

Sharia Cooperative Entrepreneurship Development Model in Improving the Performance and Competitiveness of MSMEs in Indonesia

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ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in Indonesia's national economy; however, they continue to face structural challenges, particularly in terms of access to capital, managerial capacity, and business competitiveness. Within the framework of Islamic economics, sharia cooperatives serve as strategic microfinance institutions that not only provide sharia-based financing but also function as agents of economic empowerment. This study aims to analyze and develop a sharia cooperative entrepreneurship model to enhance the performance and competitiveness of MSMEs in Indonesia. This research employs a qualitative descriptive approach using library research and content analysis of relevant academic literature, policy reports, and previous studies. The findings indicate that an integrated sharia cooperative entrepreneurship model—encompassing sharia-based financing, entrepreneurial education, business mentoring, service innovation, digitalization, and collaborative business networks—significantly improves MSME performance in a sustainable manner. Furthermore, sharia cooperative support contributes to strengthening MSME competitiveness by enhancing managerial capabilities, operational efficiency, and market access. Therefore, the development of sharia cooperative entrepreneurship represents an effective institutional strategy to foster inclusive, competitive, and sustainable MSME growth in accordance with Islamic principles.

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1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the Indonesian economy. MSMEs comprise more than 99% of all business units in Indonesia, employ a significant portion of the national workforce, and contribute significantly to the country's Gross Domestic Product (GDP) (Ministry of Cooperatives and SMEs, 2022). This contribution demonstrates that MSMEs are not only a local economic instrument but also a key pillar of the national economic development strategy.

In the context of Islamic financial institutions supporting MSME empowerment, Islamic cooperatives are one form of Sharia-based Microfinance Institution (MFI) that is growing in Indonesia. Islamic cooperatives provide financing services to MSMEs based on profit-sharing principles and without interest. Recent research demonstrates the involvement of Islamic cooperatives in supporting MSMEs in various regions, such as in empowering business actors in Serang City, which has demonstrated a positive contribution to capital access and increasing the managerial capacity of fostered MSMEs through murabahah and mudharabah financing (Khairunnisa et al., 2025). Although Islamic cooperatives have developed and played a role in expanding access to capital for MSMEs, the literature also indicates that their performance in supporting MSMEs is not yet optimal. Some identified challenges include limited service innovation, low financial literacy among members regarding Islamic principles, and the need to strengthen entrepreneurial orientation among MSMEs to ensure sustainable competitiveness (Fitriyanti, 2024).

Furthermore, other studies indicate that the performance of Islamic cooperatives in supporting the sustainability of micro-enterprises is also related to achieving financial inclusion and microeconomic sustainability through more inclusive access to Islamic financing (Lestari, 2024). However, limited capital, cooperative management capabilities, and poor strategic collaboration with other institutions remain significant barriers that need to be addressed. The imbalance between the potential of Islamic cooperatives and the reality on the ground indicates a gap in the implementation of cooperatives' function as MSME empowerment institutions. Many Islamic cooperatives remain focused solely on financing and have not yet developed an approach that integrates entrepreneurship education, service innovation, and value chain integration for MSMEs. In fact, entrepreneurial orientation has been proven to be a crucial factor in increasing the competitiveness and sustainability of MSMEs in the digital economy era (Fitriyanti, 2024).

Based on these issues, this research aims to develop a model of Islamic cooperative entrepreneurship oriented towards improving institutional performance and the competitiveness of the MSMEs under its guidance. Through this model, it is hoped that Islamic cooperatives can be more effective in integrating service innovation, entrepreneurial education, strengthening financial literacy, and strategic collaboration, enabling MSMEs to face the challenges of national and global market competition.

2. Research Methodology

This research uses a descriptive qualitative approach because the primary objective is to describe and analyze in depth the phenomena related to the Sharia cooperative entrepreneurship development model in improving the performance and competitiveness of MSMEs in Indonesia. A descriptive qualitative approach was chosen to enable researchers to comprehensively understand the concept and implementation of Sharia-based entrepreneurship from various sources without directly intervening with the research subjects in the field (Creswell, 2018).

This method focuses on reviewing literature, documents, and secondary sources relevant to the research topic. Data were collected through library research, reviewing various books, scientific journals, research reports, and official publications from government institutions and cooperatives that discuss entrepreneurship development, Sharia cooperatives, and MSME empowerment. Furthermore, researchers also utilized documentary data, such as reports on Sharia cooperative activities, government policy documents, and records of community economic empowerment programs, as supporting sources of information (Sugiyono, 2018).

The research process began with secondary data collection, which involved identifying and selecting literature that was highly relevant to the research focus. Next, a content analysis was conducted to examine and interpret the obtained data, particularly regarding the concepts, strategies, and models for developing Islamic cooperative entrepreneurship implemented in various regions. This process involved organizing the data based on specific themes, such as Islamic financing patterns, the role of cooperatives in increasing members' business capacity, and their contribution to the competitiveness of MSMEs (Miles, Huberman & Saldaña, 2014).

Data analysis was conducted interactively through three main stages: data reduction, data presentation, and conclusion drawing. The data reduction stage involved selecting relevant and important information from various literature sources. The data presentation was then carried out by grouping the findings into narrative and thematic formats to facilitate interpretation. The final stage was drawing conclusions, which formulated the analysis results into research findings that answered the research objectives and conceptually illustrated the Islamic cooperative entrepreneurship development model.

To ensure the validity and credibility of the data, this study employed source triangulation techniques, comparing data from various scientific references, policy reports, and previous research results. This step was taken to ensure that the analysis results were well-founded, objective, and scientifically accountable (Sugiyono, 2018).

Therefore, this descriptive qualitative research method, using literature and documentation studies, is expected to provide an in-depth understanding of the role of Islamic cooperatives as a model for sustainable and competitive entrepreneurial development, as well as their relevance in improving the performance of MSMEs in Indonesia.

3. Result and Discussion

The Role of Sharia Cooperatives in Improving MSME Performance

The role of Sharia cooperatives in improving MSME performance is not limited to providing fair, interest-free capital. Furthermore, Sharia cooperatives function as empowerment institutions that provide inclusive financing access, managerial knowledge support, and mentoring facilities related to operational and marketing strategies, all of which contribute to improving MSME business performance overall. Theoretically, Sharia financing, such as *murabahah*, *musyarakah*, and *qardh*, provides a solution for MSMEs that have previously

faced obstacles in accessing capital due to the stringent requirements of conventional financial institutions. Through this mechanism, MSMEs are able to obtain working capital more easily, flexibly, and in accordance with Sharia values, thereby increasing business confidence and making them more consistent in developing their businesses sustainably. This aligns with the findings of a study by Lestari, A.A.D. (2024), which showed that the performance of Sharia cooperatives contributes significantly to the sustainability of micro-enterprises through participatory and inclusive financial support, thus positively impacting overall MSME performance. (Lestari, 2024).

Besides capital, Islamic cooperatives also make a significant contribution through business management mentoring and entrepreneurship education. This mentoring includes improving the capabilities of MSMEs in business planning, systematic financial management, and effective marketing strategies. This support helps MSMEs better prepare for market dynamics, minimizes the risk of business failure, and increases productivity and operational efficiency. This aligns with the findings of Aini, H., & Yuningsih, A. (2025), who stated that strong support from Islamic financial institutions directly and positively impacts the performance of small and medium enterprises (SMEs). (Aini & Yuningsih, 2025) Furthermore, in addition to financing and mentoring, the financial inclusivity brought by Islamic cooperatives expands MSMEs' access to previously inaccessible financial facilities. This financial inclusion not only helps MSMEs obtain initial capital but also includes bookkeeping services, financial reporting, and cash flow monitoring, which can directly improve the quality of business decision-making. By strengthening the financial management foundation of MSMEs, business performance can significantly improve due to more efficient cost control and more mature investment strategies. Overall, the role of Islamic cooperatives in improving MSME performance includes providing ethical capital, comprehensive business mentoring, and expanding financial inclusion, which serve as a foundation for MSMEs to grow, innovate, and become more resilient to competition. Thus, Islamic cooperatives serve not only as microfinance institutions but also as a driving force for effective and sustainable MSME empowerment.

The Impact of Islamic Cooperative Support on MSME Competitiveness

Support from Islamic cooperatives has a significant impact on MSME competitiveness, which encompasses the ability of business actors to survive, innovate, and grow in a competitive market. MSME competitiveness is determined not only by product quality, pricing, and marketing strategies, but also by operational efficiency, access to capital, managerial capacity, and the ability to adapt to market trends. Sharia cooperatives act as facilitators and empowerers, influencing these factors through several mechanisms:

A. Sustainable and Inclusive Funding

Sharia cooperatives provide Sharia-compliant business capital through murabahah, musyarakah, and qardh mechanisms, enabling MSMEs to obtain financing without the risk of high interest rates (riba).

1. This capital is used for business expansion, increasing production capacity, developing new products, and modernizing production facilities (Nugroho, Nugroho, & Taqiyya, 2025).
2. Easy and fair access to financing enables MSMEs to undertake long-term planning and sustainable investment, thereby increasing business stability and competitiveness in the market.
3. Recent studies show that MSMEs that receive funding from Sharia cooperatives tend to experience higher turnover growth than MSMEs that rely solely on their own capital (Faroqi, Aisyah, & Basuki, 2025).

B. Management Training and Entrepreneurship Education

Sharia cooperatives also act as managerial mentors for MSMEs. This mentoring includes:

1. Financial management: equipping MSMEs with skills in financial record keeping, budget planning, and cost control.
2. Marketing strategy: providing an understanding of market segmentation, branding, and digital promotion.
3. Product innovation: encouraging MSMEs to develop more creative products that meet consumer needs (Lestari, 2024).

This mentoring improves the internal competencies of MSMEs, making them more adaptive to changing market trends and more resilient in the face of competitive pressures. Research shows that MSMEs participating in Sharia cooperative training programs are able to significantly expand their market share and optimize operational efficiency.

C. Strengthening Networks and Collaboration

Sharia cooperatives not only provide capital and education but also facilitate business networks and partnerships.

1. MSMEs that are members of Sharia cooperatives can access suppliers, distributors, and other business partners, thereby increasing supply chain efficiency.
2. This collaboration enables MSMEs to synergize in production, promotion, and product innovation, which enhances collective competitiveness (Faroqi, Aisyah, & Basuki, 2025).
3. Network support also helps MSMEs enter new markets, including digital marketplaces, thus increasing business growth opportunities.

D. Inclusive Approach: Entrepreneurship Education + Financial Literacy

The Sharia cooperative approach that combines entrepreneurship education and financial literacy has additional impacts:

1. MSMEs can better manage business risks and make smart financial decisions.
2. Financial literacy improves MSMEs' understanding of Islamic financing, enabling them to utilize capital optimally.
3. This approach encourages MSMEs to utilize digital technology in marketing and business management, improving operational efficiency and service quality.

Overall, the support of Islamic cooperatives creates an MSME empowerment ecosystem: capital is available, managerial capabilities are improved, market access is expanded, and product innovation is encouraged. This combination directly strengthens MSME competitiveness, both at the local and national levels (Lestari, 2024; Nugroho, Nugroho, & Taqiyya, 2025; Faroqi, Aisyah, & Basuki, 2025).

Socio-Economic Collaboration as a Mediator of Performance and Competitiveness

Socio-economic collaboration facilitated by Islamic cooperatives acts as a mediator linking cooperative performance with MSME competitiveness. This concept emphasizes that improving MSME performance is determined not only by capital or internal capabilities, but also by interactions between business actors, Islamic financial institutions, local communities, and market networks. In other words, Islamic cooperatives function as strategic liaisons that optimize economic, social, and cultural resources to strengthen MSME competitiveness.

A. Socio-Economic Collaboration Mechanisms

1. Integration of Community and Business Networks

Islamic cooperatives help MSMEs access community networks and other business actors, thus creating a mutually supportive business ecosystem. This collaboration enables MSMEs to efficiently utilize marketing, distribution, and resource opportunities (Faroqi, Aisyah, & Basuki, 2025).

2. Community-Based Mentoring and Assistance

Islamic cooperative mentoring programs focus not only on financing but also on strengthening managerial competencies, marketing strategies, and financial literacy. This community-based approach creates a dual positive effect: improving MSME performance while expanding business networks that support competitiveness (Lestari, 2024).

3. Collaboration in Product and Service Innovation

Sharia cooperatives encourage MSMEs to develop innovative products and services through the exchange of ideas and cross-business collaboration. This socio-economic integration creates added value for MSMEs because they can adapt products to market needs, improve quality, and reduce production costs through synergy (Nugroho, Nugroho, & Taqiyya, 2025).

B. Impact of Collaboration on MSME Performance and Competitiveness

Socio-economic collaboration facilitated by Sharia cooperatives serves as a mediating mechanism that strengthens the relationship between cooperative performance and MSME competitiveness. Some of the empirical impacts observed are:

1. MSMEs affiliated with Sharia cooperatives with strong collaborative networks have broader access to markets and resources, thereby increasing turnover and operational efficiency (Faroqi, Aisyah, & Basuki, 2025).
2. Ongoing community mentoring improves managerial competencies, including financial planning, marketing strategies, and product innovation, which directly impacts MSMEs' ability to compete (Lestari, 2024).

3. Socio-economic integration encourages MSMEs to adopt digital technology and modern marketing strategies, thereby increasing competitiveness in both local and national markets (Nugroho, Nugroho, & Taqiyya, 2025).

Thus, socio-economic collaboration not only strengthens cooperative performance but also serves as a strategic intermediary, ensuring that support for sharia cooperatives translates into tangible and sustainable improvements in MSME competitiveness.

4. Conclusion

Based on the analysis and discussion, it can be concluded that sharia cooperatives have a strategic role in improving the performance and competitiveness of MSMEs in Indonesia through an integrated entrepreneurial approach based on sharia values. Sharia cooperatives not only function as providers of usury-free financing, but also as empowerment institutions that encourage increased managerial capacity, financial literacy, business innovation, and strengthening MSME business networks. The sharia cooperative entrepreneurship development model that integrates sharia financing, entrepreneurial education and mentoring, service innovation, digitalization, and socio-economic collaboration has been proven to be able to improve MSME performance sustainably. This performance improvement is reflected in the ability of MSMEs to manage their businesses more efficiently, increase productivity, and optimize business decision-making. In addition, the support of sharia cooperatives also contributes significantly to increasing the competitiveness of MSMEs, both in local and national markets, through expanding access to capital, strengthening internal competencies, and integrating business networks. Thus, the development of sharia cooperative entrepreneurship can be used as an effective and relevant institutional model in encouraging inclusive, competitive, and sustainable MSME growth, and is in line with the goals of sharia-based economic development.

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