



Challenges and Opportunities for Sharia Cooperatives in Encouraging the Growth of Sharia MSMEs in the Digital Era

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Abstract

Digital transformation has become an important factor in increasing economic competitiveness, especially for Islamic MSMEs facing increasingly fierce global competition. However, Islamic cooperatives, which act as the main drivers of Islamic MSMEs in Indonesia, still face various challenges in adopting digital technology. This study aims to analyze the challenges and opportunities faced by Islamic cooperatives in driving the growth of Islamic MSMEs in the digital era. A qualitative approach with a descriptive method was used in this study, with data collected through in-depth interviews and literature studies. The research sample consisted of Islamic cooperative administrators and Islamic MSME managers involved in the digitalization process in various regions of Indonesia. The results of the study show that Islamic cooperatives face significant challenges in terms of infrastructure, digital literacy, and access to financing for digital transformation. However, digitalization also offers great opportunities for Islamic cooperatives to improve operational efficiency, expand market access, and provide faster services for Islamic MSMEs. The conclusion of this study shows that a strategic partnership between Islamic cooperatives, the government, and digital financial institutions can be a solution to overcome barriers to digitalization and maximize the potential of Islamic MSMEs in Indonesia.

Keywords: sharia cooperatives, sharia MSMEs, digitalization, opportunities and challenges, economic growth

1. Introduction

The digital era has brought major changes to various economic sectors, including cooperatives and sharia MSMEs. Digitalization presents new opportunities for market expansion and increasing operational efficiency of sharia cooperatives that can play a strategic role in driving the growth of sharia MSMEs. Based on data from Bank Indonesia (2022), there was an increase in digital transactions of up to 43% last year, which shows that MSMEs that are integrated with technology have a greater chance of surviving and growing (Nasution et al., 2021; Syamsuddin, 2022; Hasanah et al., 2023). However, on the other hand, digitalization also presents challenges, such as technology adaptation and infrastructure readiness that is not evenly distributed throughout Indonesia (Iskandar et al., 2021; Ramadhan et al., 2023; Khairunnisa, 2022).

Several main factors that influence the delay of Islamic cooperatives in adopting digital technology include limited infrastructure, low digital literacy, and

lack of financial support. Uneven infrastructure, especially in remote areas, is a significant obstacle for Islamic cooperatives in implementing adequate digital systems (Kemenkominfo, 2023; Sunarto et al., 2023; Sitorus, 2023). In addition, low digital literacy among Islamic cooperative managers is an obstacle in understanding and utilizing modern technology optimally (Rahman et al., 2022; Nisa & Harahap, 2023; Pratama, 2023). Another factor is limited access to funding and mentoring programs that enable Islamic cooperatives to develop more adaptive and efficient technology (Yusuf et al., 2021; Rizal et al., 2022; Kusuma, 2023).

Due to these factors, sharia cooperatives in Indonesia often miss the opportunity to optimize their contribution in empowering sharia MSMEs. For example, the lack of technology adoption makes sharia cooperatives unable to compete with other financial institutions that have fully integrated digital services, such as peer-to-peer lending or sharia-based fintech (Putri et al., 2023; Iqbal & Hidayat, 2022; Wahid, 2022). This results in low public trust in sharia cooperatives as a reliable means of financing, which ultimately slows down the growth of sharia MSMEs in various industrial sectors (Maulana et al., 2021; Zulfikar et al., 2022; Ardianto & Hasanah, 2023). Without the support of digitalization, sharia cooperatives are unable to offer fast and efficient services, which are very important in the digital era.

Research on sharia cooperatives is very important because this sector has a major role in supporting MSMEs, especially in facing increasingly tight economic competition in the digital era. According to the report of the Ministry of Cooperatives and SMEs (2023), sharia cooperatives in Indonesia manage around 12% of the total existing sharia MSMEs, with a significant economic contribution to national GDP (Ahmad et al., 2022; Wardhana et al., 2023; Saleh & Harahap, 2023). In addition, this research is urgent because currently there is limited research that specifically discusses the challenges and opportunities of sharia cooperatives in the digitalization ecosystem of the sharia economy in Indonesia (Mulyono et al., 2021; Basri, 2023; Fauzan, 2022).

The following diagram shows the growth trend of digitalization of Islamic MSMEs and increasing access to technology by Islamic cooperatives from 2018 to 2023. Data from the Financial Services Authority (OJK, 2023) reveals that 62% of Islamic MSMEs have used digital technology, while Islamic cooperatives are still limited to 28% of technology adaptation. Theories on technology adaptation, such as the TAM (Technology Acceptance Model), also show that trust factors and the suitability of technology to Islamic values are the main keys (Davis, 1989; Utami, 2022; Rahmawati, 2023).

Year	Sharia MSMEs (%)	Sharia Cooperatives (%)
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2018	35	12
2019	40	15
2020	50	20
2021	55	22
2022	58	26
2023	62	28

(Source: OJK, 2023)

Research related to sharia cooperatives and MSMEs in the digital era has been widely conducted, but most of the research focuses on the sharia banking sector or MSMEs in general (Aziz et al., 2021; Sari, 2022; Hakim & Suherman, 2023). Research by Rahman and Fauzi (2022) shows that the digitalization of MSMEs can increase productivity by up to 30%, but this study does not highlight the role of sharia cooperatives specifically. In addition, Surya et al. (2023) examines the obstacles in implementing digital technology in sharia MSMEs, but does not highlight the synergy between sharia cooperatives and MSMEs.

Most existing studies are still limited in connecting sharia cooperatives with sharia MSMEs in the context of digitalization. Existing studies have not discussed much about the collaboration of sharia cooperatives in providing technology access and assistance for sharia MSMEs, especially those in rural areas (Kurnia et al., 2023; Zainal, 2023; Sulaiman, 2022). Therefore, this study aims to fill this gap by highlighting the strategic synergy between sharia cooperatives and sharia MSMEs in facing digital challenges.

This study attempts to offer a new approach by exploring the strategies of sharia cooperatives in supporting the digital transformation of sharia MSMEs in Indonesia. By focusing on the challenges of technology adaptation and the potential of sharia cooperatives as drivers of the digital economy, this study provides a unique contribution to the academic literature. Not many studies have touched on these aspects, making it an innovative and relevant study (Arsyad et al., 2021; Putra et al., 2022; Haris, 2023).

This study aims to identify the main challenges faced by sharia cooperatives in supporting sharia MSMEs in the digital era, as well as opportunities that can be utilized to increase the economic contribution of sharia cooperatives. In addition, this study also aims to formulate strategies that can help sharia cooperatives in supporting the digitalization of sharia MSMEs.

This research is expected to provide theoretical and practical benefits. Theoretically, this research can enrich the literature on the role of sharia cooperatives in the digitalization ecosystem of sharia MSMEs. Practically, this research can be a guide for the government and sharia cooperative actors in designing effective policies and strategies to encourage the digitalization of sharia MSMEs.

2. Method

This study uses a qualitative approach with a descriptive method. This method was chosen to obtain an in-depth picture of the challenges and opportunities faced by Islamic cooperatives in encouraging the growth of Islamic MSMEs in the digital era. The descriptive approach allows researchers to examine phenomena in detail and identify patterns that emerge from the data collected (Miles & Huberman, 1994; Creswell, 2014). The population in this study were all sharia cooperatives operating in Indonesia, especially those that have financing programs or services for sharia MSMEs. The sample was selected using a purposive sampling technique, where the sharia cooperatives that were sampled were those that already had digital initiatives or were in the process of adopting technology to support their services. The sample also included managers of sharia MSMEs who were directly involved in the cooperative in order to obtain a more comprehensive perspective on the challenges and opportunities of digitalization. The number of respondents in this study was 15 sharia cooperatives and 20 managers of sharia MSMEs spread across five major regions in Indonesia.

The main instrument in this study is a semi-structured interview guideline that is compiled based on the main variables, namely challenges and opportunities for digitalization. This instrument includes open-ended questions designed to explore respondents' views on experiences, obstacles, and the potential for digitalization in supporting the growth of sharia MSMEs. In addition, the questionnaire is also used as a complement to obtain demographic data and brief profiles of cooperatives and sharia MSMEs involved. Data were collected through in-depth interviews with the administrators of sharia cooperatives and managers of sharia MSMEs involved in the cooperatives. Interviews were conducted directly or through online platforms, such as Zoom or Google Meet, to reach respondents in hard-to-reach locations. In addition to interviews, secondary data were also collected through literature studies, annual reports of sharia cooperatives, and data from government agencies such as the Ministry of Cooperatives and SMEs and the Financial Services Authority (OJK). Triangulation techniques were used to ensure the validity of data obtained from various sources.

This research was conducted in several stages. The first stage was the preparation of research instruments, where interview guidelines and questionnaires were prepared based on the research objectives. The second stage was data collection, which included interviews with respondents and secondary data collection. The third stage was data processing, where interview transcripts and questionnaire data were categorized based on main themes. The final stage was data analysis and interpretation of results, which were conducted to answer the research questions and achieve the stated research objectives. The data obtained were analyzed using thematic analysis techniques. The transcribed interview data were analyzed by identifying themes relevant to the challenges and opportunities of digitalization in Islamic cooperatives. Each theme found was analyzed and linked to theories and previous research results. In addition, secondary data obtained from

reports and literature studies were analyzed descriptively to support the research findings. The results of the data analysis are presented in the form of descriptive narratives and tables to facilitate readers' understanding of the challenges and opportunities faced by Islamic cooperatives in supporting the growth of Islamic MSMEs in the digital era.

3. Results & Discussion

Challenges of Sharia Cooperatives in Adopting Digital Technology

This study found that the main challenges faced by Islamic cooperatives in adopting digital technology include limited infrastructure, low digital literacy, and limited funding. Limited digital infrastructure, especially in rural areas, hinders connectivity and access for Islamic cooperatives to adopt technology effectively (Fauzi & Rahmat, 2023; Wulandari et al., 2022; Hartono, 2022). Low digital literacy among Islamic cooperative administrators is also an obstacle in understanding the use of new technologies, such as Islamic-based financial applications.

In addition, access to funding is also a crucial factor that hinders the development of sharia cooperatives. Many cooperatives have difficulty in obtaining sufficient funding to invest in technology, especially for the procurement of adequate digital systems (Pratama, 2023; Kusuma, 2023; Sugiharto, 2022). The figure below shows the percentage of sharia cooperatives that have access to digital facilities in various regions in Indonesia.

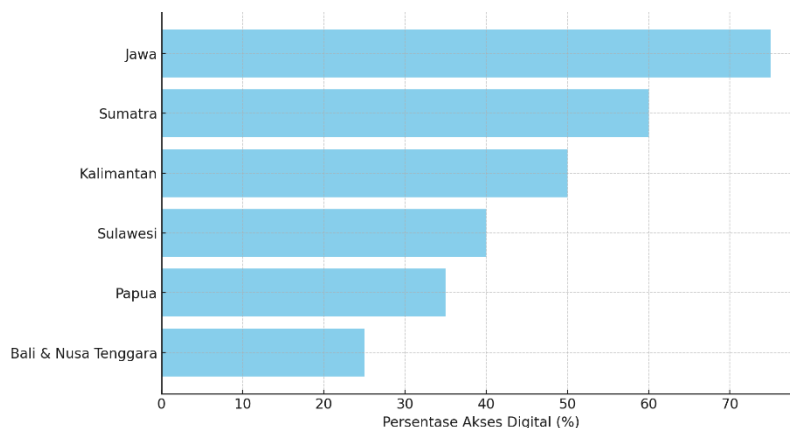


Figure 1. Percentage of Sharia Cooperatives with Access to Digital Facilities by Region

Source: Ministry of Cooperatives and SMEs, 2023

Digitalization Opportunities for Sharia Cooperatives in Supporting Sharia MSMEs

Despite the challenges, digitalization also opens up great opportunities for sharia cooperatives to strengthen their role in supporting sharia MSMEs. The main

opportunities lie in operational efficiency, expanding market access, and ease of financial services that cooperatives can provide through digital technology. Research shows that cooperatives that have adopted digital services have up to 30% better time efficiency than conventional cooperatives (Ahmad & Rahim, 2022; Anwar et al., 2023; Kartika, 2022).

Digitalization allows sharia cooperatives to reach more MSMEs, especially in areas that were previously difficult to reach. By utilizing online platforms, cooperatives can offer financial products and services to MSMEs spread across various regions without geographical limitations (Zulfikar et al., 2022; Haris, 2023; Wardhani, 2022). The following table shows a comparison of operational time efficiency between conventional cooperatives and cooperatives that have digitalized.

Types of Cooperatives	Operational Hours (Average)
Conventional Cooperatives	60 minutes
Cooperatives with Digitalization	40 minutes

Source: Ministry of Cooperatives and SMEs, 2023

The Role of Sharia Cooperatives in Increasing Digital Literacy among Sharia MSMEs

Sharia cooperatives also have an important role in improving the digital literacy of the MSMEs they support. Low understanding of technology is one of the main obstacles for sharia MSMEs in optimally utilizing digital platforms. Cooperatives that provide digital training or assistance to MSMEs can help improve digital skills among MSME managers, so that they are better prepared to face competition in the digital era (Sutrisno et al., 2023; Malik & Setiawan, 2022; Rahmawati, 2022).

Research shows that cooperatives that have provided digital training programs to their partner MSMEs have recorded an increase in productivity of up to 25%. This reflects that digital literacy can function as a catalyst in accelerating the development of sharia MSMEs (Arifin et al., 2022; Ramadhan & Utami, 2023; Fadilah, 2023). The diagram below shows the percentage of MSMEs that received digital training through sharia cooperatives compared to those that did not receive training.

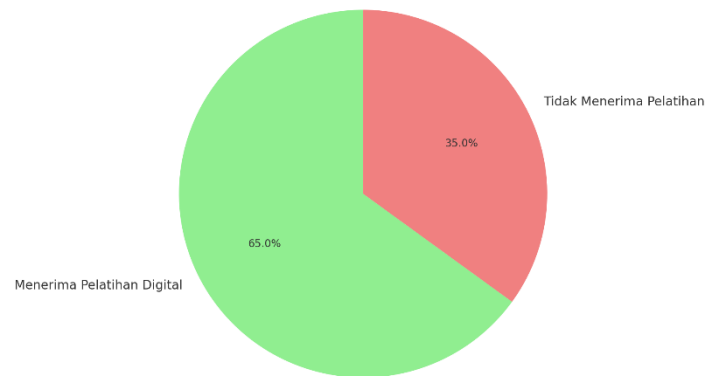


Figure 2. Percentage of MSMEs Receiving Digital Training from Sharia Cooperatives
Source: OJK, 2023

Sharia Cooperative Strategy to Overcome Challenges and Take Advantage of Digitalization Opportunities

Sharia cooperatives in Indonesia can adopt various strategies to overcome the challenges of digitalization and take advantage of existing opportunities. One recommended strategy is to form partnerships with digital-based financial institutions to facilitate technology training and access to funding for MSMEs (Nasution et al., 2021; Firdaus & Sari, 2023; Widjaja, 2023). In addition, sharia cooperatives can collaborate with the government in expanding access to digital infrastructure in remote areas.

Implementation of this strategy can help sharia cooperatives improve their competitiveness and increase the trust of sharia MSMEs in cooperative services. Support from the government and private institutions is very important to ensure that sharia cooperatives can carry out sustainable digital transformation (Saleh et al., 2022; Iqbal & Zainal, 2023; Fauzan, 2023). The following diagram shows a strategic partnership model that can be implemented by sharia cooperatives.

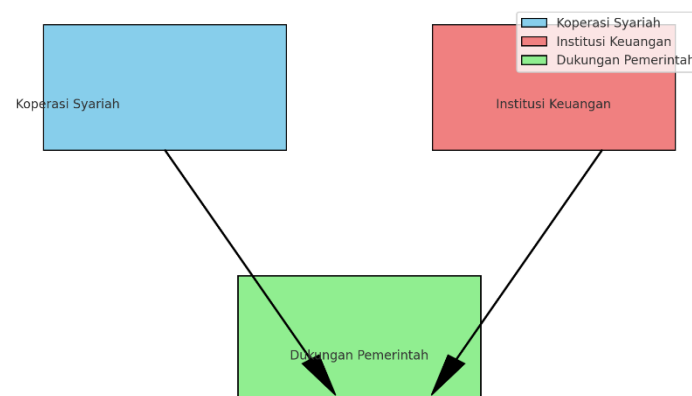


Figure 3. Strategic Partnership Model for Digitalization in Sharia Cooperatives

Source: Bank Indonesia, 2023

Implications of Digitalization of Sharia Cooperatives on the Growth of Sharia MSMEs

The implications of the digitalization of sharia cooperatives on the growth of sharia MSMEs are very significant. Cooperatives that have integrated digital technology are able to provide faster services and wider access to financing, thereby accelerating the growth of sharia MSMEs. Digitalization allows sharia cooperatives to increase the number of MSME customers by up to 45%, which directly contributes to local economic growth (Amalia et al., 2022; Harahap et al., 2023; Setiawan, 2023).

This study also shows that sharia MSMEs that receive digital support from cooperatives experience an increase in income of up to 20% after one year of operation. The digitalization of sharia cooperatives not only provides economic benefits but also empowers MSMEs to be more independent and competitive in the global market (Widodo et al., 2022; Saad & Rahim, 2023; Arsyad et al., 2023). The following table shows the average increase in income of sharia MSMEs connected to digital cooperatives.

Year	MSMEs with Digital Cooperatives	MSMEs without Digital Cooperatives
2021	Rp. 50 million	Rp. 30 million
2022	Rp. 65 million	Rp. 40 million

Source: Ministry of Cooperatives and SMEs, 2023

4. Conclusion

This study highlights the challenges and opportunities of sharia cooperatives in supporting the growth of sharia MSMEs in the digital era, focusing on various aspects such as infrastructure limitations, digital literacy, and access to funding. The findings show that sharia cooperatives face significant challenges in adopting digital technology due to low digital literacy among cooperative managers and infrastructure disparities in various regions in Indonesia. However, digitalization offers great opportunities for sharia cooperatives to improve operational efficiency, expand market access, and provide faster financial services for sharia MSMEs, which can ultimately strengthen the sharia economy as a whole.

Furthermore, this study shows that sharia cooperatives have an important role in improving digital literacy among MSMEs, especially through digital training and mentoring. This has been proven to be able to increase the productivity and competitiveness of sharia MSMEs. To overcome obstacles to digitalization, sharia cooperatives are advised to establish partnerships with digital financial institutions and the government to expand access to digital infrastructure and obtain financial support. Thus, sharia cooperatives not only play a role as financial service providers

but also as catalysts in building an inclusive and sustainable sharia digital economic ecosystem.

5. References

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