



Financial Cooperatives in Advancing Financial Inclusion: A Comparative Analysis of Tanzania and Indonesia

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Abstract

Financial cooperatives are steadily being identified as the necessary means to expand access to low-cost financial services, especially in emerging economies where high proportions of the population are not yet included in formal financial systems. This article is a comparative analysis of financial cooperatives in Tanzania and Indonesia, with emphasis on the role in promoting financial inclusion, financial regulations, and new digital developments. Based on secondary analysis of national surveys, government reports, and academic research, the analysis identifies the achievements and current issues of both countries. Savings and Credit Cooperative Societies (SACCOS), a component of the tiered microfinance system in the Bank of Tanzania, have been brought into the picture, and formal financial inclusion has increased to 76% in 2023 (FinScope Tanzania, 2023). Cooperatives in Indonesia include *Koperasi Simpan Pinjam (KSP)* and Islamic *Baitul Maal wat Tamwil (BMT)*, and financial inclusion is 80.51% in 2025 (OJK, 2025). The results show that Tanzania has been improving in agricultural financing and mobile-money integration and Indonesia in sharia-compliant cooperative financing and in support of SMEs. The comparative analysis implies the possibility of cross-learning: Tanzania may learn models of the Indonesian sharia and literacy programs, whereas Indonesia may learn the experience of the Tanzanian tiered regulatory system and the practice of agrifinance. The analysis concludes that the two systems continue to need professionalization, integration into the digital realm, and better governance to spur inclusive growth.

Keywords: Cooperatives, SACCOS, KSP, BMT, Financial Inclusion, Microfinance

1. Introduction

Over the last two decades, financial inclusion has become a core policy goal in most developing economies as governments have realized that access to affordable and suitable financial services is a major catalyst to poverty alleviation, economic growth and social development (Demirguc-Kunt et al., 2018; World Bank, 2022). Although the world has become

more globalized, over 1.4 billion adults globally continue to be out of the formal financial system, and women, the rural population, and micro-entrepreneurs continue to be disproportionately impacted Community-based financial institutions (World Bank, 2022), like financial cooperatives, have become important in a variety of sub-Saharan Africa and Southeast Asia where traditional banking penetration is relatively low, offering a means to extend credit, collect savings, and create a more inclusive financial ecosystem (Birchall, 2013; Cuevas & Fischer, 2006)

In Tanzania, Savings and Credit Cooperative Societies (SACCOS) have played a significant role in the development of the financial sector since the early 1990s. They offer financial intermediation to farmers, informal workers and micro-entrepreneurs at the grassroots level when there are barriers to access to conventional banking. According to recent report Financial Sector Deepening Trust (2023) formal financial inclusion has increased by 65% in 2017 to 76% in 2023, and SACCOS continues to have a significant impact toward mobile money and agent banking. The government of Tanzania has consolidated the industry by enacting the Microfinance Act of 2018 and by following up with regulations, making SACCOS Tier III institutions under the oversight of the Bank of Tanzania through the Tanzania Cooperative Development Commission (TCDC), which enhances governance and consumer protection (Bank of Tanzania, 2024) Nevertheless, SACCOS have been experiencing with the problems of under-capitalization, poor management capability, and increasing competition with the microfinance institutions (MFIs) and financial technologies (Bank of Tanzania, 2024)

Indonesia, in marked contrast, has a far older cooperative tradition based on nationalist economic visions of the mid 20th century, in which the cooperative (*koperasi*) is positioned as the pillar of the economy under the Indonesia's 1945 Constitution (Sugarda, 2016) The 1945 Constitution's Article 33, one of its most well-known provisions, said that the country's economy is organized as joint effort based on the principle of kinship, which explicitly establishes cooperatives as fundamental to the country's economic architecture. (Subroto, 2015). The most important types of cooperatives in financial intermediation are *Koperasi Simpan Pinjam* (KSP), and *Islamic Baitul Maal wat Tamwil* (BMT). KSPs offer traditional savings and credit, whereas BMTs offer sharia-compliant microfinance that resonates with the demands of Muslim-majority population in Indonesia (Rahayu, 2020; Trisniarti et al., 2022) The data provided by National Survey on Financial Literacy and Inclusion (SNLIK) 2025 show that the index of financial inclusion in Indonesia was 80.51%, an improvement of 75.02% in 2024, which indicates successful government literacy efforts, integration of fintechs, and development of cooperatives (OJK, 2025) However, the weaknesses of governance, dormant cooperatives and a lack of integration to the formal banking system are an urgent challenge (ANTARA News, 2025)

The comparison between Tanzania and Indonesia provides valuable insights into the different ways in which various historical, regulatory as well cultural backgrounds can influence the role played by cooperatives in promoting financial inclusion. Tanzania is a low-income African economy in which SACCOS are highly agricultural and rural-based finance, frequently taking advantage of mobile money infrastructure to reach out (Financial Sector Deepening Trust, 2023) Indonesia is a middle-income economy based in Southeast Asia with

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a vast, diverse cooperative sector and high levels of innovation in the Islamic microfinance (Ascarya, 2021).

Both nations have registered great developments in access to financial services but they continue to struggle with chronic structural and governance issues. Current literature has the country-specific studies of cooperatives in Tanzania and Indonesia, though there is still a lack of comparative cross-country studies. This paper aims to close this gap by comparing the structures, contribution and challenge of the Tanzanian and Indonesian financial cooperatives systematically.

The research aims are three-fold:

- a) To study how financial cooperatives can enhance financial inclusion in Tanzania and Indonesia.
- b) To examine the differences and similarities in cooperative structures, regulation and digital innovation between the two nations.
- c) To derive lessons and policy implications that each nation can learn of the other to enhance the role of the cooperative sector in inclusive finance.

The paper is comparative qualitative research that uses national surveys, state reports, and literature. The paper identifies financial cooperatives within the socio-economic and regulatory contexts by contributing to the scholarly debates besides the policy debate on the future of inclusive finance. Lastly, the paper indicates that Tanzania and Indonesia have progressed a long way in utilizing cooperatives to facilitate financial inclusion, but the two systems require more effective governance, digitalization, and policy-specific assistance to realize their developmental potential.

2. Literature Review

2.1 Theoretical Foundations

Financial inclusion means that people and companies should have access to and can use affordable and adequate financial products and services that address their needs payments, savings, credit and insurance, provided in a responsible and sustainable manner (Demirguc-Kunt et al., 2018)

Financial inclusion theories focus on how it decreases poverty, facilitates investment and strengthens household resilience to shock (Allen et al., 2016) Cooperative finance is based on the idea of mutuality, which is the sharing of resources, and institutions are jointly governed by the members to benefit themselves instead of outside shareholders (Birchall, 2013)

Cooperative financial institutions (CFIs), including credit unions, savings and credit cooperatives, and Islamic microfinance institutions, are unique to commercial banks in that they are member-owned, service-focused, and frequently target underserved groups locked out by mainstream finance (Cuevas & Fischer, 2006) Social capital theories (Putnam, 2000) and collective action theory (Ostrom, 1990) also describe why trust, community relationships, and

participatory governance are the reasons behind the resilience and outreach of financial cooperatives.

In regulatory, financial cooperatives exist on the border between microfinance theory (Ledgerwood, 1998) and other principles of inclusive finance, and must be regulated in a supportive but proportionate way to protect deposits of members without discouraging innovation. It is emphasized in the literature that successful cooperative finance involves three pillars: (i) *good governance and professional management*, (ii) *sufficient capital and liquidity*, and (iii) *facilitating legal and regulatory structures* (Chiliquinga et al., 2023; Egia, 2020; Messabia et al., 2023)

The analytical framework of comparative development approaches includes the analysis of the effects of various historical, cultural, and institutional contexts on the development of cooperatives. Functionalist perspective implies that cooperatives develop to fulfil financial needs that are not sufficiently satisfied by formal institutions, whereas the political economy perspective highlights the role of power relations and policy decisions as a factor that determines the outcome of cooperative development and financial inclusion.

2.2 Global Perspectives on Financial Cooperatives

Financial cooperatives are important in enhancing financial inclusion all over the world. According to the World Council of Credit Unions (WOCCU), by 2022, there were over 74,600 credit unions in the world, with a total of over 411 million members distributed among 118 countries (WOCCU, 2022). Credit unions in Latin America are extensively embedded in rural finance systems, which in many cases is more effective at reaching rural areas than microfinance institutions (Cuevas & Fischer, 2006). Cooperative banks and credit unions in Europe and North America offer participants of the financial system (community) a consistent financial intermediation, particularly through financial crises (Migliorelli, 2018).

SACCOS and credit unions have been identified in Africa to be important in mobilizing savings and lending credit to the rural population. Nonetheless, the weaknesses are poor regulation, capitalization, and failures in governance (Bwana & Mwakujonga, 2013). Asia is more diverse. India, as an example, depend on cooperative banks in their rural credit, and in the Philippines more banking through credit cooperatives dominate the microfinance outreach (Catelo et al., 2017; Misra, 2010). Indonesia is one of the most cooperative-rich nations of the world, which possesses both secular and Islamic cooperative frameworks. (Mutiarini et al., 2023). It is emphasized by the world literature that cooperatives play a big role in improving financial inclusion; however, their efficiency is influenced by the national policy environment, cultural traditions, and market competition (Birchall, 2013; Messabia et al., 2023).

In comparison, it was identified that effective supervision, digital adoption, and alignment with national financial systems are determining factors in ensuring the continuation of cooperative impact (Box et al., 2013; Cuevas & Fischer, 2006).

2.3 Tanzania's Cooperative Finance Literature

In Tanzania, SACCOS development was driven by poor bank outreach particularly in rural regions. Initial research highlighted their input in financial support to agriculture and

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reduction of poverty (Kumburu & Pande, 2020). Other Research demonstrated that SACCOS increased access to credit in households but was not able to impact because of governance weaknesses and high default rates (Ndiege et al., 2016).

The Tanzanian government has increasingly recognized cooperatives as strategic tools for poverty reduction, as evidenced by their incorporation into the National Financial Inclusion Framework and alignment with Tanzania Development Vision 2025. The Bank of Tanzania (BoT) reports that financial cooperatives have contributed significantly to the country's improved Financial Inclusion Index (TanFiX), which rose to 0.81 in 2024 from 0.69 in 2023 (The Guardian, 2025).

According to recent evidence provided by the Financial Sector Deepening Trust (Financial Sector Deepening Trust, 2023) SACCOS continue to play a crucial role as an access point to rural Tanzanians to complement mobile money services. Regulatory literature emphasizes reforms made by Microfinance Act 2018 and the following BOT regulations which put SACCOS in a four-tier structure (Bank of Tanzania, 2024). As the reforms seek to enhance prudential oversight, other studies claim that cooperatives in the smaller category may be locked out because the cost of compliance is prohibitive. (Meyer, 2018) Governance studies highlight the problems of the education of the members, managerial skills, and mismanagement, which occasionally destroy the trust of the members (Bwana & Mwakujonga, 2013). The trend of digital transformation is emerging. The implementation of mobile money has allowed certain SACCOS to implement digital disbursement and collection mechanisms of loans and savings (Financial Sector Deepening Trust, 2023). The literature however reports an uneven distribution in adoption by regions with rural cooperatives falling behind urban counterparts (Bank of Tanzania, 2024).

The Tanzania Federation of Cooperatives (TFC) and Savings and Credit Cooperative Union League of Tanzania (SCCULT) has already established different capacity building programs, but the sector is still constrained by structural issues that limit its potential (Guardian, 2024).

2.4 Indonesia's Cooperative Finance Literature

The ideological tradition of cooperation in Indonesia is long-standing, and it is the cornerstone of the national economy. The Indonesian cooperative sector demonstrates particular strength in serving small and medium enterprises (UMKM) and promoting Islamic finance inclusion. The recent launch of 80,000 'Red and White' Village Cooperatives under the Prabowo administration represents an ambitious government-led initiative to strengthen rural economies and improve food self-sufficiency through cooperative models (ANTARA News, 2025; Bloomberg, 2025).

The literature highlights the two-tiered nature of cooperatives: Koperasi Simpan Pinjam (KSP), the traditional savings and loans cooperatives that act as providers of conventional microfinance, and *Baitul Maal wat Tamwil (BMT)*, the sharia-compliant microfinance providers (Mutiami et al., 2023; Zulkhibri, 2016). In the area of increasing financial inclusion to Muslim populations who want Islamic products, BMTs have played a specific role (Ascarya, 2021).

There are challenges and opportunities that have been pointed out through empirical studies. It was also discovered that KSPs facilitate financing of MSMEs, yet most of them are poorly governed and managed. Surveys conducted by the government show that out of the over 130,000 registered cooperatives in Indonesia, a considerable number are not operational, or rather dormant, as a result of mismanagement (ANTARA News, 2025; VOI, 2024).

According to the (OJK, 2025) National financial inclusion has hit 80.51%, but Islamic financial inclusion is comparatively low (approximately 13%-14%) implying untapped potential of BMTs. The opportunities of digital transformation (i.e., involving platforms like QRIS) can be used to modernize cooperatives, yet lots of them simply do not have the technological and managerial resources to do so.

2.5 Research Gaps

Although there is an increasing number of country-specific literature, there is little comparative cross-country research on Tanzania and Indonesia. Most studies consider SACCOS or KSP/BMT separately, with governance, regulation, or impact in a single country of national context. There are not many studies that examine how alternative socio-economic models, regulatory systems, and digital ecosystems influence the results of cooperative finance in the countries. This paper aims to fill that gap by trying to offer a comparative analysis that establishes what each country can learn of the other to enhance cooperative efforts on financial inclusion.

3. Research Method

3.1 Research Design

This paper employs a comparative qualitative research design, using the two countries of Tanzania and Indonesia as case studies in which financial cooperatives have been significant in supporting financial inclusion. In the social science context, comparative approaches are broadly employed to detect similarities, differences, and country-specific processes (McDonnell & Hahs, 2009)

The study uses a most-different systems design (MDSD), in which a low-income African economy (Tanzania) and a middle-income Southeast Asian economy (Indonesia) are compared in light of comparing how contrasting historical, regulatory, and socio-cultural contexts affect cooperative finance results. It is a research that is exploratory and analytical but not causal in nature, which tries to draw policy-relevant conclusions and not make any statistical generalizations. The study forms lessons on how to improve the role of the cooperative sector in contributing to financial inclusion in both Indonesia and Tanzania by studying similarities (e.g., cooperative-based grassroots finance) and differences (the role of Islamic finance in Indonesia vs. the role of mobile money in Tanzania).

3.2 Data Sources

The article bases its research on secondary data only, referring to a variety of sources that are reputable enough to guarantee the triangulation and reliability:

1. National surveys and government reports

- a. *Tanzania*: FinScope Tanzania 2023, Bank of Tanzania (BOT), Tanzania Cooperative Development Commission (TCDC) regulatory reports, Tanzania Federation of Cooperatives (TFC), Saving and Credit Union League of Tanzania (SCCULT), Ministry of Finance documents.
- b. *Indonesia*: National Survey on Financial Literacy and Inclusion (SNLIK) 2024–2025, *Otoritas Jasa Keuangan (OJK)* reports, Ministry of Cooperatives and SMEs (Kemenkop) publications.

2. The International datasets

- a. World Bank *Global Findex Database (2021)* for cross-country financial inclusion data.
- b. World Council of Credit Unions (WOCCU) global cooperative statistics.
- c. International Cooperatives Alliance (ICA)
- d. International Monetary Fund (IMF), International Labour Organization (ILO) and Alliance for Financial Inclusion (AFI) policy reports.

3. Peer-reviewed journals and scholarly literature

- a. Other articles on cooperative governance, microfinance, and inclusive finance in Tanzania and Indonesia
- b. Comparative finance and development studies

4. Policy briefs and think tank publications

- a. Financial Sector Deepening Trust (FSDT, Tanzania).
- b. Asian Development Bank (ADB) and United Nations Development Programme (UNDP) reports on financial inclusion.
- c. And other official reports

The study takes advantage of these various sources of data to reflect both macro-level factors (national rates of inclusion, regulatory reforms) and micro-level (governance problems within cooperatives).

3.3 Analytical Framework

The three-dimensional framework helps to conduct the comparative analysis:

1. Institutional and Regulatory Framework
 - a. What is the legal structure, regulation, and integration of cooperatives into the financial system?
 - b. What would be the consequences of the regulatory reforms on their sustainability and outreach?

2. Operational Models and Innovation
 - a. What are the products and services of cooperatives (savings, credit, insurance, Islamic finance)?
 - b. What is the role of digital technologies (mobile money, fintech, QRIS, core banking systems) in cooperative outreach?
3. Impact on Financial Inclusion
 - a. What role do cooperatives play in enhancing access, use and quality of financial services?
 - b. Which are the gaps, and what do cooperatives offer in addition to or in competition with other actors (banks, MFIs, fintechs)?

This analytical prism enables systematic comparison of SACCOS in Tanzania and KSP/BMT in Indonesia, by revealing similarities and differences.

3.4 Validity and Reliability

To enhance validity, the study employs triangulation, which aims at checking the conclusions in other sources of information (government survey, academic literature, policy reports). This credibility is achieved through the assistance of the utilization of the most up-to-date and authoritative information (Bank of Tanzania, 2024; OJK, 2025; World Bank, 2022). Since the research is secondary data, having no primary data, the limitations are the quality of the available reports and the likelihood of a discrepancy in the data given by distinct countries. In response to this, only peer-reviewed articles, official articles, or international sources are added.

3.5 Ethical Considerations

Since the research will be built on secondary data only, it will not have any direct ethical risks like harm to participants or confidentiality breaches. Nevertheless, the integrity in academics remains due to the decent attribution and referencing of all the sources in line with the APA 7th edition guiding lines.

4. Findings and Comparative Analysis

4.1 Institutional and Regulatory Framework

Tanzania

The Tanzania regulatory framework regarding the financial cooperatives is supervised by the Bank of Tanzania and the Cooperative Development Department. The nation has introduced a succession of National Financial Inclusion Frameworks (NFIF) with the latest framework encompassing 2023-2028 (Bank of Tanzania, 2024). These policies have yielded a high growth in financial inclusion in Tanzania, with the TanFiX index increasing to 0.81 in 2024, compared to 0.69 in 2023⁹. The regulatory innovations also comprise the launch of

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FinTech Regulatory Sandbox and improved consumer protection schemes that have bolstered trust and market integrity (The Guardian, 2025).

Savings and Credit Cooperative Societies (SACCOS) are the primary form of cooperative organization in the cooperative sector of Tanzania, which is legally established in the framework of the Microfinance Act of 2018 and regulated by the Bank of Tanzania (BOT). The Act classifies financial cooperatives as the top level (the Tier I) includes deposit-taking SACCOS and are directly regulated by BOT through The Tanzania Cooperative Development Commission (TCDC). The purpose of this system is to guarantee prudential oversight, yet the research indicates that smaller cooperatives have excessive compliance expenses and capacity issues (Meyer, 2018)

Saving and Credit Union League of Tanzania (SCCULT) Stands as the Umbrella for the Financial Cooperatives and it is an apex organization for SACCOS across Tanzania. SCCULT are lobbyists, representing the interests of SACCOS to national government and a service provider, offering services to SACCOS including training, loans, internal inspections, risk management, legal advice and marketing support to SACCOS. As well Tanzania Federation of Cooperatives (TFC) is an apex-level advocate, yet there is little power due to capacity gaps and fragmentation in the representation (Bank of Tanzania, 2024) Despite the reforms that have enhanced deposit protection and financial discipline, there is haphazard enforcement particularly in rural SACCOS where the ability of managers is low.

Tanzania's SACCOS are mainly member-owned financial institutions that are clustered in rural and agricultural areas. They are distinguished by their community orientation, whereby their members are usually from similar geographic or occupational backgrounds. The Tanzania Cooperative Development Commission explains that these are institutions that value affordable, reachable, and community-oriented finances that greatly reduce the inequality in access to finances, particularly among marginalized populations and low-income segments (Financial Sector Deepening Trust, 2023; Zakayo & Ndiege, 2025)

Indonesia

The cooperative sector in Indonesia is governed by the Ministry of cooperatives and small and medium enterprises (KEMENKOP) under the supervision of financial services authority (OJK). The OJK has reinforced consumer protection in three essential ways: supervising the conduct of the market, responding to complaints, and eliminating unlawful financial practices (Azhar, 2025)

This strategy resulted in the establishment of a Task Force on Handling Illegal Financial Activities (Satgas PASTI) and the founding of the Indonesia Anti-Scam Centre in November 2024 ((Azhar, 2025) These initiatives have been given further regulatory grounding with the new Law on the Development and Strengthening of the Financial Sector (UU P2SK) in 2024. The cooperative finance in Indonesia is divided into two broad institutional types: *Koperasi Simpan Pinjam (KSP)* and *Baitul Maal wat Tamwil (BMT)*. Both of them are under the Ministry of Cooperatives and SMEs, and the BMTs also engage with *Otoritas Jasa Keuangan (OJK)* specifically with regard to sharia compliance. (Wulandari, 2019)

In contrast to Tanzania, where SACCOs are becoming bank-like, cooperatives in Indonesia tend to remain a social-economic hybrid, attached to the ideology of nationalism (Pancasila) according to which cooperatives are the backbone of the economy. (Subroto, 2015). Nevertheless, regulatory fragmentation continues: regulation is less stringent than that of banks, which results in large proportions of non-active or poorly managed cooperatives (out of all registered cooperatives over 40% are dormant). (Mutiarni et al., 2023) It is a push by the government to introduce digital registration, standardization, and professionalization, yet the implementation is slow.

In Indonesia, cooperative sector has more various types in which *Koperasi Simpan Pinjam (KSP)* provides general savings and loan and *Baitul Maal wat Tamwil (BMT)* provides Shariah financial services. Indonesian government recently introduced an ambitious program to establish 80,000 Red and White Village Cooperatives by November 2025, and 15,000 of them will be operational in full by August 2025 (ANTARA News, 2025). Such cooperatives are designed to ensure they not only offer financial services but also clinic services and other social benefits to the village populations (ANTARA News, 2025)

Comparative Insight

The two nations acknowledge the importance of cooperatives as important tools of financial inclusion. Tanzania has however sought closer regulatory integration with the formal financial system, whereas Indonesia has a more pluralistic, ideologically inspired cooperative ecosystem. Tanzania has a framework that will strengthen financial stability at the expense of small cooperatives; Indonesia has flexibility that will permit scale at the expense of governance risks.

4.2 Operational Models and Innovation

Tanzania

SACCOS are major savings and loan providers whose rural presence is high. Compared to other systems, their comparative advantage is their community-based trust and ownership of members, which is particularly applicable in agriculture and informal trade. Integration with mobile money platforms (Vodacom M-Pesa, Airtel Money, Tigo Pesa) and remote deposits, loan repayments, and even digital lending have become possible in recent years (Financial Sector Deepening Trust, 2023) However, there is an unequal digital readiness; urban SACCOS are increasingly digitalizing, whereas rural ones are lagging behind because of bad infrastructure, lack of digital literacy, and expenses. Some of them are still relying on manual bookkeeping which deters growth and transparency.

Mobile money providers have led the way in ensuring that Tanzania is digitalized as far as digitalization of financial services is concerned. Nearly one out of every 10 Tanzanians currently pays, transfers, and purchases retail products via mobile platforms, and more than 55 million mobile money accounts have been issued in the country (IBS Intelligence, 2025). The Tanzania Instant Payment System (TIPS), which serves as the baseline of interoperability currently connects 45 providers in the country and in the previous year processed more than USD 6 billion in retail transactions (IBS Intelligence, 2025)

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All these have provided SACCOS with the opportunity to incorporate mobile money services into their systems, although this has not been massively adopted yet.

Indonesia

KSPs take a traditional credit union model, whereas BMTs focus on sharia-compliant financing, commonly with commercial microfinance and social activities, such as zakat collection. This two-fold commitment enhances their legitimacy in the community, yet it leaves them vulnerable to liquidity imbalances when the social responsibility prevails over the financial sustainability (Ascarya, 2021; Thalib et al., 2020).

Indonesia is becoming more and more digital in its innovation: the government has established QRIS (Quick Response Code Indonesian Standard) that enables cooperatives to connect with national payment systems to expand their reach. Adoption, however, is not universal - not all cooperatives have the technology or qualified personnel to use digital platforms well (OJK, 2025). Indonesia is less dependent on mobile money than Tanzania but is more sharia-fintech-driven, with state and private Islamic banks facilitating its development.

The current state of the digital innovation in Indonesia could be explained by the existence of QRIS system which supports preservation of the infrastructure of the digital payments in the country where cashless transaction is accepted in the most widespread way. An average of more than 150 percent total annual growth of transactions is reported by QRIS among 65 billion transactions with transaction value of IDR 658 trillion (approximately USD 51.75 billion) over the last five years (Azhar, 2025).

Also fraud percentage of about one percent is very small in a national context, consequently, consumers trust online financial services (Azhar, 2025). The government equally strives to harmonise a digital ID framework to bolster and further safeguard digital financial inclusion.

Comparative Insight

The Tanzanian SACCOS apply mobile money ecosystems to cross the geographic borders, and the Indonesian cooperatives apply the principles of Islamic finance and the use of QR-based digital payments to enhance the coverage. In both models, the context-based innovation is evident, but in both cases the digital inequality gap and the managerial skills deficit are prevailing constraints.

4.3 Impact on Financial Inclusion

Tanzania

Tanzania's level of financial inclusion has significantly improved; in 2023, it was 65%, compared with 15.8% in 2009 (Financial Sector Deepening Trust, 2023). In regions lacking banks, such as rural and agricultural financing, mobile money has also been very significant. For instance, in some areas, SACCOS provides almost 30% of rural loans (Bank of Tanzania, 2024). However, their lack of systemic significance is limited by low capital, high non-performing loans (NPLs), and governance shortcomings.

Financial cooperatives in Tanzania have contributed significantly to the rural population growth by increasing access to credit and assisting rural people in developing their farms. According to the Bank of Tanzania, digital financial services have improved the convenience, accessibility, and affordability of digital financial services to Tanzanians; active mobile money accounts have increased 17.5% to 60.75% million and digital loan accounts have increased two to one 995 to 193 million with 61.9% of these accounts owned by women (The Guardian, 2025). These innovations have done so, especially in the rural communities where conventional banking services are still low.

Indonesia

In Indonesia, the financial inclusion has been reached at 80.51% (OJK, 2025) Although banks and fintech control formal access, cooperatives are still important to micro and small enterprises (MSMEs), comprising more than 97% of all businesses. Inclusion among Muslim communities who favor sharia-compliant finance is increased by BMTs in particular. Nevertheless, although the overall inclusion rate is high, Islamic finance inclusion is lowest at approximately 13%-14%, which means the presence of an untapped cooperative-led Islamic finance prospect (Ali et al., 2020; Zulkhibri, 2016)

Indonesian cooperatives have shown to be effective in promoting Shariah-compliant financial inclusion, as well as SME financing. With the growing economy and rising economic activities, financial services in the country remain stable, and by January 2025, the credit growth of the banking sector was 10.27 per annum (OJK, 2025). This resilience has been enhanced by the cooperative sector which offers alternative sources of financing especially to the small and medium enterprises which are the backbone of the Indonesian economy. The use of digital technologies such as QRIS has also widened the scope and effectiveness of cooperative financial services.

Comparative Insight

Tanzania and Indonesia demonstrate that cooperatives do not substitute digital and formal banking channels but rather complement them. In Tanzania, they play a decisive role in agriculture and rural inclusion; in Indonesia, they are at the center of Islamic finance and MSME development. Both are, however, plagued by capacity and governance issues, and there is reason to believe that their contribution would be much greater were systemic shortcomings resolved.

5. Discussion

5.1 Theoretical Implications for Financial Inclusion

The results confirm the conclusion that financial cooperatives play a role of bridging institutions in financial inclusion. (Lal, 2019; Mooney, 2008) argue that affordability, accessibility, and sustainability are necessary elements of financial inclusion, which cooperatives can achieve by means of community ownership and local decision making. SACCOS in Tanzania show the proximity model of financial inclusion: embedded in rural

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communities, they have the ability to minimise information asymmetry and provide credit to where banks fail. (Marwa & Aziakpono, 2015) This is in accordance with the theory of microfinance as a complement (not a substitute) system with formal banking (Shettima & Dzolkarnaini, 2024)

On the other hand, Indonesia is an example of the pluralistic finance model, in which cooperatives exist alongside banks, fintechs, and Islamic institutions. BMTs especially reflect the concept of faith-based financial inclusion that focuses on ethical finance and social equity as part of outreach. This extends the conceptual boundaries of financial inclusion to encompass cultural and religious relevance as well as economic access. (Ascarya, 2021; Wulandari, 2019) In this way, the comparative study contributes to the theoretical discussions by demonstrating that cooperatives are modifying to economic systems, ideological and cultural systems.

5.2 Practical Lessons for Tanzania

There are three important lessons that the Indonesian cooperative movement has to share with the Tanzanian cooperative movement:

1. **Incorporation of Islamic Finance:** Tanzania has a large Muslim population (approximately 35%), but few sharia compliant models of cooperatives, so the BMT system in Indonesia will help develop outreach and credibility of faith based finance.
2. **Digital Standardisation:** Since mobile money has become established in Tanzania, the Indonesian QRIS national standard exemplifies how interoperability frameworks can enhance cooperative participation in the bigger payment platforms.
3. **MSME Targeting:** Whereas cooperatives in Indonesia are the center of MSME finance, in Tanzania the SACCOS remain very rural-agriculture based. Urban MSME lending is an option and may enhance sustainability.

5.3 Practical Lessons for Indonesia

On the other hand, Indonesian cooperatives are able to learn more about Tanzania:

1. **Structured Control of Stability:** The Tanzania Microfinance Act of 2018 provides a risk-based tiering system that enhances stability and transparency. A similar level of monitoring could enhance the decentralized monitoring in Indonesia.
2. **Agrifinance Specialization:** SACCOS are based in Tanzania and agricultural finance is the core of their work. Although Indonesia is a nation that relies on cooperatives in financing smallholders, this nation has not been in a position to utilize its large population in rural areas.
3. **Mobile-Money Integration:** Indonesia has done well with QRIS, but has yet to fully penetrate mobile money as Tanzania has done. Rural outreach could be informed by lessons learned in the M-Pesa/SACCOS integration.

5.4 Shared Challenges and Opportunities

Indonesia and Tanzania have the same structural weaknesses: poor governance, lack of professionalism, and technological deficiencies. Their fixes are:

- a. **Capacity Building:** Training to cooperative managers on digital literacy, accounting and governance in order to prevent the high failure and dormancy rates.
- b. **Capitalization and Risk Management:** Cooperative-owned apex funds or deposit insurance mechanisms should be formed to enhance liquidity.
- c. **Digital Inclusiveness:** Getting rural coops up to speed to accelerate the process of financial ecosystems getting digitalized.
- d. **Gender and youth Inclusion:** Women and youth are underserved despite high rates of cooperative membership. Their growth depends on how sustainable they are, their outreach and their empowerment (ILO, 2024)

The two countries also share an opportunity in their effort to become more innovative: the emergence of fintech ties, regional trade integration, and South-South knowledge exchange (e.g., through research federations).

5.5 Toward a Hybrid Cooperative Model

The comparative analysis indicates that hybridization is the future of cooperative finance in the emerging economies- community trust mixed with modern financial infrastructure. A combination model might be:

- a. Mobile-money ecosystem (low-cost access + rural penetration) in Tanzania.
- b. Cooperative finance in Indonesia (faith-based trust + SME focus) based on Sharia.
- c. Shared digital governance frameworks (standardized reporting, digital KYC, interoperable payment systems)

This model would be a guideline to other developing economies that want to grow inclusion without undermining social legitimacy.

6. Conclusions and Recommendations

6.1 Conclusions

This comparative analysis explored how financial cooperatives contributed to promotion of financial inclusion in Tanzania (SACCOS) and Indonesia (KSPs and BMTs). A number of significant inferences are drawn:

- a. Institutional Context Matters

The cooperative sector is more formal in Tanzania as evidenced by the Microfinance Act (2018) and BOT oversight, which helps improve financial stability but exposes small cooperatives to over-bureaucratization and marginalization. Indonesia has a pluralistic cooperative ecosystem, and cooperatives can co-exist with banks, fintechs, and Islamic financial institutions. Diversity is increased through this pluralism, whilst a weak regulation undermines sustainability.

- b. Contextual Operational Innovations are Varying.

The cooperatives of Tanzania are considerably dependent on mobile money incorporation (M-Pesa, Tigo Pesa, Airtel Money) to address rural challenges. The cooperatives in

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Indonesia apply the principles of Islamic finance and QRIS interoperability to enhance inclusion, especially within MSMEs and faith-based communities.

- c. The effect on Financial Inclusion is Large but Dispersed.

SACCOS is central to rural and agricultural finance in Tanzania, with a good performance in reaching the national inclusion rate of 65%, but undercapitalized and with governance problems. (Bank of Tanzania, 2024)

Cooperatives in Indonesia supplement banks and fintechs, increasing the financing of MSMEs and the inclusion of sharia. Nonetheless, their potential is undermined by the high cooperative dormancy and weak oversight, despite the fact that the national financial inclusion is over 80%. (OJK, 2025)

- d. Common problems and opportunities.

The two countries are struggling with the governance, capacity building, digital gaps and capitalization gaps..

However, both offer distinct opportunities: Tanzania has a potential to grow urban MSME financing and sharia-based approaches, and Indonesia has a potential to enhance agrifinance and to add to better tiered regulation.

- e. Way Forward: Hybridization

A hybrid cooperative system that integrates the mobile-money sector in Tanzania and the sharia-based model in Indonesia with the assistance of digital governance may be a blueprint to an inclusive model of cooperative finance in developing economies.

6.2 Policy Recommendations

For Tanzania

- a. Diversify Cooperative Finance: Help SACCOS abandon the farm sector, in addition to financing MSMEs in cities, and develop loan facilities and business incubator consortium.
- b. Introduce Islamic Financing: Research the BMT-like designs to attract the Muslim population, and to increase the financial inclusion with the introduction of the sharia-compliant SACCOS.
- c. Digitize: Build a national collaborative digital model (e.g. QRIS in Indonesia) to deliver interoperability, real-time reporting and transparency.
- d. Capacity-Building Programs: Are training centres set up by the TFC and SCCULT to professionalize leadership within the cooperatives, the use and accounting of information technology..

For Indonesia

- a. Implement Tiered Supervision: Implement a system of regulation akin to that of Tanzania, with four levels of supervision, allowing proportional regulation of cooperatives in consideration of size and complexity.
- b. Expand Agrifinance Requirement: Motivate cooperatives to do rural and agricultural lending, modelled after rural SACCOS in Tanzania.

- c. Rebuild Dead Cooperatives: Implement policies that consolidate, rehabilitate or liquidate non-performing cooperatives and redistributed resources to performers.

For Both Countries

Create Cooperative Apex Funds: Create central liquidity and stabilization funds that emancipate small cooperatives of the impact of the shocks and crisis.

Gender and Youth Inclusion: To enable women and youth-oriented SACCOS/KSPs because the gender and the youth are very active in the economy and are not considered.

Improve Digital Governance: standardize reportage systems on a blockchain or cloud-based platform to be more accountable and transparent.

Then, the South-South exchange of knowledge must be promoted: create a platform of cooperation between Tanzania and Indonesia to share the experience, innovations, and the best practices in policy formulation.

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