

The Role of Sharia Cooperatives in Batik Industry Development: A Case Study in the Batik Industry Sector of Pekalongan Regency

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ABSTRACT

This research aims to analyze the role of sharia cooperatives in the economic development of the batik industry in Pekalongan Regency, an area known as the center of the batik industry in Indonesia. Using a qualitative approach through a case study method, this research focuses on the aspects of sharia-based financing, entrepreneurship training, and market network strengthening. The results show that sharia cooperatives have a significant contribution in improving the productivity, competitiveness and sustainability of batik businesses. Islamic cooperatives provide access to usury-free financing, support sharia-based financial education, and assist businesses in preparing financial reports in accordance with accounting principles. However, Islamic cooperatives face various challenges, including limited human resources, access to capital, and a lack of public understanding of the principles of Islamic economics. This study emphasizes the importance of strategic support from the government and other stakeholders to strengthen the role of Islamic cooperatives in supporting inclusive and sustainable economic growth.

Keywords: *Islamic Cooperatives, Batik Industry, Pekalongan, Islamic Financing, Economic Development.*

INTRODUCTION

Sharia economic systems and practices have been recognized by the Indonesian people and are experiencing very rapid development. This development does not interfere with the main objective of the Islamic economic system: the desire of the Muslim community to implement the teachings of Islam in a kaffah (comprehensive) manner by carrying out its economic activities and transactions in accordance with sharia rules. Islam is a broad religion and regulates almost all aspects of human life, including transactions and economics (Lubis, 1994).

Islamic financial institutions use sharia principles in every operation. Islamic financial institutions that benefit from sharia principles, for example, there are BTM, BMT, and sharia cooperatives. Indonesia is one of the countries whose majority population is Muslim, so it is not surprising that Indonesia has many Islamic financial institutions using sharia principles in accordance with Islamic teachings. Islamic financial institutions are institutions that provide financial services for people who need funds to set up new businesses and also as loans or savings services so that the surrounding community can develop their businesses because sharia financial institutions themselves are not solely for profit but aim to improve the welfare of underprivileged people in order to alleviate poverty in the country of Indonesia (Solekha et al., 2021). BMT as an alternative cooperative for saving in order to increase the productivity of life's livelihood by prioritizing devotion, justice, kinship, transparency, professionalism, and kemashlahtan.

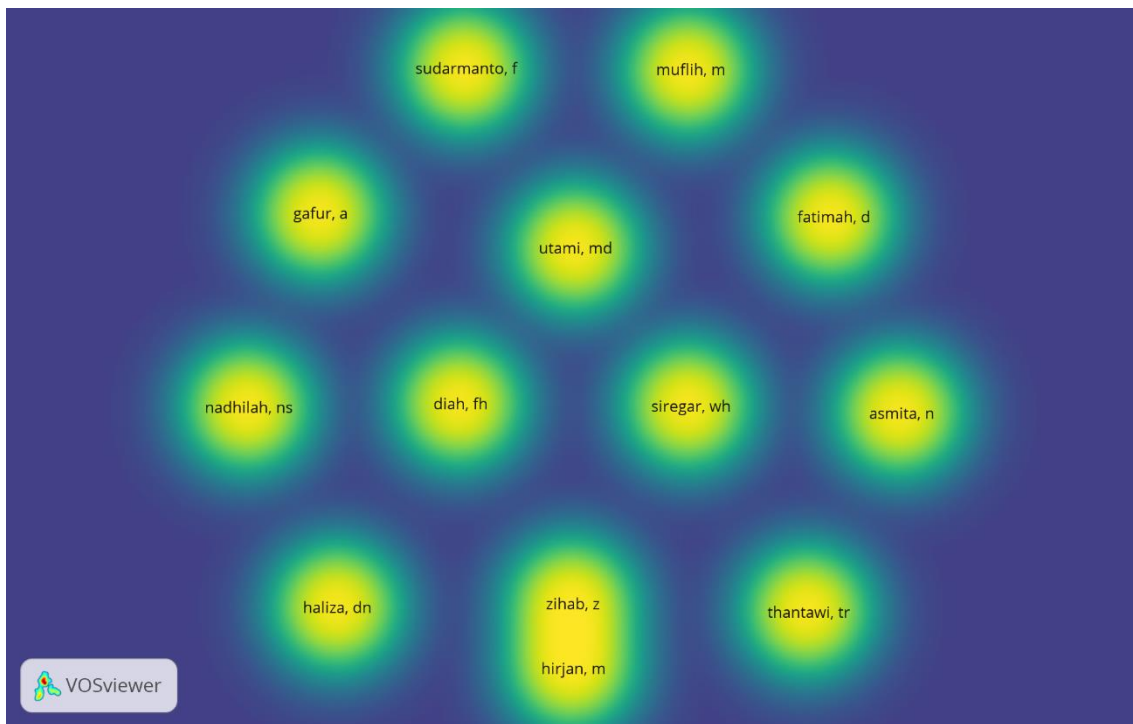
Cooperative comes from the English word "co-operation" which means working together. According to the large Indonesian dictionary, a cooperative is an association that aims to meet the needs of its members by selling daily necessities at low prices. (Lindiawatie, 2018).

Islamic cooperatives are economic institutions based on the principles of Islamic sharia, which not only aim to gain profits, but also to improve the welfare of members and society as a whole. In the context of Indonesia, which has the largest Muslim population in the world, Islamic cooperatives have great potential in supporting economic development, especially in the industrial sector which has the potential to make the local economy more competitive. (Ali, M & Usman, 2019).

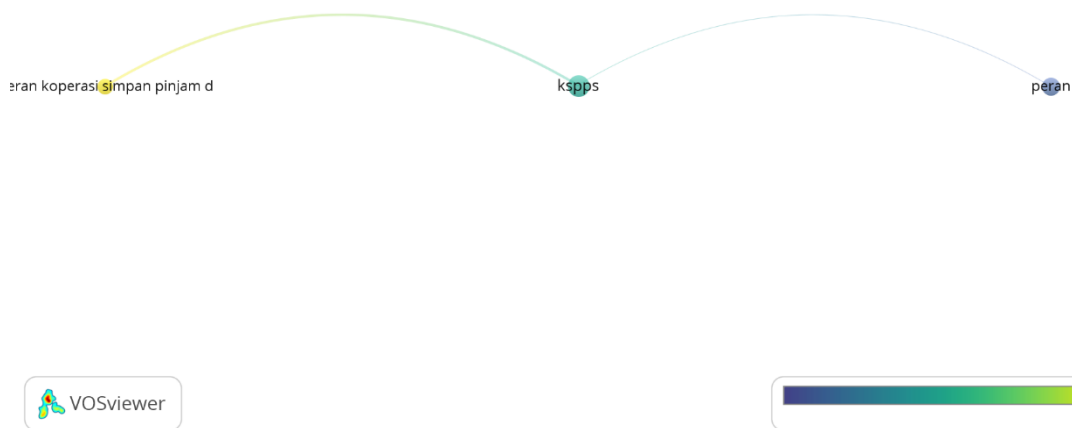
Sharia cooperatives are one of the financial entities that have not been as successfully integrated into society as other Islamic financial institutions. According to the Chairman of Indonesian Sharia Cooperatives, many people in our society are still not familiar with the term "sharia cooperative". (Anugrah, 2013).

Islamic cooperatives play an important role in society as they discourage non-Shariah practices, build and support small businesses, eliminate dependence on moneylenders and loan sharks, and ensure economic justice through equitable sharing. The principles of Islamic Cooperatives involve a number of aspects, including the prohibition of riba (interest), fairness, openness, and social sustainability. In Islamic cooperatives, no profit is made from money lending transactions; instead, the principle of profit-sharing (mudharabah) or profit-sharing buying and selling (musharakah) is used. Islamic cooperatives are required to operate on the principles of fairness and transparency in all aspects of their business, including collective decision-making, fair sharing of profits, and clear disclosure of information to all members. Islamic cooperatives have a stronger inclination to empower communities and develop local economies. They seek to involve members and communities in decision-making processes and contribute to the social and economic development of their region. Islamic cooperatives often have an important role in providing education and outreach to members and communities on the principles of Islamic economics, sharia-compliant financial management, and social responsibility. Islamic cooperatives can operate in a variety of economic sectors, including agriculture, trade, financial services, and manufacturing. They aim to fulfill the economic and social needs of their members while remaining compliant with sharia principles. (Siyamsih, 2024).

The Sharia financing approach, which is based on Islamic sharia principles, offers various ways to provide funds to small and medium-sized enterprises (MSMEs). These principles prohibit speculation, opaque transactions, and usury, resulting in a more fair and equitable financing framework. Sharing risks, participating in profits and losses, and pursuing social responsibility and business ethics are the underlying principles of this method. (Wahiddudin, 2019).



Picture 1. Density Visualization of The role of Sharia Cooperatives based on Author



Picture 2. Overlay Visualization of The role of Sharia Cooperatives based on The title

Pekalongan is a center of creative industries, especially textiles and batik. Amidst this rapid industrial growth, small and medium-sized enterprises (MSMEs) play an important role in the local and national economy. MSMEs not only create jobs, but also aid inclusive and sustainable economic growth (Attamimi, 2023). The Ministry of Cooperatives and SMEs said in 2021 that MSMEs generated 61.07% of Indonesia's total GDP, employed 117 million workers or 97% of total employment, and contributed 14% of total non-oil and gas exports. MSMEs also contribute to human resource development through entrepreneurial activities. MSMEs are a strong sector and make valuable contributions to the country's economy. This has led to an increase in the number of MSMEs each year. According to the Ministry of Cooperatives and SMEs, Indonesia has at least 64.2 million MSMEs in 2018. This number is able to support the economy, especially during the national economic recovery period after the Covid-19 pandemic (Andrean et al., 2023). Most Indonesians live off the batik small and medium industry (SMEs). Before the 1997 monetary crisis, this sector had experienced rapid progress. Some batik entrepreneurs were successful. In addition, in the 1980s, batik was considered an official garment that everyone attending official events, including state events, had to wear in order to promote and enhance batik's reputation internationally at the time (Nurainun et al., 2008).

The batik industry is not only threatened by imitations of locally produced batik, but also production from other countries. This phenomenon is a challenge for batik industry owners, this cannot be avoided, especially for stamped batik producers, because the target or market segment is the same. Another challenge comes from the status given by UNESCO to batik, batik not only brings benefits but also great responsibility. The government is asked to be able to maintain, preserve and pass on to future generations. If not implemented, the sanction given is revoked or removed from the list of world cultural heritage (Siregar et al., 2020).

One of the largest batik industry sectors is in Pekalongan, known as Pekalongan Batik City. This industry has a very significant contribution to the regional economy. Batik is not only a cultural symbol, but also an important source of income for the community. Through sharia cooperatives, batik artisans can access capital, training, and a wider market network. This is expected to increase the productivity and competitiveness of the batik industry, as well as support sustainable economic development (Fitriani, 2020).

Previous research researched by Hatugalung shows that Islamic cooperatives play an important role in the community's economy, especially for MSME players. Apart from providing business capital, cooperatives also teach people about the dangers of usury, gharar, and other elements prohibited by sharia (Hutagalung & Batubara., 2021).

Based on research conducted by (Iqbal, 2019) shows that entrepreneurs also know about Islamic Banking (Sharia Cooperatives), they still tend to choose Conventional Banking according to their needs. The reason is because the transactions that are often used are Conventional Banking and the interest is lighter if using financing in Conventional Banking. They consider the same between Islamic Banking and Conventional Banking. The lack of active Islamic banks in financing, the sophistication of information technology that is still behind when compared to conventional banks, the role of the government in the development of Islamic banks is considered slow because the government itself still favors Conventional Banking.

In Attamimi (2023) research, Pekalongan is a center of creative industries, especially in textiles and batik. Micro, Small, and Medium Enterprises (MSMEs) play an important role in the local and national economy amid the rapid growth of these industries. Small and medium-sized businesses (MSMEs) not only create jobs, but also play an important role in driving inclusive and sustainable economic growth. Sharia financing, which is based on Islamic sharia principles, offers a different approach to providing funds to small and medium-sized enterprises (MSMEs). These principles prohibit *riba* (interest), speculation, and opaque transactions, resulting in a fairer and more equitable financing framework. This method is based on the following principles: risk sharing, participation in profits and losses, and the pursuit of social responsibility and business ethics.

This study aims to examine the role of Islamic cooperatives in the economic development of the batik industry in Pekalongan Regency. The main focus of this study is to analyze how Islamic cooperatives can contribute to the improvement of production capacity, resource management, and market development for batik products. Through a qualitative approach, this research will involve interviews with cooperative administrators, batik artisans, and other stakeholders to dig up in-depth information on the dynamics at play.

METHODS

This research uses a descriptive qualitative approach. The data used are primary and secondary data. Primary data was obtained from interviews with Islamic cooperative administrators involved in managing cooperative activities, Islamic cooperative members who are active in the batik industry, and batik industry players who are not members of the cooperative. Secondary data were obtained from various sources, such as journals and articles relevant to the research. Therefore, methodologically, the data sources come from cooperatives, especially members and management of Islamic cooperatives, as well as batik businesses in Pekalongan Regency. The data analyzed includes the role of cooperatives for batik entrepreneurs, the development of financing distribution, and the overall development of cooperatives.

Research Location, research was conducted in Pekalongan Regency, which is known as one of the centers of the batik industry in Indonesia. Several areas that are the main focus are batik producing areas, such as North Pekalongan, South Pekalongan and surrounding areas. **Research Subjects:** Management and members of sharia cooperatives who are involved in assisting and empowering batik craftsmen, batik craftsmen who are members of sharia cooperatives and benefit from cooperative activities. Other related parties, such as batik entrepreneurs, batik associations, and local governments who are involved in developing the batik industry in Pekalongan Regency.

Data Collection Techniques Data collection techniques were carried out in the following ways. **In-depth Interview:** In-depth interviews will be conducted with Islamic cooperative administrators and batik seller. This interview aims to explore the informants' views, experiences, and understanding of the role of Islamic cooperatives in the batik industry. The interview questions will be open-ended, allowing the informants to provide extensive and in-depth explanations. Interviews were conducted with the BTM Pekalongan Sharia Financing Savings and Loan Cooperative (KSPPS) and BMT Istiqlal Pekalongan. This was done to understand how the cooperatives provide support to batik artisans, both in terms of financing, training, marketing, and capacity building. Interviews were conducted with batik artisans to explore their experiences regarding the benefits of sharia cooperatives in the batik production and marketing process.

RESULT AND DISCUSSION

A. The Role Of Sharia Cooperatives For Batik Entrepreneurs

In an interview with Widia Sari, the manager of KSPPS BTM Pekalongan, it was noted that batik entrepreneurs often utilize financing services to meet their business needs. The type of financing depends on the specific requirements of the entrepreneur, such as purchasing materials or tools. For material purchases, they would use murabaha financing, while for tool purchases, they would also use murabaha. Additionally, there is the option of musyarakah financing, which is used when entrepreneurs need to increase their capital. One example of this is batik entrepreneurs needing funds to meet increased demand during Eid. In such cases, they seek capital cooperation with BTM to provide additional funding, with an agreed-upon profit percentage based on a mutually agreed ratio. This partnership allows entrepreneurs to supplement their existing capital and fulfill orders that were previously hindered by limited funds.

Another interview conducted with Umi the employee of KSPPS BMT Istiqlal Pekalongan, She said that "The murabahah contract is commonly used by entrepreneurs to secure additional capital for purchasing raw materials, such as batik base cloth, ink materials, or processing tools. Entrepreneurs often seek financing when market demand is high, particularly before Eid. This type of financing is advantageous for entrepreneurs as it requires them to save money while repaying the loan. Consequently, when the financing is completed, they not only benefit from the contract but also from the money saved during the repayment period. This extra money is an unexpected bonus resulting from their obligation to save while accessing financing".

B. Sharia Cooperatives in the Perspective of Batik SMEs

Several interviews conducted with several batik industries in Pekalongan, such as that conducted with the first informant Naila, 29 years old, the owner of the Najah Batik shop, stated that they took several savings products at Sharia Cooperatives such as KSPPS BTM Pekalongan, this is because some Sharia cooperative employees use the ball pick-up method to offer their products. So that they are easier to save or save funds.

Meanwhile, second interview conducted with Ina 40 years old, one of the employees of Batik Riziq Pekalongan, stated that they did not conduct any transactions with Sharia cooperatives in Pekalongan. According to informants, Islamic bank products are unpromising and uncertain, too complicated and not easy to understand, not in line with the needs and desires of the store. they prefer conventional banks that offer deposit products.

While third interview conducted with Vina, 30 years old owner of Batik Cahkra9, stated that the owner conducts financing and saving in Sharia Cooperatives, this is done because it is in line with the principles held by the owner, namely conducting financial transactions with Sharia principles.

The fourth informant is Mrs. Riska 35 years old, Mrs. Riska is the owner of Batik As-Shofa who has just taken off or is just starting out but is already well known to the public. She has not made any transactions in Sharia cooperatives, this is because her business is just running so she has not dared to take financing in Sharia cooperatives. However, she knows the financing products available in Sharia cooperatives and there is a possibility that she is interested in financing or saving in Sharia cooperatives because it is in accordance with her principles, namely working according to Islamic law.

The results of the interview above show that actually batik industry players are aware of the existence of Islamic cooperatives. Two informants gave a positive response to the existence of Islamic cooperatives, by opening savings in Islamic cooperatives even though they did not do financing in Islamic cooperatives. Meanwhile, one informant thinks that Islamic cooperatives are institutions with complicated and uncertain systems. So that he

prefers conventional banks to Islamic cooperatives. So, what causes batik entrepreneurs not to use Islamic cooperative products is the stigma that considers financing products in Islamic cooperatives to be complicated and unclear. They consider profit sharing to be an uncertain system and more expensive than conventional bank interest.

C. The Role of Sharia Cooperatives in the Economic Development of the Batik Industry

In this era, sharia economic sectors such as the cooperative sector in Indonesia have become the main sectors discussed and special attention from the community. Rapid economic growth and supportive government policies have made Islamic cooperatives a significant entity in the development of the sharia-principled economy. It is hoped that Islamic cooperatives will not only become an alternative financial pillar but also a method of realizing justice and economic success. (Iswandi, 2021). Experts have explained the meaning of Sharia cooperatives, among others:

1. According to Ahmad Ifham, the definition of sharia cooperatives is a cooperative business that includes all halal, good, useful, and profitable business activities with a profit-sharing system, and does not contain usury.
2. According to Soemitra, the meaning of sharia cooperatives is a microfinance institution operated with a profit-sharing system, in order to grow and develop the micro and small businesses of its members so as to raise the degree and dignity and defend the interests of the poor.
3. According to Nur S. Buchori, the definition of sharia cooperatives is a type of cooperative that provides economic welfare for its members according to Islamic norms and morals and is useful for creating brotherhood and justice in accordance with Islamic principles.
4. According to the Ministry of SME Cooperatives of the Republic of Indonesia in 2009 article 1, sharia cooperatives are a form of cooperative whose business activities are engaged in financing, savings, according to the profit-sharing pattern (Sharia), and investment.

Sharia Cooperative is an organization whose businesses apply sharia principles. so if a sharia cooperative runs a productive business unit such as savings and loans, then the sharia cooperative is not justified. this is because a business is in fields that contain elements of usury maysir and gharar. For the Islamic cooperative itself. (Nurrachmi & Setiawan, 2020)

In general, the operational principle of cooperatives is to help the welfare of members in the form of mutual cooperation. This principle is in accordance with the sharia point of view, namely the principle of mutual cooperation (ta'waun ala birri) and is collective (congregation), Islamic cooperatives are a conversion of conventional cooperatives through an approach that is in accordance with Islamic law and exemplary economics carried out by the Prophet and his companions (Nur S. Buchori in the book *Sharia Cooperative Management Theory and Practice*). Seeing the condition of the Sharia Cooperative, technically it can be said to be a cooperative that has principles of activity, objectives and business activities based on Islamic law, namely based on the Koran and Assunnah, the purpose of the Sharia Cooperative, is to improve the welfare of its members and the welfare of the community and participate in building the Indonesian economy based on Islamic principles, Islamic cooperatives are not allowed to do business in fields where there are elements of usury, maysir and gharar. Islamic cooperatives are also not allowed to carry out derivative transactions like other Islamic financial institutions as well.

The legal basis of cooperatives is stated in Law No. 25 of 1992 concerning Cooperatives. This law confirms that the development of cooperatives, ratification of changes in articles of association and granting the status of cooperative legal entities are the authority and responsibility of the government. In this authority can be delegated to the minister in charge of cooperatives, thus the government is not to interfere in the internal affairs of cooperative organizations but only supervise and pay attention to the principle of cooperative independence. This law was compiled with the intention of clarifying and

emphasizing the identity, purpose, role, management, position as well as capital and cooperative development in order to realize cooperative life in accordance with the cooperative principle, namely the principle of kinship, then in 2012 Law Number 17 of 2012 concerning Cooperatives appeared as a result of amendments to Law Number 25 of 1992. (SUBARDAN et al., 2023)

D. Economic Contribution of Islamic Cooperatives to Batik Business Actors

This sharia cooperative provides space for entrepreneurs to open a business including Batik business. With the existence of sharia cooperatives, these entrepreneurs can cooperate both in the form of providing capital loan assistance provided by the cooperative with no elements of usury in it. Batik entrepreneurs do not understand the proper capital cost calculation system and have not made financial reports according to accounting rules. This is often an obstacle in the development of the batik business which causes errors in determining the selling price of the product which has an impact on the amount of profit earned. In addition, batik entrepreneurs do not pay attention to product marketing techniques, and do not even have a special concept in packaging their products. (Dyah Pita Sari et al., 2022). With the cooperation between micro businesses such as batik entrepreneurs and sharia cooperatives, of course, this can be a strategic step to improve and advance the batik business. So that it is expected to be able to provide jobs for the community, especially the surrounding community.



Picture 3. Cahkra Batik Shop

Several important aspects need to be considered to understand the conditions and challenges faced by Islamic cooperatives in Indonesia. First, the focus of the analysis can be placed on the institutional structure of Islamic cooperatives, including board composition, decision-making mechanisms, and internal governance. Next, the financial aspect becomes crucial in this analysis. Evaluating the financial performance of Islamic cooperatives, such as profitability, liquidity, and asset growth, provides an overview of their operational sustainability and contribution to the Islamic economy. (Iswandi, 2021).



Picture 4. Cahkra Batik Shop

Sharia Cooperatives themselves have an important role in supporting batik business actors in Indonesia. In this case, Islamic cooperatives provide contributions that can certainly help run the business including Access to Financing, Product Marketing, Training and Development, Local Economic Empowerment and so on. With these contributions, Islamic cooperatives can become strategic partners for batik business actors in developing businesses and improving welfare.

E. Obstacles and Challenges Faced by Islamic Cooperatives

In cooperatives there are weaknesses or shortcomings that must be faced, which to overcome it is very necessary to help from various parties. In cooperatives there are weaknesses or shortcomings that must be faced, which to overcome it is very necessary to help from certain parties, especially those who have capital and power. The growth of cooperatives has relatively regressed because cooperatives have lost the concept of strategic development in responding to competition and a rapidly evolving market. (Attamimi, 2023)

Islamic cooperatives can play an important role in community businesses, such as the Batik Industry. This is an effort to overcome poverty in the community. Islamic cooperatives have products and mechanisms that are based on the Koran and the Prophet's Hadith. The performance shown by cooperatives is also almost the same as Islamic banking institutions. Where the products in the form of contracts offered have similarities. Therefore, Islamic cooperatives have a big connection with the community, especially business actors, namely the batik industry. This is because the batik industry is a business unit that requires a lot of capital to develop its business. (Susilo & Septiarini, 2015)

Various obstacles and challenges that affect the performance of Islamic cooperatives in supporting the batik industry include internal and external obstacles. As for internal constraints such as (1) Inefficient management, namely cooperatives often lack professional and skilled management which can hinder decision making and strategic planning. (2) Human resources, namely the skills and knowledge of cooperative members regarding sharia principles and business management are often lacking. this results in low productivity and innovation. (3) Capital and Financing, i.e. limited capital is one of the main challenges even though Islamic cooperatives follow sharia principles in financing access to capital is quite difficult. (4) Lack of awareness and participation of members, namely low awareness of members about the benefits of Islamic cooperatives and principles can result in a lack of active participation from members. External obstacles faced such as (1) Market competition, namely Islamic cooperatives must compete with other business models, both

conventional and sharia-based. (2) Government regulations and policies, namely policies that are not supportive or complicated can hinder the development of cooperatives. (3) Market changes and consumer tastes, i.e. market dynamics and changes in consumer tastes for products and services can make it difficult for cooperatives to adapt and remain relevant. and (4) Access to markets, i.e. Islamic cooperatives often struggle to access wider markets, both locally and internationally. effective marketing can limit sales growth. As for technical and technological challenges such as (1) technology, i.e. Islamic cooperatives may struggle to adopt new technologies that can improve efficiency and competitiveness. (2) Product innovation, i.e. limitations in the development of innovative new products can make it difficult to compete with products from other larger companies.

Challenges in the development of Islamic cooperatives to support the batik industry in Pekalongan can be addressed through the following policies or community actions:

A. Government Policy

1. Management and Skills Training: The government can organize training to improve management skills and cooperative members' understanding of sharia principles and business management. This can address the issue of lack of professionalism in cooperative management.
2. Subsidies and Incentives: Provide subsidies or incentives for Islamic cooperatives to facilitate greater access to capital so that they can compete with other financial institutions.
3. Simplification of Regulations: Policies that support cooperative development, including the simplification of bureaucratic rules, can help accelerate the growth of Islamic cooperatives.

B. Community Action

1. Increased Member Participation: Awareness and active participation of cooperative members can be increased through educational campaigns on the benefits of Islamic cooperatives. This can be done by community leaders or local organizations.
2. Collaboration with MSMEs: Strengthen cooperative collaboration with batik entrepreneurs to create product innovations, digital marketing, and effective marketing strategies.
3. Technology Utilization: The cooperative community can adopt technology to improve operational efficiency and expand market access through digital platforms.

C. Role of Educational and Religious Institutions

1. Educational and religious institutions can support the development of Islamic cooperatives through ongoing training programs that focus on sharia-based financial literacy.
2. Encourage the introduction of Islamic cooperatives to the younger generation through school curricula or community-based campaigns.

Through a combination of supportive government policies and proactive community action, challenges such as lack of access to capital, suboptimal management, and limited market networks can be effectively addressed. This will also strengthen the sustainability of the sharia-based economy at the local level.

CONCLUSIONS

This research focuses on the role of sharia cooperatives in supporting economic development in the batik industry sector in Pekalongan Regency, which is known as the center of batik in Indonesia. In this context, Islamic cooperatives function as economic institutions based on Islamic sharia principles, providing various services to improve the welfare of their members as well as the general public.

The conclusion of this study shows that sharia cooperatives have a significant role in improving the competitiveness of the batik industry through various approaches, including the provision of sharia-based business capital, entrepreneurship training, and the expansion of marketing networks. The presence of sharia cooperatives provides access to usury-free financing, allowing batik businesses to expand their business without being entangled in high interest rates. This creates a more equitable business environment and promotes sustainability.

Sharia cooperatives also act as financial institutions that offer financing based on sharia principles, such as mudharabah and musyarakah. These schemes help batik artisans obtain business capital without burdening them with high interest rates, making them more in line with the local values of the Pekalongan community. In addition, sharia cooperatives contribute to educating the community, especially batik entrepreneurs, on sharia principles, financial management, and more effective marketing techniques. This training helps businesses prepare financial reports in accordance with accounting rules and set more competitive selling prices, thus optimizing their profits.

Access to usury-free financing offered by Islamic cooperatives enables batik entrepreneurs to expand their businesses without the burden of high interest rates, creating a fairer business environment. In addition, Islamic cooperatives provide education on Islamic economic principles, financial management, and marketing strategies, which helps the artisans in preparing financial statements according to accounting standards and setting competitive selling prices. Islamic cooperatives also face challenges, such as limited competent human resources, limited capital, and barriers to accessing a wider market. On the other hand, the stigma of the complexity of the system and the uncertainty of Islamic financial products also prevent some businesses from utilizing them. Therefore, greater support is needed from the government and related institutions in strengthening Islamic cooperatives, both through training, capital increase, and simplification of regulations.

Islamic cooperatives play an important role in local economic development, particularly in helping batik entrepreneurs improve the productivity, competitiveness and sustainability of their businesses. By utilizing sharia principles, these cooperatives support equitable economic welfare, empower communities, and maintain social principles in line with Islamic teachings. The existence of sharia cooperatives also facilitates collective management of business results, supports centralized marketing, and increases the income of artisans. In addition, the cooperative is also an important tool in strengthening the batik artisan community through sharia-based economic solidarity.

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