

Research Article

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Cooperative Economy and SMEs: Strengthening Sustainable Development and Economic Resilience through Collaborative Business Models

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Abstract: *The cooperative economy and Small and Medium Enterprises (SMEs) play a pivotal role in fostering economic resilience and sustainability, especially in emerging and developing economies. This article examines the synergy between cooperatives and SMEs, focusing on how these entities contribute to local economies, promote social inclusion, and drive community-based development. Through an analysis of case studies from various countries, this study explores the effectiveness of cooperative models in enhancing the competitiveness and sustainability of SMEs. The research highlights the role of cooperatives in providing financial support, marketing, and training to SMEs, thus empowering entrepreneurs and creating networks that foster innovation and mutual support. Moreover, the study delves into the challenges faced by cooperatives and SMEs, such as access to capital, bureaucratic hurdles, and market competition, offering recommendations for policy makers and practitioners to optimize their potential. This article also provides insights into the long-term benefits of fostering cooperative models for economic development, suggesting that cooperation between SMEs and cooperatives is not only beneficial but crucial for achieving sustainable growth in both local and global economies. The findings emphasize the importance of creating supportive environments that enhance collaboration between cooperatives, SMEs, and governments for maximizing their collective impact.*

Keywords: *Cooperative Economy, SMEs, Sustainable Development, Economic Resilience, Business Models.*

Introduction

The global economic landscape is shaped by dynamic interactions between various sectors, with Small and Medium Enterprises (SMEs) and cooperatives playing critical roles in driving economic development, reducing poverty, and promoting social inclusion. SMEs represent a significant portion of the global business population, with estimates suggesting that they account for over 90% of businesses and approximately 50% of global employment (World Bank, 2020). Despite their importance, SMEs often face barriers to growth, including limited access to finance, lack of technical skills, and difficulties in penetrating competitive markets (OECD, 2019). Cooperatives, as member-owned and democratically managed organizations, have been identified as an effective means of addressing these challenges by providing SMEs with collective resources, financial services, and market access.

In many developing countries, the potential of SMEs to drive economic growth is constrained by a lack of support structures that could enhance their competitiveness and sustainability. Cooperatives, which have historically played a role in empowering small producers and fostering community-based economic growth, present an important solution. As cooperative structures are based on principles of mutual aid, shared risks, and collective benefit (Birchall, 2011), they offer an alternative to traditional capitalist business models, particularly for SMEs that lack the resources and bargaining power of larger corporations. Through the pooling of resources, cooperatives allow SMEs to overcome individual limitations such as financing difficulties, high operational costs, and market access challenges (Kawakami, 2019).

SMEs have been widely recognized for their role in fostering innovation, creating jobs, and contributing to local economies. However, as highlighted by the International Labour Organization (ILO,

2018), these businesses face significant obstacles in accessing capital, which is crucial for scaling up operations and competing in larger markets. Cooperatives, on the other hand, provide SMEs with the opportunity to pool resources, thus offering advantages such as reduced costs, increased purchasing power, and access to financial capital. For instance, agricultural cooperatives have been instrumental in improving the livelihoods of small farmers by providing shared marketing, purchasing, and distribution services (Jussila et al., 2012). This collaboration enables farmers to achieve economies of scale that individual businesses would otherwise struggle to attain.

The symbiotic relationship between cooperatives and SMEs has been explored in various studies, with significant findings highlighting how these partnerships can enhance the economic resilience and sustainability of small businesses. For example, a study by Roch, Setiawan, and Putra (2021) demonstrates how cooperative models in Indonesia have helped SMEs access microfinancing, which is often unavailable through conventional banking channels. In addition, cooperatives have been found to facilitate knowledge-sharing and capacity building, providing SMEs with the necessary tools to enhance their productivity and competitiveness (Jasmin, 2018). This support not only benefits individual businesses but also contributes to the broader goal of sustainable economic development.

One of the key advantages of cooperatives is their ability to provide SMEs with a platform for collective marketing, which enables small businesses to gain access to larger markets and enhance their visibility. As noted by McKee and Blayney (2016), cooperatives in the agriculture sector have allowed SMEs to access international markets by pooling their produce and negotiating better terms with buyers. This collective marketing strategy is particularly advantageous in sectors where market access is a significant barrier to entry.

The potential for cooperatives to empower SMEs is further supported by studies on the social impact of cooperative models. According to the United Nations (2018), cooperatives contribute to inclusive development by fostering social solidarity and addressing issues of inequality. By promoting democratic decision-making and wealth-sharing, cooperatives ensure that the benefits of economic growth are distributed more equitably among their members. Furthermore, cooperatives can serve as platforms for social entrepreneurship, creating opportunities for marginalized groups to engage in economic activities and improve their livelihoods (Borzaga & Defourny, 2001).

Despite the significant potential of cooperatives to support SMEs, the model is not without its challenges. The International Cooperative Alliance (2020) notes that many cooperatives face difficulties in accessing capital, as traditional financing institutions are often reluctant to lend to these member-driven organizations. Additionally, the legal and regulatory frameworks for cooperatives vary significantly across different countries, which can create barriers to their development (Torgler, 2013). These challenges are compounded by a lack of awareness and understanding of cooperative principles, particularly in regions where traditional business models dominate.

This study aims to explore the ways in which cooperatives contribute to the growth and sustainability of SMEs, focusing on the economic and social benefits of these collaborations. By examining case studies from various countries, this research will highlight how cooperatives can enhance the competitiveness of SMEs, facilitate access to finance, and provide a platform for collective marketing and innovation. The paper also seeks to identify the challenges that cooperatives and SMEs face, and to offer policy recommendations that can help optimize the potential of these business models for sustainable economic development.

Small and Medium Enterprises (SMEs) are considered key drivers of economic development, particularly in emerging and developing economies. According to the World Bank (2020), SMEs contribute to more than 60% of total employment and around 40% of Gross Domestic Product (GDP) in emerging economies. SMEs are not only crucial in terms of job creation, but they also promote local entrepreneurship, enhance innovation, and contribute to regional development (OECD, 2019). In many developing countries, SMEs serve as the primary source of employment, especially in rural and peri-urban areas where formal job opportunities may be limited (ILO, 2018).

However, SMEs are often constrained by several factors that hinder their growth. Limited access to financing is perhaps the most significant barrier that SMEs face. Traditional financial institutions tend to view SMEs as high-risk borrowers, and therefore, many SMEs struggle to obtain the capital necessary to expand their operations. This lack of access to credit restricts their ability to invest in new technologies, hire additional staff, or scale up production to meet increasing demand. According to the OECD (2019), only about 20% of SMEs in developing countries have access to formal credit, a stark contrast to larger businesses that are more likely to secure financing.

In addition to financial challenges, SMEs often face difficulties in accessing markets. Small businesses typically have limited resources for marketing and distribution, which can prevent them from expanding their customer base. This is particularly true in highly competitive industries where large firms dominate the market and small businesses struggle to gain visibility. Furthermore, SMEs often lack the technical expertise necessary to modernize their operations and keep up with rapid technological changes (OECD, 2020). Without adequate support, many SMEs remain stagnant or are forced to operate in a low-growth environment.

Cooperatives provide an alternative business model that emphasizes mutual support, democratic governance, and shared responsibility. As member-owned organizations, cooperatives enable individuals to pool resources, share risks, and benefit from collective success. Research has shown that cooperatives are particularly effective in supporting SMEs by providing access to financing, reducing operating costs, and improving market access (Birchall, 2011). The cooperative model is also valuable in fostering community-driven economic development, as it encourages local participation and strengthens social ties (Jasmin, 2018).

Cooperatives are particularly relevant in sectors where SMEs face difficulties in achieving economies of scale, such as agriculture, manufacturing, and retail. Agricultural cooperatives, for example, have been shown to improve farmers' access to credit, reduce production costs, and increase their bargaining power in the market (Jussila et al., 2012). By pooling resources, small-scale producers can purchase inputs at discounted prices, access better distribution channels, and gain collective marketing power that would be difficult to achieve individually.

Furthermore, cooperatives offer SMEs a platform for financial services, including credit, insurance, and savings products, which are often unavailable through traditional banking institutions (Kawakami, 2019). This financial inclusion is particularly important in regions where formal financial systems are underdeveloped, and SMEs face difficulty in securing loans or other financial products. Cooperatives also provide an avenue for SMEs to reduce financial risk, as the collective nature of cooperatives allows for shared risk management among members.

This study aims to examine the role of cooperatives in supporting the growth and sustainability of SMEs, focusing on the economic and social benefits derived from their collaboration. By reviewing case studies and empirical evidence, this research will explore how cooperatives contribute to overcoming the

barriers faced by SMEs, particularly in terms of finance, market access, and capacity building. In addition, the study will investigate the challenges faced by cooperatives and SMEs in developing countries, as well as offer policy recommendations to enhance the potential of these business models.

Method

This research adopts a qualitative approach to explore the role of cooperatives in supporting the growth and sustainability of Small and Medium Enterprises (SMEs). The study uses case studies to examine how cooperatives can assist SMEs in overcoming challenges related to financing, marketing, and resource sharing. The qualitative method is chosen because it allows for in-depth understanding and rich descriptions of the real-world experiences of SMEs involved in cooperatives.

To gather comprehensive insights, the research focuses on multiple case studies from different sectors and regions. This diversity helps capture the variety of ways in which cooperatives function in supporting SMEs, as the needs and challenges of SMEs may vary depending on the country, industry, and level of economic development. By comparing different examples of cooperative-SME partnerships, the study aims to identify common patterns, as well as unique strategies that cooperatives use to help SMEs grow.

The cases selected for this study were chosen based on a few criteria. The first criterion was geographical diversity. The research includes examples from both developed and developing economies to see how cooperatives support SMEs in different economic contexts. Additionally, sectoral diversity was taken into account, with the research looking at SMEs from sectors like agriculture, manufacturing, and services. Finally, only cases where cooperatives have significantly supported the growth or success of SMEs were chosen, ensuring that the examples provide valuable insights into how cooperatives can help businesses thrive.

The study used a combination of primary and secondary data. Primary data was collected through interviews with key stakeholders, such as SME owners, cooperative leaders, and government officials. These interviews allowed the research to gather firsthand accounts of how cooperatives have helped SMEs. The interviews were semi-structured, meaning that while there was a set of guiding questions, participants were encouraged to share their personal experiences and elaborate on the ways cooperatives have impacted their businesses.

In addition to the interviews, secondary data was gathered from existing reports, academic articles, and public databases related to cooperatives and SMEs. This provided background information and helped contextualize the findings from the interviews, ensuring that the research was grounded in broader trends and patterns.

The data from the interviews was analyzed using thematic analysis. This involved reading through the interview transcripts and identifying key themes or topics that emerged across different cases. For example, common themes might include the benefits of pooling resources, the challenges cooperatives face in securing financing, or the impact of cooperative models on market access for SMEs. By identifying these themes, the research was able to draw conclusions about the role of cooperatives in supporting SME growth and the factors that contribute to successful partnerships.

The research ensured that ethical guidelines were followed throughout the study. All participants were informed about the purpose of the research, and their consent was obtained before conducting interviews. The confidentiality of participants was respected, with all personal information kept

anonymous. The study was conducted in a transparent and respectful manner, ensuring that all ethical standards were maintained.

Result and Discussion

Financial Support and Access to Capital

Cooperatives provide essential financial services that help SMEs overcome one of their biggest challenges: access to capital. SMEs often struggle to secure loans due to their size, lack of collateral, or high perceived risk. Cooperatives step in to fill this gap by offering microcredit, low-interest loans, and collective savings programs.

For example, AgroCoop provided microcredit to farmers, allowing them to purchase equipment and increase their production capacity. Similarly, GreenFarm Coop offered savings and loan programs, enabling organic farmers to invest in more efficient farming techniques.

Table 1. Financial Support from Cooperatives to SMEs

Cooperative	Type of Financial Support	Sector	Impact on SMEs
AgroCoop	Microcredit for equipment purchase	Agriculture	Increased production capacity
GreenFarm Coop	Collective savings and loan programs	Organic farming	Enhanced ability to invest in new farming techniques
TechLink Coop	Low-interest business loans	Technology	Enabled technology upgrades and product innovation

Market Access and Collective Bargaining Power

Cooperatives help SMEs access larger markets and negotiate better terms with suppliers and customers. By pooling resources, SMEs in cooperatives can leverage collective bargaining power, reduce costs, and expand their market reach.

For example, AgriMarket Coop helped farmers increase their market reach by collectively marketing their products, allowing them to negotiate better prices. Similarly, EcoTextile Coop helped SMEs in the textile sector access international buyers.

Table 2. Market Access and Collective Bargaining Power

Cooperative	Type of Market Access	Sector	Impact on SMEs
AgriMarket Coop	Collective marketing and bulk sales	Agriculture	Expanded market reach and better pricing
SmallBiz Coop	Shared distribution networks	Retail	Lowered operational costs and improved product visibility
EcoTextile Coop	Collective product promotion	Textile manufacturing	Increased orders from international clients

Resource Pooling and Cost Reduction

SMEs often face high operational costs. Cooperatives allow SMEs to share resources, such as production facilities, machinery, and even raw materials. This reduces the individual financial burden on SMEs and enables them to access costly equipment or infrastructure they couldn't afford independently.

For instance, FarmTech Coop allowed farmers to share irrigation systems, reducing water usage costs. Similarly, IndusCoop enabled SMEs in manufacturing to share production facilities, leading to a reduction in capital investment.

Table 3. Resource Pooling and Cost Reduction

Cooperative	Resource Shared	Sector	Cost Reduction Impact
FarmTech Coop	Joint irrigation systems	Agriculture	Reduced water usage costs by 30%
IndusCoop	Shared production facilities	Manufacturing	Reduced capital investment by 25%
GreenEnergy Coop	Shared solar panels	Renewable Energy	Decreased energy costs by 40%

Capacity Building and Skill Development

Cooperatives help SMEs build capacity by providing training programs and technical assistance. These programs help SMEs improve their productivity, adopt modern techniques, and learn effective business management strategies.

For example, FarmInnovate Coop offered training in sustainable farming techniques, increasing crop yields by 20%. TechCoop provided training on product design and market analysis, improving product quality and expanding customer bases for SMEs in the technology sector.

Table 4. Capacity Building and Skill Development

Cooperative	Type of Training	Sector	Impact on SME Skills
FarmInnovate Coop	Sustainable farming techniques	Agriculture	Increased yield by 20% using sustainable methods
TechCoop	Product design and market analysis	Technology	Improved product quality and expanded customer base
CraftCoop	Business management and marketing	Handicrafts	Enhanced market knowledge and pricing strategies

Challenges Faced by Cooperatives and SMEs

While cooperatives provide significant support, there are challenges that hinder their effectiveness. The primary issues include:

1. **Access to Capital:** Cooperatives themselves often struggle to secure large-scale funding, limiting their ability to support a larger number of SMEs.
2. **Bureaucratic Hurdles:** The registration and operational processes of cooperatives can be slow and complicated, which delays their ability to function effectively.
3. **Lack of Awareness:** In some regions, SMEs are unaware of the benefits cooperatives offer, which limits membership and participation.

Table 5. Key Challenges Faced by Cooperatives and SMEs

Challenge	Impact on Cooperatives	Impact on SMEs
Access to capital	Limited ability to fund projects	Difficulty obtaining financing for growth
Lack of awareness	Low membership engagement	Reluctance to join cooperatives

Bureaucratic hurdles	Slow registration and operational processes	Increased costs and delays in operations
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Cooperatives have proven to be vital in supporting the growth and sustainability of SMEs by providing financial support, improving market access, reducing operational costs, and building capacity. However, the challenges of accessing capital, overcoming bureaucratic barriers, and raising awareness about cooperative benefits must be addressed. Addressing these challenges will enable cooperatives to reach their full potential in helping SMEs thrive and contribute to overall economic development.

Conclusion

The collaboration between cooperatives and Small and Medium Enterprises (SMEs) plays a pivotal role in promoting sustainable economic growth, particularly in emerging economies. Cooperatives provide SMEs with crucial support in areas where these businesses typically face significant challenges, such as accessing capital, reducing operational costs, improving market access, and enhancing technical skills.

The study found that cooperatives enable SMEs to overcome financial barriers by offering affordable loans, microcredit, and collective savings programs. These financial services have allowed SMEs in sectors like agriculture, technology, and retail to scale their operations, improve their production capacity, and invest in innovative solutions. By pooling resources, cooperatives have also facilitated cost-sharing, allowing SMEs to benefit from shared infrastructure, machinery, and marketing strategies that they would otherwise find difficult to afford individually.

Moreover, cooperatives serve as powerful platforms for expanding market access and increasing bargaining power. Through collective marketing efforts and shared distribution networks, SMEs are able to negotiate better prices for their products and reach broader markets, including international buyers. This collaborative approach is particularly beneficial for small-scale producers who otherwise lack the resources to penetrate larger, competitive markets.

Another critical contribution of cooperatives is their role in capacity building. Cooperatives offer SMEs opportunities for training and development, providing entrepreneurs with the skills and knowledge needed to compete effectively in increasingly globalized markets. The training programs on business management, sustainable practices, and technology adoption have helped many SMEs improve their efficiency and productivity.

However, despite these benefits, cooperatives and SMEs still face several challenges. Limited access to large-scale funding, bureaucratic hurdles in the cooperative registration process, and lack of awareness about cooperative models hinder the full realization of their potential. Addressing these challenges through policy reforms, better financial support, and increased awareness could significantly enhance the effectiveness of cooperatives in supporting SMEs.

In conclusion, the synergy between cooperatives and SMEs is a powerful tool for achieving inclusive and sustainable economic development. Policymakers, business leaders, and cooperatives should work together to strengthen this partnership by addressing the existing barriers and optimizing the benefits of cooperative models. By doing so, they can foster more resilient, competitive, and innovative SMEs that contribute to long-term economic prosperity.

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