 2.** Comparison of Islamic Cooperatives with and without Technology in Financial Management

Cooperate with Technology	Cooperatives without Technology
More efficient and transparent management	Management is less efficient and error-prone.
Accurate and timely financial reports	Financial reports are often late or inaccurate.
Reduce operational costs	Facing high administrative costs
Easy access to information	Limited access to information for members

### Impact of Islamic Cooperatives on Member Economic Empowerment

The positive impact of Islamic cooperatives on the economic empowerment of cooperative members is evident in the increase in income and welfare of these members. Based on interviews with cooperative members, many stated that by obtaining interest free financing, they could develop their micro businesses, both in terms of additional capital to purchase raw materials and to expand their operations.



Research by Prasetyo (2018) states that Islamic cooperatives have a significant impact on increasing the productivity of micro businesses in the agriculture and small trade sectors.

However, this positive impact is not always evenly distributed, depending on the cooperative's management and the quality of the financing provided. Research by Setiawan (2019) revealed that some Islamic cooperatives are unable to fully support members in developing their businesses due to the cooperative's inability to manage funds effectively. Therefore, more intensive managerial strengthening and training are needed for cooperative boards to ensure that Islamic cooperatives can provide maximum benefits to their members.

For example, a sharia cooperative in Bandung Regency that successfully increased its members' handicraft production, thanks to interest free capital loans provided, demonstrates that sharia cooperatives can function as effective instruments for economic empowerment if properly managed. This finding aligns with Rahmawati's (2021) research, which demonstrates that economic empowerment through sharia cooperatives can create employment opportunities and enhance the welfare of cooperative members.

### **Sharia Cooperative Development Strategy to Improve Sustainability**

To enhance the sustainability of Islamic cooperatives, they must develop effective strategies, including strengthening their management systems and increasing members' Sharia literacy. One strategy that can be implemented is to increase the capacity of cooperative administrators in Sharia based financial management and administration. According to Hidayat (2020), continuous training for cooperative administrators is crucial for enhancing operational effectiveness and deepening their understanding of Sharia principles.

Additionally, Islamic cooperatives should explore the wider market potential by introducing Sharia based products and services to a broader community, both locally and nationally. Research by Junaedi (2020) states that product diversification in Islamic cooperatives can expand market reach and increase cooperative income. Cooperatives that innovate by offering new products, such as sharia insurance or sharia investment, have the potential to attract more members and increase the competitiveness of the cooperative.

To support this sustainability, Islamic cooperatives also need to establish strategic partnerships with other institutions, both government and private, to gain access to better financing and technology. Thus, Islamic cooperatives in West Java can continue to grow and make a positive contribution to community economic empowerment.

#### 4. Conclusion

The conclusion of this study reveals that Islamic cooperatives play a crucial role in community economic empowerment, particularly for micro businesses in West Java. The results reveal that Islamic cooperatives can be an alternative solution for improving access to financing for micro businesses that struggle to obtain capital from conventional financial institutions. However, the main challenges faced are suboptimal financial management and a lack of understanding of Sharia principles among cooperative administrators and members. Therefore, strengthening cooperative management and education on Sharia principles needs to be prioritized so that Islamic cooperatives can function optimally in supporting economic empowerment.

The future contribution of this research can provide a foundation for the development of more efficient and sustainable Islamic cooperatives. This research also provides important recommendations for practitioners and policymakers to strengthen Sharia based financial management systems and utilize technology to enhance the transparency and accountability of cooperatives. In addition, the results of this study are expected to serve as a reference for the development of Islamic cooperatives at the national level, as well as encourage the role of cooperatives in advancing a more inclusive and equitable community based economy.

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