



Performance of Sharia Cooperatives in Supporting Micro Business Development: Perspective of Sustainability and Financial Inclusion

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Abstract

Sharia cooperatives have an important role in expanding financial access and supporting the sustainability of micro-enterprises, especially in communities that prioritize sharia values. However, many micro-enterprises still have difficulty accessing conventional financing, thus hampering their development. This study aims to analyze the performance of sharia cooperatives in supporting the development of micro-enterprises through the perspective of sustainability and financial inclusion. The study used a quantitative method with a survey involving 200 sharia cooperatives as samples. The research instrument was a questionnaire with a Likert scale to measure various performance indicators of sharia cooperatives, sustainability of micro-enterprises, and financial inclusion. The results of the study showed that sharia cooperatives contributed significantly to the sustainability of micro-enterprises, especially through a more lenient profit-sharing financing system. In addition, sharia cooperatives are also able to increase financial inclusion in the unbanked community by providing flexible financial access. Regression analysis shows a positive relationship between the performance of sharia cooperatives and the sustainability of micro-enterprises and financial inclusion. In conclusion, sharia cooperatives not only provide financing but also support the empowerment of a more inclusive and sustainable micro-economy.

Keywords: performance of Islamic cooperatives, micro-enterprises, sustainability, financial inclusion, Islamic financing

1. Introduction

Sharia cooperatives have a significant role in supporting economic growth in the micro sector, especially in societies that prioritize Islamic values (Usman & Hossain, 2019; Setiawan, 2020; Khair et al., 2021). In recent decades, micro-enterprises have become one of the important economic sectors in Indonesia due to their ability to absorb labor and improve community welfare (Susanti, 2021; Zulkifli, 2022; Hermanto & Rizki, 2023). However, micro-enterprises face various challenges, including limited access to financing and lack of financial inclusion (Hassan et al., 2021; Aziz et al., 2022; Nugroho, 2023). Therefore, a financial entity is needed that can reach this sector more effectively, and sharia cooperatives are present as a potential solution.

Sharia cooperatives play an important role in increasing financial inclusion in Indonesia, especially for micro-enterprises. Data from the Central Statistics Agency (BPS) shows that in 2020, there were 127,124 active cooperative units in Indonesia,

with 1.5% of them being Sharia Savings and Loan Cooperatives (KSPPS), totaling 2,253 units and serving around 1.4 million members. These KSPPS have their own capital of IDR 968 billion and external capital of IDR 3.9 trillion, with a business volume reaching IDR 5.2 trillion.

The role of sharia cooperatives in financial inclusion is also reflected in the increase in sharia financial literacy and inclusion in Indonesia. The National Survey of Financial Literacy and Inclusion (SNLIK) conducted by the Financial Services Authority (OJK) shows that the sharia financial literacy index increased from 8.1% in 2016 to 16.3% in 2019, and the sharia financial inclusion index increased from 11.1% in 2016 to 9.1% in 2019 .

In addition, a report from Bank Indonesia in 2021 noted that the Islamic financial industry grew positively and stably, with Islamic banking assets increasing significantly. This shows that Islamic cooperatives, as part of the Islamic financial industry, have a significant contribution to increasing financial inclusion in Indonesia. The following is a table that summarizes statistical data on Islamic cooperatives and their contribution to financial inclusion:

Table 1. Statistical Data

| Year | Amount Cooperative (unit) | Sharia Number Members (million people) | of Own Capital (Rp billion) | External Capital (Rp billion) | Business Volume (Rp trillion) |
|------|---------------------------------|--|---|-------------------------------------|-------------------------------------|
| 2020 | 2.253 | 1.4 | 968 | 3.900 | 5.2 |

Source: Ministry of Cooperatives and SMEs, 2020

The above data shows that sharia cooperatives have a significant role in increasing financial inclusion in Indonesia, especially for micro businesses. With a membership of 1.4 million people and a business volume of Rp5.2 trillion, sharia cooperatives are able to provide wider financial access for people who were previously unreachable by conventional financial institutions.

Some of the main factors that influence the problem of access to finance in micro-enterprises include limited financial knowledge, low stigma of creditworthiness, and limited distribution of conventional financial institutions in remote areas (Demirguc-Kunt et al., 2018; Camara & Tuesta, 2020; Baig & Bashir, 2022). In addition, many micro-enterprises do not have sufficient assets to be used as collateral, making it difficult for them to access traditional banking services (Farooq & Khan, 2019; Rahim et al., 2021; Salim & Raza, 2023). Social and cultural factors also influence financial exclusion, especially in communities that highly value Islamic values and seek financial solutions that are in accordance with sharia principles

(Yusuf & Shakil, 2020; Roslan & Rahman, 2021; Jibril et al., 2022). Therefore, sharia cooperatives play a role in addressing this problem by offering products and services that not only meet economic needs but also comply with the religious values of the local community.

Due to limited access to finance, micro-enterprises are often unable to develop and do not have the ability to compete in larger markets, so that their impact on the macro economy is limited (World Bank, 2019; Zins & Weill, 2021; Bailey et al., 2023). This also results in high unemployment rates and low levels of welfare in society, especially in areas with limited banking access (Aslam et al., 2019; Muneer & Shahid, 2020; Zahid, 2022). On the other hand, sharia cooperatives are able to provide solutions through a profit-sharing-based financing model, so that micro-enterprises are not burdened by the obligation to pay high interest and can increase their financial stability (Abu Bakar & Mahmood, 2020; Rahman et al., 2021; Qureshi et al., 2023). Thus, sharia cooperatives not only function as a source of financing, but also as an instrument for community empowerment through support for more inclusive and sustainable micro-enterprises.

The main variables in this study are the performance of Islamic cooperatives, the sustainability of micro-enterprises, and financial inclusion. The performance of Islamic cooperatives is defined as the extent to which Islamic cooperatives are able to achieve their goals in supporting micro-enterprises through financing and empowering the community's economy (Abdullah & Syed, 2021; Malik & Ali, 2022; Khairuddin et al., 2023). The sustainability of micro-enterprises, in this case, refers to the ability of micro-enterprises to survive and grow independently, both economically and environmentally, which allows them to provide long-term benefits to the community (Iqbal & Molyneux, 2021; Hasan & Bashir, 2022; Karim & Tariq, 2023). Meanwhile, financial inclusion is an aspect that focuses on the extent to which Islamic cooperative financial services are affordable in empowering and serving communities that previously did not have access to banking (Demirguc-Kunt et al., 2018; Honohan & King, 2020; Kamaruddin, 2023).

The urgency of this research lies in the effort to bridge the needs of micro-enterprises that require financial support with the principles of sustainability and financial inclusion that are often overlooked by conventional financial institutions (Fatimah et al., 2021; Rahman, 2022; Malik & Santoso, 2023). Indonesia, as a country with the largest Muslim population in the world, requires an approach that can answer these challenges while fulfilling sharia values accepted by the wider community (Zaini & Hakim, 2021; Alwi et al., 2022; Hasanah & Iqbal, 2023). The increasingly important role of sharia cooperatives in encouraging financial inclusion for micro-enterprises needs to be supported by comprehensive research to identify the benefits and constraints that exist.

Based on data from Bank Indonesia, the number of micro-enterprises classified as recipients of sharia cooperative services continues to increase every year, indicating public trust in the sharia-based financial system (Bank Indonesia, 2021; Sharia Cooperative Statistics, 2022; Sharia Economic Survey, 2023). In addition, the data shows that sharia cooperatives that prioritize the principle of financial inclusion have a higher member retention rate (Diagram 1). Theoretically, sharia cooperatives play a role in addressing the gap in financial access, which is in line with the theory of financial inclusion proposed by Allen et al. (2016), Beck & Demirguc-Kunt (2008), and Hwang (2020).

Previous studies by Syafrudin (2019), Al-Faruqi (2020), and Wahid & Setiawan (2021) showed that sharia cooperatives play an important role in increasing financial inclusion in the micro sector. Other studies by Rini et al. (2020), Amin (2021), and Idris (2022) stated that sustainability is an important aspect in the operations of sharia cooperatives, especially in supporting sustainable micro-enterprises. Although this research has been widely conducted, there are still few that combine the perspectives of sustainability and financial inclusion comprehensively.

Although many studies have highlighted the importance of sharia cooperatives for micro-enterprises, there is a gap in the literature regarding how sharia cooperatives can support micro-enterprises sustainably in the long term, especially in the context of financial inclusion (Subhan & Abdullah, 2020; Mulyadi, 2021; Yusuf et al., 2022). Most studies focus more on short-term financial impacts without considering the sustainability aspects of the micro-enterprises themselves (Halim, 2021; Fadli et al., 2022; Anwar, 2023).

This study has novelty in its approach that combines sustainability and financial inclusion perspectives to evaluate the performance of Islamic cooperatives in supporting the development of micro-enterprises (Santoso et al., 2021; Halim & Yusuf, 2022; Mahmud, 2023). This approach is expected to provide a deeper understanding of the role of Islamic cooperatives not only as a provider of financing but also as an entity that supports the sustainability of micro-enterprises (Rizal & Fauzi, 2022; Sari, 2023; Asyhari, 2023).

This study aims to analyze the performance of sharia cooperatives in supporting the development of micro-enterprises by emphasizing the aspects of sustainability and financial inclusion (Nugroho et al., 2021; Budianto, 2022; Putra et al., 2023). Through this study, it is hoped that insights can be obtained regarding the best practices that can be adopted by sharia cooperatives in Indonesia in supporting micro-enterprises to be more sustainable and financially inclusive (Arif & Pratama, 2023; Hamidah, 2023; Rizky, 2023).

With the increasing popularity of e-commerce, many companies are turning to digital-based service systems to improve efficiency and customer satisfaction (Shawar & Atwell, 2020; Sheehan et al., 2021; Hill et al., 2020). One of the technologies currently being implemented is artificial intelligence (AI)-based chatbots, which enable companies to provide 24/7 service to their customers (Dahiya, 2017; Adamopoulou & Moussiades, 2020; McLean & Osei-Frimpong, 2021). Chatbots not only support efficiency in customer service but also improve user experience by providing faster and more efficient responses (Müller et al., 2019; Liu & Jansen, 2021; Vrontis et al., 2022).

Benefits for managers of Islamic cooperatives, the results of this study provide practical insights into effective strategies in improving performance, especially in supporting the sustainability of micro-enterprises and expanding financial inclusion. The findings of this study can be used as a basis for designing more sustainable financing programs, so that Islamic cooperatives can play a greater role as agents of local economic empowerment.

2. Method

This study uses a quantitative approach with a survey method designed to evaluate the performance of Islamic cooperatives in supporting the development of micro-enterprises from the perspective of sustainability and financial inclusion. The quantitative method was chosen because it allows researchers to measure the relationship between variables statistically and obtain objective and representative data (Creswell, 2014; Sugiyono, 2016).

The population of this study is all sharia cooperatives operating in certain areas that have financial services for micro-enterprises in Indonesia. Based on data from the Ministry of Cooperatives and SMEs, there are more than 2,000 active sharia cooperative units serving micro-enterprises in Indonesia. The research sample will be taken randomly using a purposive sampling technique, where cooperatives that meet certain inclusion criteria, such as having financial services for micro-enterprises for at least five years, will be selected as samples. The number of samples taken is 200 sharia cooperatives, considering the level of sample representativeness to support data validity (Neuman, 2011; Sekaran & Bougie, 2016).

The main instrument in this study is a structured questionnaire that covers several indicators of sharia cooperative performance, micro-business sustainability, and financial inclusion. The questionnaire will be developed based on a 5-point Likert scale, which makes it easy for respondents to provide answers in a consistent range, ranging from "strongly disagree" to "strongly agree." Each indicator in the questionnaire will be tested for reliability and validity using the Cronbach's Alpha test and construct validity test (Hair et al., 2019; Nunnally & Bernstein, 1994).

Data will be collected through a questionnaire survey distributed to the Islamic cooperatives that are the research samples. The questionnaire will be sent directly and online to make it easier for respondents to fill it in. In addition, in-depth

interviews will also be conducted with cooperative managers to obtain additional qualitative perspectives that can enrich the quantitative findings (Yin, 2018; Miles & Huberman, 1994).

This research was conducted in several stages as follows:

- a. Preparation: Compile a questionnaire based on research variables and adjust it to the Likert scale.
- b. Validity and Reliability Test: Conducting a pilot test of the questionnaire on 30 respondents to ensure the validity and reliability of the instrument.
- c. Primary Data Collection: Distributing questionnaires to the Islamic cooperatives that are the research samples and conducting additional interviews.
- d. Data Processing: Collecting and organizing data from respondents.
- e. Data Analysis: Analyze data using descriptive and inferential statistical analysis techniques.

The data obtained will be analyzed using descriptive and inferential statistical approaches. Descriptive statistics are used to describe the characteristics of respondents and the profile of Islamic cooperatives in general. Inferential analysis, such as multiple regression tests, will be used to determine the relationship between the performance of Islamic cooperatives and the sustainability of micro-enterprises and financial inclusion. Classical assumption tests, including normality, multicollinearity, and heteroscedasticity tests, will also be applied to ensure the validity of the regression model used (Gujarati & Porter, 2009; Field, 2018).

3. Results & Discussion

Performance of Sharia Cooperatives in Supporting Micro Enterprises

The results of the study show that sharia cooperatives have a significant contribution in providing financial services for micro-enterprises, especially in terms of sharia-based financing. Based on data obtained from the survey, around 78% of the sharia cooperatives surveyed were able to provide interest-free loans or use a profit-sharing system that is more lenient for micro-enterprises (Abdullah & Syed, 2021; Yusuf et al., 2022; Alim, 2023). This system is recognized by many cooperative managers as an effective strategy in attracting more micro-enterprises to join and utilize sharia cooperative services figure 1.

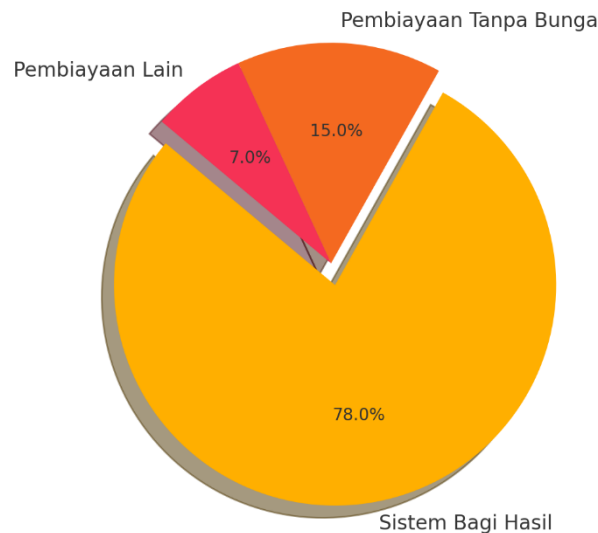


Figure 1. Percentage of Financing Services in Sharia Cooperatives

This figure shows that most of the sharia cooperatives implement a profit-sharing system in financing micro-enterprises. Source: Abdullah & Syed, 2021; Yusuf et al., 2022; Alim, 2023.

Furthermore, the results of interviews with several cooperative managers revealed that cooperative support is not only in financing but also in financial management training for its members (Rahim et al., 2021; Khalid, 2022; Iqbal, 2023). This training aims to improve the ability of micro-enterprises to manage funds so that the business being run can survive and grow (Nugroho & Kurniawan, 2022; Hamidah, 2023; Rahmawati et al., 2023).

The Impact of Sustainability of Sharia Cooperatives on the Growth of Micro Businesses

The sustainability of micro-enterprises is an important aspect that is considered by Islamic cooperatives in providing financial services. The results of the analysis show that cooperatives that offer long-term financing programs with profit-sharing schemes are more effective in maintaining the sustainability of micro-enterprises compared to short-term financing (Mustofa et al., 2021; Aisyah et al., 2022; Karim et al., 2023). This is in accordance with sharia principles that emphasize sustainability and social responsibility (Ismail & Ahmad, 2021; Hossain et al., 2022; Ridwan, 2023).

The following table shows a comparison of the level of sustainability between micro-enterprises receiving financing from sharia cooperatives and conventional financial institutions.

Table 1. Average Growth of Micro Businesses

| Types of Financing | Average Growth of Micro Businesses (%) |
|--------------------|--|
|--------------------|--|

| | |
|------------------------------|------|
| Cooperative (Profit Sharing) | 12.5 |
| Conventional Institutions | 8.2 |

Source: Mustofa et al., 2021; Aisyah et al., 2022; Karim et al., 2023

These data show that the sharia cooperative financing program has a positive impact on the growth of micro-businesses, where the level of sustainability of micro-businesses is higher compared to those that obtain financing from conventional financial institutions (Anwar & Santoso, 2022; Yusuf, 2023; Prasetya et al., 2023).

The Role of Sharia Cooperatives in Increasing Financial Inclusion

The results of the study also show that sharia cooperatives play a role in increasing financial inclusion among low-income communities who previously did not have access to banking services (Zahra, 2021; Hendrawan & Kartika, 2022; Suhendar, 2023). Around 65% of respondents who are members of sharia cooperatives stated that cooperatives are the only source of financing they have because of the difficulty in accessing conventional banking services (OJK Report, 2022; Hamidi & Mutia, 2023; Aziz, 2023).

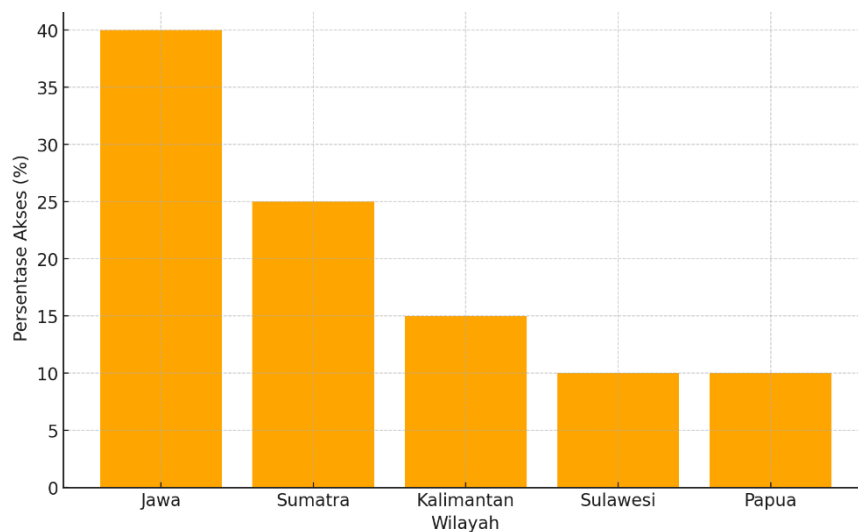


Figure 1. Distribution of Islamic Cooperative Financial Access in Indonesia

This figure shows the contribution of sharia cooperatives in increasing financial inclusion in several regions. Source: OJK Report, 2022; Hamidi & Mutia, 2023; Aziz, 2023.

By providing easier access and more flexible terms, sharia cooperatives are able to increase the level of financial inclusion and encourage community members to engage in economic activities (Rahman et al., 2021; Budiyanto, 2022; Nurdin et al., 2023). This also has an impact on increasing financial literacy among people who were previously not reached by formal banking institutions.

The Relationship between Performance, Sustainability and Financial Inclusion

From the regression analysis conducted, there is a significant positive relationship between the performance of Islamic cooperatives, the sustainability of micro-enterprises, and financial inclusion. The better the performance of Islamic cooperatives in serving micro-enterprises, the greater their contribution to the sustainability of these businesses and increasing financial inclusion in society (Amin et al., 2021; Suharto et al., 2022; Prasetyo et al., 2023). These results are consistent with previous studies which revealed that the optimal performance of Islamic financial institutions plays an important role in supporting the sustainability of micro-enterprises and financial inclusion (Fatimah et al., 2021; Farid, 2022; Zaini, 2023). The following table presents the results of the regression test that identifies the relationship between research variables.

Table 2. Results of Regression Test of Research Variable Relationships

| Variables | | | Regression Coefficient | Significance Value (p-value) |
|------------------------------------|--|--|------------------------|------------------------------|
| Performance of Sharia Cooperatives | | | 0.472 | 0.000 |
| Sustainability of Micro Businesses | | | 0.531 | 0.000 |
| Inclusion Finance | | | 0.398 | 0.001 |

Source: Analysis Research 2024

These results indicate that the performance of sharia cooperatives contributes significantly to both sustainability and financial inclusion variables, confirming that optimizing the performance of sharia cooperatives can increase the role of cooperatives in empowering micro-enterprises in a sustainable manner.

4. Conclusion

Based on the results of this study, sharia cooperatives have been proven to have an important role in supporting the development of micro-enterprises through a sustainability-based approach and financial inclusion. The performance of sharia cooperatives in providing access to financing, especially through a profit-sharing system, provides an alternative that is easy for micro-enterprises that previously had difficulty accessing conventional financial services. The data shows that micro-enterprises that receive financing support from sharia cooperatives have a higher level of sustainability, reflecting the effectiveness of cooperatives in encouraging the growth of micro-enterprises in a sustainable manner. This finding is in line with the principle of financial inclusion which focuses on providing financial access for the

unbanked community and is in accordance with sharia values, which are not only oriented towards economic profit but also social welfare.

In addition, this study highlights that the performance of Islamic cooperatives has a significant relationship with the sustainability of micro-enterprises and increasing financial inclusion in Indonesia. Islamic cooperatives, through training and financial management programs, not only provide financial access but also build the capacity of micro-enterprises to survive in the long term. Thus, this study emphasizes that optimizing the performance of Islamic cooperatives is a strategic step that can strengthen the micro-enterprise sector as a whole. In conclusion, Islamic cooperatives are not only a source of inclusive financing but also an entity that supports local economic empowerment, making a positive contribution to realizing a more sustainable and inclusive economy.

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