


The Contribution of Savings and Loan Cooperatives to Financial Inclusion in Indonesia

Ellyza Zainudin^{1*}, Fajar Ari Setiawan², Diana Ria Winanti Napitupulu³

^{1,2,3} Faculty of Law, Universitas Kristen Indonesia, Jakarta, Indonesia.

 : ellyzaz.sh@gmail.com

Corresponding Author*



Abstract

Introduction: Savings and Loan Cooperatives in Indonesia have a very important role in increasing financial inclusion, especially among low-income communities and groups that are not reached by conventional banking services.

Purposes of the Research: Analyze the contribution of Savings and Loan Cooperatives to financial inclusion in Indonesia, identify the challenges faced, and provide recommendations to improve the role of cooperatives in expanding financial access for the community.

Methods of the Research: This study uses a qualitative approach with descriptive analysis to describe the role and contribution of Savings and Loan Cooperatives to financial inclusion in Indonesia.

Findings of the Research: This research shows that Savings and Loan Cooperatives have great potential in reducing inequality of access to finance, but also need improvements in terms of regulation, technology, and financial education to be more effective in achieving their goals. Savings and Loan Cooperatives in Indonesia have a very important role in increasing financial inclusion, especially among low-income communities and groups that are not reached by conventional banking services. This paper analyzes the contribution of Savings and Loan Cooperatives to financial inclusion in Indonesia, identifies the challenges faced, and provides recommendations to improve the role of cooperatives in expanding financial access for the community. This research shows that Savings and Loan Cooperatives have great potential in reducing inequality of access to finance, but also need improvements in terms of regulation, technology, and financial education to be more effective in achieving their goals.

Keywords: Savings and Loan Cooperatives; Financial Inclusion; Economic Empowerment.

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INTRODUCTION

Financial inclusion is an effort to provide financial services that are broader and accessible to all levels of society, especially those that have not been reached by formal financial institutions such as banks. In Indonesia, Savings and Loan Cooperatives play an important role in improving financial access for Micro, Small, and Medium Enterprises (MSMEs), as well as low-income individuals who find it difficult to access bank loans. Based on Bank Indonesia data, Savings and Loan Cooperatives have the potential to accelerate financial inclusion, with the number of cooperatives continuing to grow in various regions.

Financial inclusion refers to the availability and access of people to formal financial services that are affordable and as needed. According to Demirgüç-(2018), financial inclusion is a condition when individuals and businesses have access to beneficial financial products and services such as savings, loans, insurance, and payment systems provided by official financial institutions.

According to the Financial Services Authority, financial inclusion in Indonesia is defined as the right of everyone to have access to financial services that suit their needs in a timely, smooth, and affordable manner. Financial inclusion in cooperatives is a form of process of expanding access to services to the community, especially people who have not been reached by banking services, to financial services such as savings, loans, insurance, or investment through cooperative institutions. Cooperatives in general, take on the role of a bridge between small societies and formal financial systems with the principle of members, by members, and for members.

Cooperative financial inclusion plays a role as a provider of microfinance services such as savings and loans with easy access and without the need for large collateral. In addition, the existence of cooperatives also helps in improving financial literacy by approaching members and educating them about financial and business management. The presence of cooperatives is able to build the trust of the village community because the community base owned by cooperatives is more trusted than the banking system. The ease of the storage and credit system in this cooperative helps a lot in elevating the informal sector to the formal financial system for small traders, farmers, fishermen and so on.¹

There are many real examples of cooperative inclusion in Indonesia, such as one of them in the Keling Kumang Union Credit Cooperative in West Kalimantan. The existence of the Keling Kumang Credit Union cooperative is able to empower the Dayak community and remote villages and increase the awareness of its members to be able to save and provide ease of getting loans for farming businesses or MSMEs. In addition to the savings and loan function, the Keling Kumang Credit Union cooperative also provides regular financial training and education.

Kredit Union Keling Kumang was established on March 25, 1993 in a village called Tapang Sambas, Sekadau Regency, West Kalimantan Province. Since April 20, 2011, it has a Provincial Legal Entity with Number 50a/BH/X/1995 Sanggau Regency Decree of the Ministry of Law and Human Rights National Legal Entity AHU-0001183. AH.01.39 of 2023. The basis for the establishment of Kredit Union Keling Kumang is a response to concerns over issues of poverty, injustice, land grabbing, environmental damage, lack of employment and the helplessness of the marginalized. As of the time of writing, Kredit Union Keling Kumang has 229,744 registered in 77 service places.²

LITERATURE REVIEW

Financial inclusion refers to efforts to ensure that every individual, household, and business has equitable access to a wide range of financial products and services such as savings, loans, insurance, payments, and investments easily, securely, and affordably, according to their needs. Financial inclusion aims to: 1) Improve people's welfare, especially in low-income groups; 2) Reducing economic inequality and social inequality; 3) Supporting inclusive economic growth through expanding access to financing for small and micro enterprises (MSMEs); 4) Reduce dependence on informal financial institutions such as loan sharks who charge high interest rates.³

¹ Pranoto, Y., & Nugroho, A. "Peran Koperasi dalam Mendorong Inklusi Keuangan dan Pemberdayaan Ekonomi Masyarakat". *Jurnal Ekonomi Kerakyatan* 9, no 1 (2021): 55-66.

² Keling Kumang Group. (2023). Profil Kredit Union Keling Kumang. Retrieved from: <https://www.kelingkumang.com>

³ Allen, F., Demirgüç-Kunt, A., Klapper, L., & Peria, M. S. M. (2016). "The Foundations of Financial Inclusion: Understanding Ownership And Use of Formal Accounts". *Journal of Financial Intermediation*, 27 (2016): 1-30. <https://doi.org/10.1016/j.jfi.2015.12.003>

The World Bank defines financial inclusion as the access that individuals and businesses have to financial products and services that are useful, affordable, and relevant such as transactions, savings, credit, and insurance that are provided in a responsible and sustainable manner. Meanwhile, according to the Financial Services Authority, "Financial inclusion is the availability of access to various financial institutions, products, and services that suit the needs and capabilities of the community in order to improve their welfare." Financial inclusion practices in general aim to reduce economic inequality, carry out empowerment practices for poor and vulnerable low-income communities, increase economic growth to reduce economic inequality, and encourage an inclusive and fair financial system.

According to Bank Indonesia (2021), some of the key strategies to expand financial inclusion include: 1) Strengthening regulations and consumer protection frameworks; 2) Increasing financial technology innovation (fintech); 3) Collaboration between sectors (government, private, and community); 4) Massive and sustainable financial education and literacy.⁴ Secara umum, inklusi keuangan bukan hanya masalah penyimpanan uang di lembaga keuangan yang ada, tapi lebih kepada bagaimana menciptakan ekosistem keuangan yang inklusif, adil, dan mampu memberdayakan seluruh lapisan masyarakat, dengan melibatkan berbagai lembaga, termasuk koperasi, fintech, dan pemerintah, target inklusi keuangan yang lebih luas dan berkelanjutan dapat tercapai.

METHODS OF THE RESEARCH

This study uses a qualitative approach with descriptive analysis to describe the role and contribution of Savings and Loan Cooperatives to financial inclusion in Indonesia. Data was obtained through interviews with Savings and Loan Cooperative administrators, cooperative customers, and microfinance experts. In addition, case studies of several Savings and Loan Cooperatives that play an active role in community economic empowerment are also analyzed to provide a clearer picture.

RESULTS AND DISCUSSION

A. The Role of Savings and Loan Cooperatives in Financial Inclusion

Savings and Loan Cooperatives function to provide financing with simpler procedures, no burdensome collateral, and lower interest rates than banking institutions. This allows low-income people to start businesses or meet urgent needs.⁵ In addition, Savings and Loan Cooperatives have an important role in expanding access to financial services, especially for small communities of MSME actors, farmers, and village communities who have not been touched by banking services in general.⁶ A study by Suryani & Widyastuti (2020) shows that Savings and Loan Cooperatives (KSP) and other microfinance institutions play an important role in reaching communities that are not served by formal banking. Cooperatives have flexibility in requirements, as well as strong social ties with the community, which facilitates the process of local economic empowerment.⁷

⁴ Otoritas Jasa Keuangan. *Survei Nasional Literasi dan Inklusi Keuangan 2022*. Jakarta: OJK, 2023.

⁵ Suryani, I., & Widyastuti, U. (2020). "The Role Of Savings and Loan Cooperatives in Supporting Financial Inclusion In Indonesia". *Jurnal Ekonomi dan Pembangunan Indonesia* 20, no. 2 (2020): 101-115

⁶ Nasution, M. E. "The Role of Savings and Loan Cooperatives In Increasing Financial Inclusion In Rural Communities". *Jurnal Ilmu Ekonomi dan Pembangunan* 17 no. 1 (2017): 45-56.

⁷ Suryani, I., & Widyastuti, U. "The Role Of Savings and Loan Cooperatives in Supporting Financial Inclusion in Indonesia". *Jurnal Ekonomi dan Pembangunan Indonesia* 20, no. 2 (2020): 101-115.

In the practice of financial inclusion, cooperatives provide many financial access for marginalized communities who do not have easy access to banks with simpler loan schemes and processes, without the need for complicated collateral. In addition, the presence of cooperatives is able to encourage and develop a saving culture for its members while increasing financial literacy. The provision of micro credit for business capital is offered by the Savings and Loan Cooperative as an effort to help small and micro business actors get capital with low interest and easy procedures. This step also helps in strengthening the economic resilience of the community, as the revolving funds remain within the member environment, which ultimately strengthens the local economy.

In the process, savings and loan cooperatives provide education and assistance and often hold financial training, business reporting, and entrepreneurial motivation for their members. The understanding gained by its members in this education and mentoring process is more or less able to prevent members and other community groups from loan shark activities that apply high interest rates and unfair practices.⁸ Savings and Loan Cooperatives are the driving force for financial inclusion at the lower levels of society, with affordable, safe, and community-based financial services. If supported by good management and strengthening regulations, it is possible that later Savings and Loan Cooperatives can be a concrete solution for poverty alleviation based on independence.

B. Challenges of Savings and Loan Cooperatives

Some of the challenges faced by Savings and Loan Cooperatives in increasing financial inclusion are low public financial literacy, limited capital and ineffective management, and regulations that have not fully supported the development of cooperatives optimally. In addition, there are still many savings and loan cooperatives that have not been digitized in their management practices, in addition to the lack of managerial training for administrators and the need to increase transparency and supervision so that in the future these savings and loan cooperatives will remain trusted.⁹

The low financial literacy in question is evidenced by the large number of Savings and Loan Cooperative customers who do not understand financial management well. While the technological limitations faced by some Savings and Loan Cooperatives are shown by the use of manual systems in the process of servants and transactions, so that they are less efficient in service and less able to reach more customers, unclear regulations and supervision by authorized institutions and the government can cause problems in fund management, which can ultimately reduce public trust in cooperatives.

CONCLUSION

Savings and Loan Cooperatives play an important role in increasing financial inclusion in Indonesia by providing financial access for people who are not reached by banks. However, challenges such as low financial literacy and technological limitations still hinder its effectiveness. Recommendations that the author can provide include: a) Improving Financial Literacy: Conducting financial education for cooperative customers so that they can manage their finances well; b) Technology Application: Encourage Savings and Loan Cooperatives to adopt digital technology in order to serve more people with a more efficient

⁸ Rahayu, D., & Susilo, D. (2019). "Peran Koperasi Simpan Pinjam Dalam Pemberdayaan Ekonomi Masyarakat Melalui Edukasi Keuangan Dan Pendampingan Usaha". *Jurnal Koperasi dan UMKM*, 7, no. 2 (2019): 98-110.

⁹ Kementerian Koperasi dan UKM Republik Indonesia. *Laporan Tahunan Koperasi Indonesia 2021*. (Jakarta: Kementerian Koperasi dan UKM, 2021).

system; c) Strengthening Regulations: The government needs to strengthen regulations that support the operations of Savings and Loan Cooperatives, including providing incentives for cooperatives that have good management.

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