

## Financial Technology-Based Sharia Cooperatives Development Strategy in Indonesia

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### ABSTRACT

The economic development instruments normally used in Indonesia are the state, cooperatives, and private companies established for social welfare. Those related to Sharia are characterized by the presence of Sharia cooperatives which are observed to be growing rapidly despite several obstacles in terms of capital and innovation caused by the existence of financial technology (fintech). This phenomenon led to the conduct of this research to analyze development of a Sharia cooperatives financing model based on Islamic Fintech. The methodology applied was qualitative research using the ISM method. The participants include experts from AFSI, Fintech, Academia, the Office of Cooperatives and SMEs, OJK, KNEKS, and Sharia Cooperatives. The results showed nine elements used as the keyword to develop Sharia cooperatives as an economic development instrument for the MSMEs communities being assisted by unbankable cooperatives in Indonesia.

**Abstrak:** Instrumen pembangunan ekonomi di Indonesia, yaitu negara, koperasi dan perusahaan swasta untuk kesejahteraan sosial dan euforia pembangunan ekonomi syariah, ditandai dengan adanya koperasi syariah. Meski koperasi syariah berkembang pesat, koperasi syariah masih mengalami banyak kendala dalam perkembangannya, baik dari segi modal maupun inovasi terkait adanya teknologi finansial (fintech). Berdasarkan fenomena tersebut tujuan artikel ini adalah untuk menganalisis model pengembangan pembiayaan koperasi syariah berbasis teknologi finansial (Fintech). Metodologi dalam penelitian ini adalah penelitian kualitatif dengan menggunakan metode ISM. Peserta dalam penelitian ini adalah tenaga ahli dari AFSI, Fintech, Academia, Dinas Koperasi dan UKM, OJK, KNEKS dan Koperasi Syariah. Hasil penelitian memberikan beberapa kesimpulan adalah model pengembangan koperasi syariah

*berbasis teknologi keuangan syariah (Fintech) syariah dengan pendekatan ISM yang menjadi fokus pengembangan 9 elemen sebagai kata kunci pengembangan koperasi syariah di Indonesia adalah sebagai instrumen pembangunan ekonomi komunitas UMKM binaan koperasi yang unbankable.*

**Kata kunci:** Koperasi Syariah, Fintech Syariah, Kolaborasi dan Interpretative Structural Modeling (ISM)

## INTRODUCTION

Cooperatives are one of the economic development instruments to realize social welfare or *social welfare*. The concept of social welfare can be interpreted as the general or social welfare as well as the *way of life* embraced by a nation. This means the focus is not only on the ideals of an individual but the goal of the group of people in a country.

The policies and strategy in the 2020-2024 RPJM Mandate are focused on increasing the capacity, reach, and innovation to encourage better productivity, competitiveness, independence, and quality required in modern cooperatives.<sup>1</sup> The purpose was to ensure these cooperatives have the capacity to build and develop the economic potential and ability of their members in particular and the community in general. They are also expected to improve economic and social welfare as well as alleviate poverty in rural communities with a subsequent influence on the national economy through the joint effort linked to the principles of kinship and economic democracy.

According to some economic literature, welfare is a complex term related to both quantitative material and qualitative nonmaterial concepts involving the values associated with life in society. The concept is measured based on the People's Welfare Index (IKraR) which places the objectives of cooperatives in the macroeconomic dimension.

The conceptual aspect emphasizes more on development of macroeconomics as a science or system while the implementation aspect focuses on the application of Islamic economic proximity to cooperatives involving the integration of Sharia principles in their business operations. The analysis conducted shows that some Indonesians are not *bankable* and this serves as one of the reasons for low financing from the banking sector. This creates an opportunity for financial institutions or Islamic cooperatives to fund or finance the people that have not been reached by banks. The huge financing needed by the Indonesian people for both consumptive and productive purposes can be met by the existence of these financial institutions.

According to Ninik Widyananti and Sunindhia,<sup>2</sup> the concept of *pendanaa* does not mean banks have the largest portion of credit in Indonesia. This is due to the fact that most financing is presently being provided by institutions operating in the non-banking financial sector such as cooperatives and Islamic cooperatives. Meanwhile, there has been a decrease in the number of

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<sup>1</sup> Strategic Plan of the Ministry of Cooperatives and SMEs for 2020-2024 Revisions are downloaded at [www.kemekop.go.id](http://www.kemekop.go.id)

<sup>2</sup> Ninik Widyananti and Sunindhia, *Cooperatives and the Indonesian Economy* (Jakarta: Cooperation between Rineka Cipta and Bina Adiaksara, 2008) p. 29

cooperatives existing in the country over the past 5 years as indicated in the following figure.



**Figure 1:** Development of Cooperatives in Indonesia

The figure shows a downward trend, thereby indicating several cooperatives are becoming inactive or closing due to several causes such as limited capital. This has made Sharia cooperatives the only retail financing institution serving the lower and middle class. However, they are required to set higher margins or ratios than banks due to the limited capital, thereby reducing patronage. The ability of Sharia cooperatives to distribute funds is also slow due to their highly minimal innovation. These limitations widen the gap between Sharia cooperatives and other financing institutions, thereby leading to the need to improve the management practices in these cooperatives.<sup>3</sup>

The limited sources of funds and lack of innovation are the challenges and obstacles for the cooperatives to provide financing facilities to unbankable communities. Moreover, macroeconomic conditions such as the inability of the government to develop cooperatives can also hinder the efforts of micro, small, and medium enterprises (MSMEs) to reduce poverty unemployment, and improve the welfare of the people.<sup>4</sup> There is a need to focus on development of cooperatives as well as MSMEs throughout the country. This is linked to the fact that the survival of Indonesia during the global financial crisis and the Covid-19 pandemic is associated with the role of cooperatives and MSMEs. The decline in development of these institutions in the last five years indicates the government has not been formulating and implementing innovative and correct policies in recent years.

According to Astri et al (2019: 32), the current development of financial technology (fintech) innovations in the world, the Asia Pacific region, and Indonesia is focused on internal financial institutions such as banks. Cooperatives are also presently exploring new development with a focus on their

<sup>3</sup> Nini Widiyati, *Cooperative Management* (Jakarta: Rineka Cipta, 2010), 102 see also Sudarsono and Edilius, *Indonesian Cooperative Management* (Jakarta: Rineka Cipta, 2010) p 8

<sup>4</sup>Gorman, B., & Seguin, C. Who Supports Global Cooperation? Cooperative Internationalism at the Intersection of Social Class and Economic Development. *Sociological Science*, 7, (2020), p. 570-598

customers. Moreover, the rapid development of science and technology in the digital industry era 4.0 has now influenced the ability of Islamic financial institutions to access a variety of information and several electronic service features, leading to a shift in their business activities. The shift has led to the proliferation of technology-based financial companies or fintech throughout the world, including in Indonesia. The rapid growth of this industry is evident in the value of investments in the form of venture capital into different fintech startups as well as several recent research. National Digital Research Centre (NDRC) defines the concept as an innovation in the field of financial services. The name is coined from the two words "financial" and "technology" with a focus on explaining the emergence of financial innovation with a touch of modern technology.<sup>5</sup> Therefore, this research focuses on developing a model for Sharia cooperatives to integrate the emergence of Sharia fintech in their operations through B2B using Interpretative Structural Modelling (ISM).

## METHODS

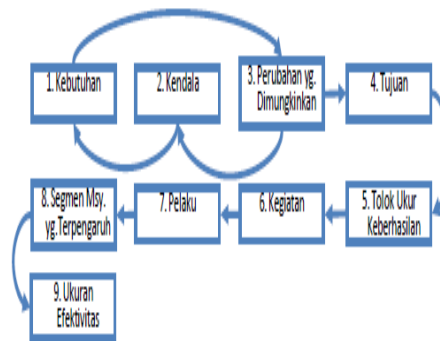
This research was used to describe the compatibility between existing theories and practical applications. Therefore, an empirical method was adopted to research the integration of fintech into Sharia Cooperatives that have collaborated with fintech Ammana.id. This was qualitative research conducted through interviews and questionnaires using experts from the Cooperatives Office, OJK, KNEKS, Academics, AFSI, Fintech, and several Sharia Cooperatives as participants. Moreover, analysis was conducted using ISM to comprehensively explain development of an appropriate model in the form of statements and conclusions. This technique was also applied by Bhattacharya and Momaya, and described as a cutting-edge interactive programming methodology allowing a swarm of people, acting as a squad, to improve a form by describing the bond between the elements in a combination. The form could be obtained by responding to simple problems, goals, obstacles, problems, and others determined by the group at the early stage of the analysis. The ISM was initiated with a system modeling and completed through the attestation of the form. This technique allowed the transfer of unreal psychological into visible systems.

The analysis was divided into nine sections (Saxena, 1992), and these include 1) *needs or requirements*, 2) *constraints or cases*, 3) *possible changes*, 4) *objectives or goals*, 5) *benchmarks and markers (targets or indicators)*, 6) *activities or steps attempted to develop a chart for the sharia cooperatives with fintech platforms*, 7) *actors or entities (actors, institutions, or stakeholders)* that participated in the implementation of the program, 8) *part of the citizens carried away*, and 9)

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<sup>5</sup> Muliaman D. Hadad OJK, Financial Technology (Fintech) in Indonesia was delivered at the IBS Public Lecture in Jakarta, on June 2, 2017 see Leong, K., & Sung, A. FinTech (Financial Technology): what is it and how to use technologies to create business value in fintech way?. International Journal of Innovation, Management, and Technology, 9(2), 74-78. (2018)

dimensions associated with the usability of developing sharia cooperatives with fintech platforms.



Source: Ascarya, 2011

**Figure 2:** Elements of Structure

ISM is a customary method employed to gather the components of an environmental context by skillfully correlating and structuring inspirations into a visual map arrangement. It is considered to be almost at the same level as the Analytic Network Process (ANP) procedure introduced by Thomas L. Saaty and applied in a previous research by Rusydiana and Devi (2013b). The basic idea is to use professional experts and efficient insights to decipher complex systems into sub-systems and create a systemic form of arrangement. ISM is often used to share basic descriptions of the environmental atmosphere as well as to organize certain actions to solve problems.

A dialogue or brainstorming session was conducted with experts to capture the idea of developing a body of people that have mastered the ISM design, understand the problems associated with developing different forms of Sharia cooperatives, and are knowledgeable in the aspects of microfinance and empowerment. The responses were later used to develop strategy, inspiration, or elasticity to be processed using the ISM.

The first stage of the ISM was to create a Structural Self Interaction Matrix using the variables made from contextual bonds by producing one elastic *i* and another elastic *j*. The next was to develop the Reachability Matrix (RM) and the last was to establish a *Canonical Matrix* in order to ensure the level of literacy. A form was produced to solve the problem associated with Sharia cooperatives after no intersection was observed. This was further used to design a road map to develop the model the next day using sub-elements obtained from the RM and composed in the form of Driver- Power-Dependence. The groupings based on these sub-elements are presented in the following four zones.

Zone 1 : Weak driver - weak dependent variables (Autonomous). The changeover in this zone was not related to the system and had a small but probably solid bond.

Zone 2: Weak driver - strongly dependent variables (Dependent). The changeover in the matrix was not free.

Zone 3 : Strong driver - strongly dependent variables (Linkage). The changes in this zone needed to be researched carefully because the bond between

changers was abnormal. Each action on the changer was to share the effect with the others and this could be magnified by the victims behind the influence.

Zone 4 : Strong drive - weak dependent variables (Independent). The changer in this zone was in the rest of the system and classified as a free changer.

Within the comprehensive framework of ISM, a sequence of activities unfolded, encompassing stages ranging from classification to the culmination of analysis results. This process intricately aligned with the aspirations and classifications of form engineers, as well as the specific demands of the subject under scrutiny, leading to diverse manifestations of form within the ISM structure.

## RESULTS AND DISCUSSION

### A. Strategy Model for Development of Sharia Cooperatives Financing based on Sharia Fintech using an ISM Method.

The calculations and analysis conducted with the ISM method showed that the policy on development of Sharia cooperatives using fintech involved the following nine elements in line with the guidelines provided by Saxena (1992).

#### 1) Needs or Requirements

The elements in this aspect had a strong driving force and weak dependence and were considered key factors in constructing the model.

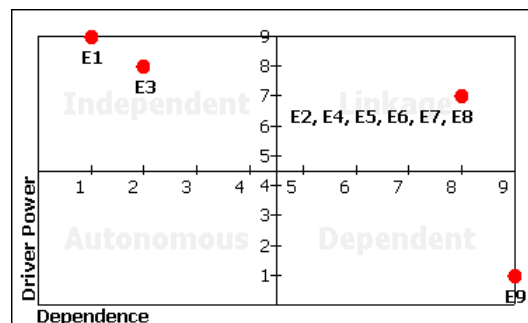


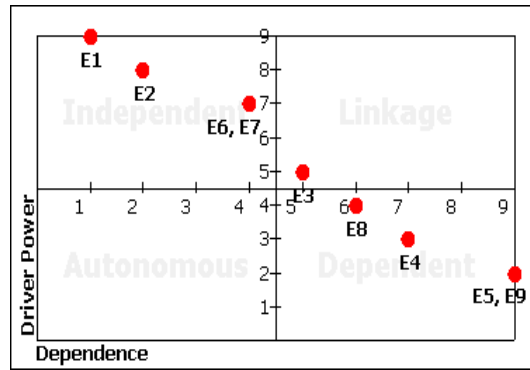
Figure 3: RM Need Elements

Sector 4 was observed to be an *independent factor* in the form of (E1) which represented increasing collaboration between Sharia Cooperatives and Fintech. As previously stated, the element in the sector had a strong driving force and weak dependence and was considered a key factor in developing the model.

#### 2) Constraints or Problems

The elements in this sector were observed to have a strong driving force and weak dependence and were also considered key factors in constructing the model.



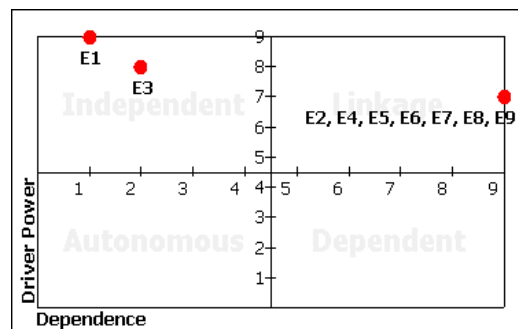


**Figure 4:** RM Constraint Elements

The *Independent* factor that was considered a key factor to the model development based on the *Directional* graph and RM was (E1) Low Financial literacy about collaboration between Sharia Cooperatives and Fintech. This aligned with the results of Herdinata and Pranatasari (2019) concerning the importance of financial literacy, regulation, and collaboration as a guide for fintech implementation.<sup>6</sup> It was also consistent with the results of Yuliana (2019) that the synergy between fintech institutions and cooperatives to use fintech was limited by very low financial literacy.<sup>7</sup> Therefore, fintech optimization was expected to improve financial literacy and inclusion (Mulasiwi and Julialevi, 2020).<sup>8</sup>

### 3) Possible Changes

The elements in this sector were observed to have a strong driving force and weak dependence and were also considered key factors in constructing the model.



**Figure 5:** RM Possible Change Elements

<sup>6</sup>Herdinata, Christian, and Fransisca Desiana Pranatasari. "Guidelines for the Application of Financial Technology through Regulation, Collaboration, and Financial Literacy in UMKM." *www.dspace.uc.ac.id* (2019).

<sup>7</sup>Yuliana, Rr Retno Rizki Dini. "Synergy of Financial Technology Institutions and Cooperatives in the Utilization of Financial Technology by Micro, Small, and Medium Enterprises in NTB." *Journal of Economics and Development* 27.1 (2019): 53-66.

<sup>8</sup>Mulasiwi, Cut Misni, and Karina Odia Julialevi. "Optimization of Financial Technology (Fintech) towards Increasing Financial Literacy and Inclusion of Purwokerto Medium Enterprises." *Performance: Journal of Personnel, Financial, Operational, Marketing, and Information Systems* 27.1 (2020): 12-20.

The element considered to be a key factor to develop the mode was (E1) which represented increasing Sharia Cooperatives Collaboration using Sharia Fintech. This was discovered to be similar to the need elements and was also in line with the results of Samari and Bambang (2020) concerning the planning of innovation through collaboration between the POAC fintech and cooperatives in Indonesia<sup>9</sup>. It also aligned with the opinion of Rusydiana (2018) in relation to development of Sharia fintech in Indonesia<sup>10</sup> as well as Wimboh Santoso (2019), the Chairman of the OJK Board of Commissioners that "good collaboration with all stakeholders to build mutual optimism is an important aspect to accelerate sustainable economic growth".<sup>11</sup>

#### 4) Objectives or Goals

The elements in this sector were observed to have a strong driving force and weak dependence and were also considered key factors in constructing the model.

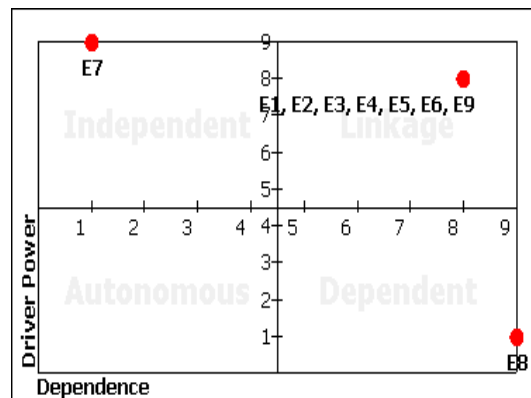


Figure 6: RM Objective Elements

The independent factor with strong drivers and weak dependent variables in this sector was (E7) which represented Sharia Compliance and was considered important to development of the model. This focused on the conformity of sharia fintech as sahibul maal to the cooperatives and this was in line with the results of

<sup>9</sup>Samari, Samari, and Bambang Agus Sumantri. "Poac Review Related to Financial Technology (Fintech) and Indonesian Cooperative Innovation." National Seminar on Management, Economics, and Accounting. Vol. 5. No. 1. 2020.

<sup>10</sup>Rusydiana, Aam Slamet. "How to develop the Sharia fintech industry in Indonesia? interpretive structural model (ISM) approach." Al-Muzara'ah 6.2 (2018): 117-128.

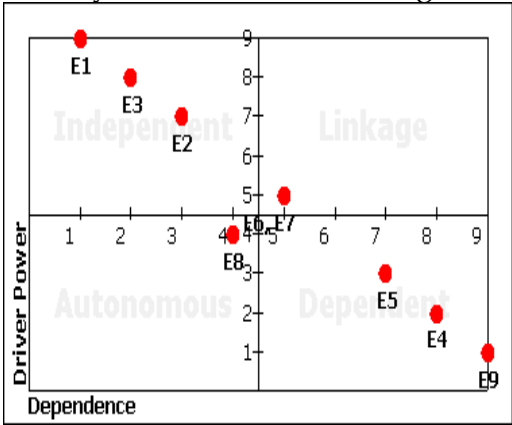
<sup>11</sup> Wimboh Santosa, Foreword to the OJK 2019 year report. <https://ojk.go.id/id/data-dan-statistik/laporan-tahunan/Documents/LAPORAN%20TAHUNAN%202019.pdf>



Basrowi and Julianas<sup>12</sup> and Islamic principles as previously stated by Putra and Yuspin.<sup>13</sup>

### 5) *Target and Goal*

The elements in this sector had a strong driving force and weak dependence and were also considered key factors in constructing the model.

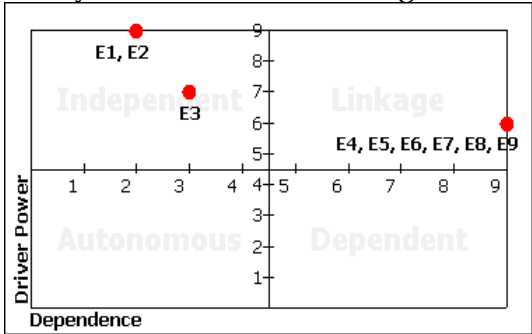


**Figure 7: RM Goal Elements**

The element preferred was (E1) which represented the optimization of collaboration between Sharia Cooperatives and Islamic fintech. A similar trend has been reported under the elements of needs and changes.

### 6) *Activity*

The elements in this sector had a strong driving force and weak dependence and were also considered key factors in constructing the model.



**Figure 8: RM Activity Elements**

The elements found to be key factors to develop the model were (E1) which indicated designing rules and laws for collaboration between Sharia Cooperatives and Islamic fintech and (E2) for Coordinating the Government,

<sup>12</sup>Basrowi, Basrowi, and Julianas Julianas. "Application of Sharia Principles in the Implementation of Fintech-Based Lending and Borrowing Services." *Journal of Islamic Economics Theory and Applied* 6.7 (2019): 1521-1536.

<sup>13</sup>Putra, Prima Harlambang Setiawan, S. H. Wardah Yuspin, and M. Kn. *Dialectical Application of Sharia Principles in Sharia Fintech*. Diss. Muhammadiyah University of Surakarta, 2020.

APSI, AFPI, and MSMEs to Improve development of Sharia Cooperatives. These were considered important because of the statements made by Niki Santo Luhur during the process of designing the rules:

"Aftech, AFPI, and AFSI are expected to jointly build the same code of ethics to encourage *responsible conduct* to ensure all the fintech firms in the country have the same general standards and guidelines. This is also necessary to avoid overlapping codes. Even though each association has a different focus, with this rule, they are all expected to be under the same umbrella to ensure harmony. This rule was launched at the Indonesia Fintech Summit and Expo 2019"<sup>14</sup>

## 7) *Actors, Institution, Stakeholder*

The elements in this sector were also observed to have a strong driving force and weak dependence and were considered key factors in constructing the model.

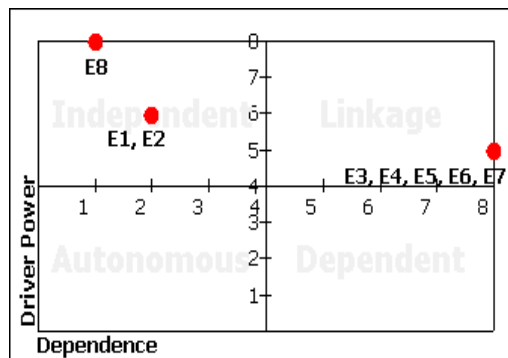


Figure 9: RM Actor Elements

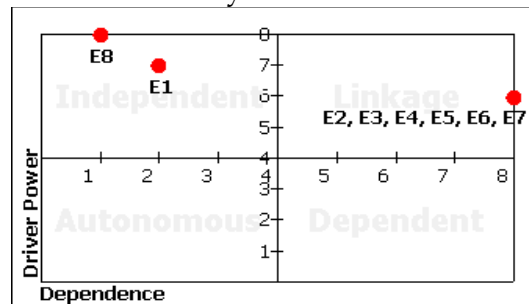
Element 8 (E8), Sharia Cooperatives (KSPPS/BMT), was identified as the key factor to develop the model and this was consistent with the results of Aji, Harist, and Mukri (2020) that Fintech revitalization was important to development of Islamic Financial Institutions, including KSPPS and BMT, in the 4.0 era. It was also observed to align with the statement of the Chairman of the Central Cooperatives and SMEs Office, Teten Masduki, that:

"Fintech is expected to collaborate with financial institutions, specifically cooperatives and MSMEs, to increase financial literacy in conducting their transactions. Approximately 16% or 10.2 million MSMEs are presented connected to digital platforms but they are mainly facing the problems of producing financial statements."

<sup>14</sup><https://bisnis.tempo.co/read/1239167/tiga-organisasi-fintech-buat-kode-etik-bersama>, in download December 2019

## 8) Influential Society

The elements in this sector also had a strong driving force and weak dependence and were considered key factors in constructing the model.



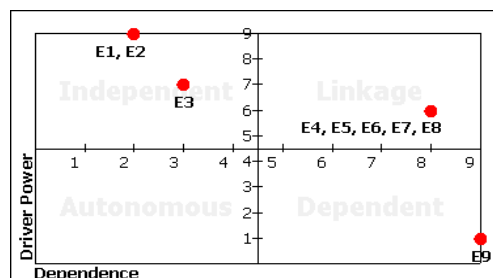
**Figure 10:** RM Influential Society Elements

The element considered important to the model development was (E8) which represented the Office of Cooperatives and MSMEs. This was found to be in line with the explanation of Yuliana (2018), the office of cooperatives and MSMEs has a role to play in creating synergy between Fintech and Cooperatives institutions concerning the usage of fintech<sup>15</sup>. The good performance of this office as the facilitator and regulator was expected to enhance the activities of the members of these institutions. This was further confirmed by the Chairman of the Central Cooperatives and SMEs, Mr. Teten Masduki, that:

“It is hoped that fintech can collaborate with community groups to provide some assistance in the management of their finance. Currently, micro-enterprises are half bankable but can benefit from the rapid growth of fintech to optimize the effectiveness and efficiency of their business operations. This can also facilitate access to working capital financing for cooperatives and SMEs.”

## 9) The Effectiveness of Developing Fintech-Based Sharia Cooperatives

The elements in this sector were also observed to have a strong driving force and weak dependence and were considered key factors in constructing the model.



**Figure 11:** RM Effectiveness Measurement Element

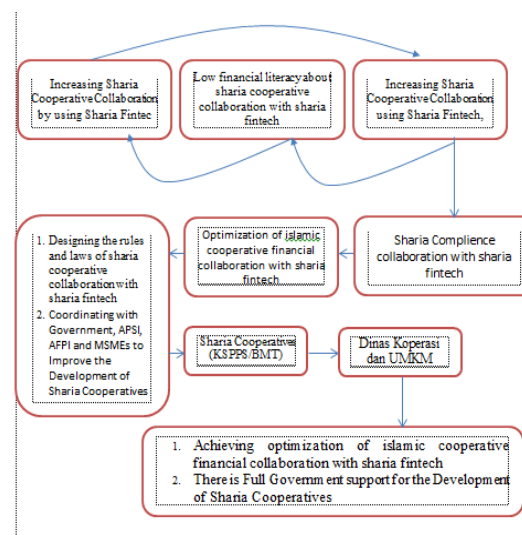
<sup>15</sup>Retno Rizki Dini Yuliana, Synergy of Fintech Institutions and Cooperatives in the Utilization of Financial Technology by MSMEs in NTB, Prociding the 2nd International Conference on Social Science and Humanities in Jakarta October 25, 2018

The elements of effectiveness found to be a key factor to develop the model were (E1) which was focused on Achieving Optimization in Collaboration between Sharia Cooperatives and Fintech as well as (E2) on the Government's Full Support for development of Sharia Cooperatives. These were discovered to align with sitepu and the results of Hasyim (2018) that the cooperatives economy of Indonesia needed government support.<sup>16</sup> Moreover, the Deputy Coordinator of Digital Economy, Employment, and MSMEs under the Ministry for Economic Affairs, Rudy Salahuddin with AFTECH, stated that:

“As a tangible manifestation of the encouragement for development of the digital economy and digitization of MSMEs in Indonesia, the Government through the Coordinating Ministry for the Economy is developing a national strategy (Stranas) for the Digital Economy. The Indonesian FinTech Association (AFTECH) as a forum for fintech industry players in Indonesia welcomed the preparation of the Stranas and also signed a cooperation agreement for development of the National Digital Economy through the Use of Digital Financial Services”.

## B. DISCUSSION

The ISM analysis showed that the model developed based on Ascarya's structure for the fintech-based Sharia cooperatives development strategy program was in line with the 2020-2024 RPJMN Mandate and the policy direction of the Ministry of Cooperatives and SMEs on the modernization of cooperatives. The center of attention identified in this research is indicated in the following figure.



**Figure 12:** Fintech-Based Cooperatives Development Strategy Structure using ISM

<sup>16</sup>Sitepu, Camelia Fanny, and Hashim Hashim. "The Economic Development of Cooperatives in Indonesia." *Niagawan* 7.2 (2018): 59-68.

The model was developed through a prioritized analysis which was considered the weakest of the existing instruments and could be used to formulate a policy to establish fintech-based cooperatives with subsequent effects on the economy, specifically in the rural areas.

One of the bottom-up methods normally applied to rural development is endogenous development. It was introduced by sociologists and economists to create a community-based economic growth model expected to maintain and accelerate development of local resources and industries. According to Vasquez-Barquero, endogenous strategy seek the satisfaction of local needs and demands through the active participation of local communities in development process. This showed that the purpose was not only to improve production through the agriculture, industry, and services sectors but also to encourage social and cultural dimensions influencing people's lives. Vasquez-Barquero further emphasized the effect of this endogenous development on capital accumulation in a particular region or specific localities with due consideration for the innovation capacity throughout the local production system and the role played by the local innovation system.<sup>17</sup>

The opinion of Vasquez-Barquero aligned with the results of Douglas C. North, an institutional economist, that cooperatives have strong institutional roots. Therefore, the economy of a particular region should be developed by considering the strength of the cooperatives system. Strategy value associated with this aspect was that institutional and development changes had the capacity to reduce transaction and production costs, strengthen trust, as well as increase learning and interaction. Moreover, cooperatives could influence productivity with subsequent effects on development process and provision of benefits to the community.<sup>18</sup>

One of the advantages of Islamic economics is the inherent benefit it provides through scientific development. It is part of the Islamic system of teachings designed to provide certain benefits based on the Islamic discourse but the interpretation of the *maqâshid al-syarî'ah* in the economic context needs further explanation.

Masqashid Koperasi Syariah is a congregation of people engaged in community-based business activities. The philosophy is associated with independence, starting from individuals to a group of people or from a group of people down to individuals. The resources or funds raised from the members are normally used as the path to achieving economic sovereignty. The practice of raising funds in Sharia Cooperatives are in line with one of the five basic aspects of *maqashid sharia*. Moreover, the deposit of initial funds into Sharia Cooperatives by a member is part of the effort to manage and plan finances (*hifdz mal*) in order to make a profit. The benefits to be obtained can be used to

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<sup>17</sup> Barquero, Antonio Vasquez, *Endogenous Development, networking, innovation, institutions, and cities*. (London and New York. 2002)

<sup>18</sup> Douglass C North, *Economic Performance Through Time*, *The American Economic Review* Vol 84 No 3 Jun 1994 p 359-368 <https://www.jstor.org/stable/2118057>

meet the needs of the present world and the hereafter. It is also undeniable that all human beings definitely need money or treasure to meet the needs of their dharuriyat, hajiyat, and tahsiniyat.

## CONCLUSION

In conclusion, collaboration between Sharia Fintech and Sharia cooperatives to implement digital financial services in the digital or industrial era 4.0 could be achieved through the e-commerce media in the B2B (business to business) group. This was observed in the cooperation between Fintech Ammana.id and 60 dominant Sharia cooperatives on the island of Java to Lampung. However, this development has not reached the SUMBAGUT area with most of the Sharia cooperatives observed to be operating based on the wahdatul Ulum values. This was further related to benefits associated with maqasid sharia and the concept of Islamic Financing Planning in Islamic economics. Moreover, Imam Al Ghazali and Umar Chapra in M. Yafiz explained that welfare focused on fulfilling five basic human needs including religion, soul, reason, property, and offspring (*maqasid sharia*), and these could not be achieved without planning.

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