

Analysis of Kediri Cooperatives' Perceptions of the 2023 Self-Declaration Circular Implementation

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ABSTRACT

The self-declaration policy in the P2SK Law and in Circular Letter No. 7 of 2023 from the Deputy for Cooperatives serves as a key instrument for classifying cooperative business models as closed-loop (member services) or open-loop (public services). This study aims to analyse the policy literacy of cooperative managers in Kediri City regarding the implementation of the Self-Declaration policy, particularly concerning their understanding of business classification, regulatory implications, and institutional readiness during the transition of supervision to the Financial Services Authority (*OJK*). The novelty of this study lies in its focus on policy literacy and the perceptions of cooperative managers as key factors in determining institutional responses to cooperative business classification policies. This area has so far been rarely examined in research on cooperatives in Indonesia. The study employs a qualitative approach using a phenomenological design. Data was obtained through in-depth interviews with cooperative managers and officials from the Kediri City Cooperative Office, as well as a documentary review of self-declaration forms and cooperative administrative documents. The research findings indicate that all cooperatives included in the study opted for closed-loop status. This decision was influenced by limited policy literacy, perceptions regarding the complexity of *OJK* supervision, and a desire to maintain the identity of member-based cooperatives. This study concludes that the implementation of the Self-Declaration policy requires the strengthening of policy literacy, regulatory guidance, and the enhancement of cooperatives' digital administrative capacity so that the supervisory transition process can proceed more effectively.

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1. Introduction

The self-declaration policy requires cooperatives to carry out a self-assessment to determine their operational classification as either a closed-loop cooperative (serving members only) or an open-loop cooperative (serving the general public) (Fieve & Chrysostome, 2024). This classification directly determines the supervisory

authority, whether it remains under the Ministry of Cooperatives and Small and Medium Enterprises or is transferred to the Financial Services Authority (OJK). In practice, this policy is not only concerned with administrative and regulatory aspects but is also influenced by the level of awareness and digital literacy among cooperative managers regarding the digital-based supervisory system implemented by the government. A positive perception of digital policies will enhance cooperatives' readiness to undertake reporting and institutional adjustments, whereas low digital literacy may lead to misclassification, delays in reporting, and barriers to adapting to new supervisory systems. Therefore, a study on perceptions and digital literacy is essential to refine the analysis of the implementation of the self-declaration policy, particularly in assessing the readiness of cooperative human resources to face the digital governance transformation in the financial sector and within the cooperative institutional framework (Kasri et al., 2022).

This classification is necessary to distinguish cooperatives that are purely based on the principle of mutual aid among members from institutions that have transformed into public financial service providers to mitigate the risks associated with shadow banking (Sisay et al., 2022). The purpose of this classification is to align supervisory authorities with the risk profile of the institutions, thereby ensuring that the protection of members' rights and public funds can be carried out more effectively and in a targeted manner (Villiers, 2025).

In 2024, a report by the Central Statistics Agency (BPS) showed that the number of active cooperatives in Indonesia stood at 131,617 (Amrin, 2025). These figures are national statistics covering the whole of Indonesia. Meanwhile, according to data from the Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia as of January 2025, there are 21 open-loop cooperatives, namely cooperatives that carry out financial services activities and are subject to the supervision of the Financial Services Authority (OJK) (Ocha, 2025). This figure also represents national data, rather than data for a specific region or province, and thus reflects the still-limited number of cooperatives that have transitioned to the OJK's regulatory-based financial services supervision framework. This is the latest verified figure, in accordance with *UU P2SK*, to distinguish financial-sector cooperatives from real-sector cooperatives (closed loop) (Balqis & Utami, 2024). The self-declaration policy is a crucial mechanism for standardising the supervisory authority over cooperatives based on their risk profiles, with a view to mitigating shadow banking practices and ensuring effective legal protection for members and the wider public (Akseli & Neo, 2025).

This study aims to analyse the perceptions of cooperatives in Kediri City regarding the implementation of the Self-Declaration policy as set out in Circular Letter No. 7 of 2023 from the Deputy for Cooperatives. The Self-Declaration Policy is a crucial tool for mapping cooperative business models (closed-loop vs open-loop); therefore, an in-depth analysis is required to ensure that cooperative managers fully understand this regulatory transition, thereby avoiding administrative sanctions or incorrect business classification. This research was conducted due to the potential for

varying levels of regulatory literacy amongst cooperatives in Kediri City, which necessitates empirical data on the practical challenges and their collective responses in effectively implementing the Circular.

Mehilda stated that the primary role of open-loop cooperatives is not only to serve their members, but also the general public through more open financial services and business activities (Rosdalisa et al., 2023). In the context of this study, it is important to map the presence of cooperatives in Kediri City to provide a realistic picture of the research subject. Based on data from the Kediri City Cooperative and Micro-Enterprise Agency for 2025, there are several active cooperatives spread across three sub-districts, namely Mojoroto, Kota, and Pesantren. Some of these cooperatives operate in the savings and loans and financial services sectors, which have the potential to fall into the open-loop category as they serve the public beyond the cooperative's members. A map of the cooperatives' locations shows that financial service cooperatives are concentrated in the economic and commercial centre of Kediri City, thereby facilitating public access to cooperative services. This situation demonstrates that the transition of cooperatives to an *OJK*-based supervisory system is not merely a national regulatory issue, but also has direct implications for cooperative governance at the local level (Admin, 2025).

This task can be carried out successfully if the cooperative implements adequate risk management (Maulana et al., 2020). In addition, cooperative managers must possess the necessary knowledge and an accurate understanding of open and closed cooperatives (Budiyono & Indah, 2018). This study aims to analyse the policy literacy of cooperative managers in Kediri City regarding the implementation of the Self-Declaration policy as set out in Circular Letter No. 7 of 2023.

Although various previous studies have examined regulatory transformations in the cooperative sector, the supervision of financial institutions, and the implementation of risk-based cooperative policies, most research still focuses on the normative legal aspects, institutional governance, and the administrative readiness of cooperatives in the face of regulatory changes. Previous research has not extensively examined how the policy literacy of cooperative managers influences the decision-making process in determining closed-loop or open-loop classifications, particularly in the context of implementing the Self-Declaration policy at the local level. Furthermore, previous studies have tended to treat cooperatives as administrative objects of regulation, rather than as social subjects possessing distinct perceptions, interpretations, and responses to changes in cooperative supervision policies.

The uniqueness of this study lies in its focus on policy literacy as the key variable in understanding cooperative managers' responses to the implementation of Circular Letter No. 7 of 2023 from the Deputy for Cooperatives. This study not only analyses the level of formal understanding of the regulations but also reveals how perceptions, institutional experiences, and policy interpretation skills influence cooperatives' decisions in determining their business models. Furthermore, this study makes an empirical contribution through an in-depth interview approach with cooperative managers in Kediri City, thereby enabling a more contextualised

description of the dynamics of policy implementation at the local level, an area that has not been extensively explored in previous research.

From an academic perspective, this study contributes to the development of research on cooperative governance and inclusive financial policy, particularly regarding the transition of cooperative supervision towards a risk-based supervision system under the Financial Services Authority (*OJK*). This study also broadens the perspective of public policy studies by demonstrating that the success of regulatory implementation is determined not only by the substance of the law but also by the level of policy literacy among implementing actors at the institutional level of cooperatives.

The focus on policy literacy was chosen to assess the ability of cooperative managers to understand the substance of regulations, the procedures for classifying cooperative business models, and the administrative implications of determining closed-loop or open-loop status. Consequently, this study not only assesses the general level of understanding of policy but also examines managers' ability to access, interpret, and apply regulations appropriately to ensure the accuracy of business model classification and minimise the risk of administrative sanctions during the regulatory transition towards supervision by the Financial Services Authority (*OJK*).

2. Methods

The unit of analysis in this study is the collective perceptions and responses of cooperative managers in Kediri City regarding the self-reporting obligation (*Self Declare*) in accordance with Circular Letter No. 7 of 2023 from the Deputy for Cooperatives. The focus is on the regulatory literacy of cooperative managers, the readiness of the cooperative's internal systems in determining business classification (*closed loop vs open loop*), and the identification of technical challenges encountered in the field. This study explores how cooperatives interpret this regulatory transition as an effort to mitigate administrative risks and protect the identity of cooperatives. Kediri City was chosen due to its diverse cooperative dynamics, which are expected to provide an empirical picture of the effectiveness of central policy dissemination at the regional level and its impact on the legal compliance of cooperative entities.

This study employs a qualitative approach, specifically a phenomenological research design (Aprilia et al., 2025), to explore the phenomena of legal perception and awareness within the cooperative ecosystem in the city of Kediri. This approach enables the researcher to describe in detail how cooperative managers translate the points in the Circular into their internal policies. Given that the Self-Declare policy is a new instrument, this method is highly relevant for unpacking the complexity of managers' understanding of risk management and the scope of cooperative services, whether open or closed. A qualitative description will provide a comprehensive picture of whether this policy is viewed as an administrative burden or, on the contrary, as an opportunity to strengthen more accountable cooperative governance (Creswell, 2014).

The primary data sources for this study were the chairpersons or management of cooperatives in Kediri City who hold decision-making authority, as well as relevant officials at the Kediri City Cooperative and Micro-Enterprise Agency, acting as the local regulator. This study involved 14 informants, comprising 10 cooperative managers and 4 officials/advisors from the Kediri City Cooperative and Micro-Business Office. Informants were selected using purposive sampling, which involves the deliberate selection of participants based on specific criteria relevant to the focus of the study. The criteria for selecting informants included: (1) having decision-making authority regarding the completion of the Self-Declaration; (2) understanding the operations and business model of cooperatives; (3) being directly involved in the reporting process to the supervisory agency; and (4) being willing to provide in-depth information regarding policy implementation. This technique was chosen because the research focuses on exploring perceptions and policy literacy, thus requiring informants who truly understand the dynamics of cooperative regulation implementation at the institutional level.

The data sources for this study were selected through purposive sampling to obtain a comprehensive overview of the relationship between policy implementers and policy regulators. The research subjects consisted of cooperative administrators and managers in Kediri City who had completed or were in the process of completing a Self-Declaration in accordance with Circular Letter No. 7 of 2023, specifically savings and loan cooperatives and financial services cooperatives that were potentially classified as open-loop. Informants were selected based on several operational criteria, namely: (1) having the authority to complete the Self-Declaration instrument; (2) understanding the cooperative's business activities and service structure; and (3) being involved in the reporting process and communication with the cooperative supervisory agency. Furthermore, this study also involved officials or advisers from the cooperative agency who understand the regulatory aspects, supervision, and legal consequences of misclassifying cooperative business models.

To deepen the analysis, the study utilised secondary data in the form of cooperative annual reports, cooperative risk profiles, self-assessment documents, and administrative data regarding the operational status of cooperatives. The method was operationalised by mapping the characteristics of the research subjects based on the type of cooperative, scale of operations, operational location, number of members, and patterns of business services provided to members and the general public. This approach was adopted to enable the study to explain in greater detail the level of policy literacy among cooperative managers regarding the implementation of the Self-Declaration, whilst also identifying the factors influencing the accuracy of the classification of cooperative business models during the transition of supervision to the Financial Services Authority (*OJK*).

The data for this study were collected through in-depth interviews and a documentary analysis of the Self-Declaration forms compiled by the cooperatives. The interviews were conducted using a semi-structured approach to ensure that the researcher had a set of guiding questions whilst also allowing scope to explore the informants' subjective experiences in greater depth. The interviews were conducted in person at the cooperative's offices or at the relevant government offices during the period January–February 2025. Each interview lasted between 45 and 90 minutes, depending on the depth

of information provided by the informant. All interviews were recorded with the informants' consent and subsequently transcribed to facilitate the data analysis process. The interview guidelines focused on aspects of policy literacy, understanding of closed-loop and open-loop classifications, experiences of completing the Self-Declaration, and perceptions of supervision by the Financial Services Authority (*OJK*).

The in-depth interviews enabled the researchers to explore the subjective reasons behind the managers' perceptions, including concerns regarding sanctions or the ambiguity of terminology in the regulations. Meanwhile, the documentary analysis was conducted on the points of the self-declarations submitted by the cooperatives to examine the alignment between the managers' perceptions and the operational realities on the ground. Through this combination of methods, the researcher was able to capture the dynamics of the regulatory transition more comprehensively, from the stage of understanding the text to the technical implementation within the cooperative reporting system.

Data analysis was conducted using an interpretative approach with an interactive analysis model. To ensure the validity and credibility of the data, this study employed source triangulation and methodological triangulation. Source triangulation was carried out by comparing information from cooperative management with data obtained from officials at the Cooperative Affairs Office and the cooperative's administrative documents. Meanwhile, methodological triangulation was carried out by comparing the results of in-depth interviews with Self-Declaration documents, the cooperative's annual reports, and the cooperative's risk profiles. The researcher also applied member checking by asking several informants to review the summary of the interview results to ensure the accuracy of the researcher's interpretation of the informants' statements. This step was taken to enhance the transparency, accuracy, and credibility of the qualitative research findings.

The researchers carried out data reduction by classifying the interview results into key themes, such as levels of regulatory literacy, technical constraints in business classification, and expectations regarding government support. Each theme was analysed to identify patterns of relationship between the cooperatives' risk management capacity and their ability to respond appropriately to the Self-Declare policy. These findings were then synthesised to assess the extent to which cooperatives in Kediri City are prepared to face stringent oversight based on differences in business models. It is hoped that the results of this analysis will inform the formulation of recommendations for more effective regulatory support strategies for local cooperative supervisory authorities.

3. Results and Discussion

Results

Based on in-depth interviews with cooperative managers in Kediri City, all the cooperatives included in the study identified themselves as cooperatives operating under a closed-loop business model. This finding indicates a collective tendency among cooperative managers to maintain services that are restricted to cooperative members (Results of interviews with cooperative officials in Kediri City, January–February 2025).

Most informants stated that the decision to opt for a closed-loop model was influenced by the understanding that the cooperative was established from the outset to serve the internal needs of its members. One informant remarked:

“This cooperative has always been for its members. If it were to serve the public, the concept would change to be more like a bank.” (Interview with Fauzi, 2025).

Furthermore, cooperative managers view supervision by the Financial Services Authority (*OJK*) as being synonymous with the more complex supervisory system for formal financial institutions, which requires a high level of administrative capacity. One cooperative manager stated:

“If we come under the OJK’s remit, we’re worried that the reporting requirements and regulations will be too onerous for a small cooperative like ours.” (Interview with Kartikasari, 2025).

The research findings also indicate that cooperative managers’ policy literacy regarding the implementation of the Self-Declaration remains limited. Some informants do not yet fully understand the legal and administrative implications of the closed-loop and open-loop models. This situation has led some cooperatives to opt for the status they consider to be the safest from an administrative perspective. One informant explained:

“We chose a closed-loop system because it is the safest option and is already in common use.” (Interview with Nurhayati, 2025).

Other findings indicate that institutional readiness also influences the decisions of cooperatives. Cooperative managers consider that their administrative systems, human resources, and information technology are not yet ready to comply with stricter supervisory standards. This is evident from the following statement by an informant:

“We still need guidance just for digital reporting, let alone if we have to comply with audit standards like financial institutions.” (Interview with Prasetyo, 2025).

On the other hand, some informants expressed concerns that the shift towards an open-loop model could alter the cooperative’s identity as a family-based institution. Cooperative officials felt that a focus on serving the general public had the potential to undermine the cooperative’s core values, which had long been built through relationships between members (Results of interviews with several cooperative officials in Kediri City, January–February 2025).

An analysis of the Self-Declaration documents and cooperative administrative reports indicates that the majority of cooperatives have updated their membership data and streamlined their internal administration in compliance with Circular Letter No. 7 of 2023. However, this study also found that some cooperatives still have differing understandings regarding the scope of services provided to prospective members and the general public, which could potentially lead to differing interpretations of the classification of cooperative businesses (Analysis of the Self-Declaration documents and administrative reports of cooperatives in Kediri City for the period 2024–2025).

Discussion

The research findings indicate that the prevalence of the closed-loop model among cooperatives in Kediri City is not only influenced by administrative considerations but is also closely linked to the policy literacy of cooperative managers regarding the implementation of the Self-Declaration policy. A lack of understanding regarding the regulatory implications has led the majority of cooperative managers to opt for a business model that is considered the safest and most consistent with the institutional practices that have been in place to date (Hill & Hupe, 2002); (Nguyen, 2020). These findings indicate that the policy implementation process has not been fully accompanied by an adequate transfer of regulatory knowledge to implementing actors at the local level.

From an institutional theory perspective, a cooperative's decision to maintain its closed-loop status can be understood as a form of organisational adaptation to external regulatory pressures (DiMaggio & Powell, 1983). Cooperatives tend to opt for the institutional form deemed to be the most socially legitimate and the most compatible with the organisation's existing culture (Song & Zhao, 2004). Co-operative managers in Kediri City believe that the closed-loop model better reflects the co-operative's identity as a member-based economic institution; consequently, the shift towards an open-loop model is perceived as a form of institutional transformation that strays too far from the co-operative's core values. This situation indicates that social legitimacy remains a dominant factor in decision-making within co-operative organisations.

The research findings also reveal a gap between the government's policy objectives and cooperative managers' understanding of the substance of the regulations. Through its Self-Declaration policy, the government is seeking to establish a risk-based classification system for cooperatives in order to clarify the distinction between member-based cooperatives and financial institutions serving the general public. However, at the implementation level, most cooperative managers interpret this policy as potentially increasing their administrative burden and subjecting them to strict supervision. This perception arises due to limited policy literacy, particularly in understanding the long-term benefits of strengthening cooperative governance and legal protection (Gibson et al., 2015).

Furthermore, the research findings indicate that the institutional capacity of cooperatives is a key factor in determining their policy response. Some cooperatives still face constraints in terms of administration, human resources, and information technology. Digital reporting processes and institutional administrative adjustments are still perceived as significant challenges for small and medium-sized cooperatives. These findings are consistent with previous research indicating that digital governance transformation in the cooperative sector is often hindered by low organisational readiness and the limited digital competencies of cooperative managers (Latifah et al., 2025); (Huo et al., 2024).

From a socio-institutional perspective, this study shows that cooperative managers still regard the values of kinship and member solidarity as the primary

foundation for running the organisation. The choice of a closed-loop model is understood as an effort to preserve the cooperative's identity so that it remains focused on serving its members, rather than solely on market expansion (Hidayat & Santoso, 2025). In this context, cooperatives are viewed not only as economic institutions, but also as social spaces built on relationships of trust between members (Sari, 2018). Consequently, the shift towards a more formal supervisory system is perceived as having the potential to make the cooperative's social character more bureaucratic and administrative.

This study also confirms that the success of policy implementation is determined not only by the substance of the regulations, but also by the ability of implementing actors to understand and translate policies into day-to-day institutional practice. Low policy literacy leads to a tendency to opt for the option deemed safest from an administrative perspective, even though this may not necessarily be entirely in line with the actual operational conditions of the cooperative (Grindle, 2017); (Kalafatis et al., 2025). This situation highlights the importance of a more participatory and context-specific regulatory support strategy for cooperatives in the region.

Consequently, the implementation of the Self-Declaration policy must be accompanied by efforts to improve policy literacy, enhance digital administrative capacity, and simplify the classification mechanism for cooperative businesses. Local governments and the Financial Services Authority (OJK) need to establish a more adaptive regulatory communication framework so that cooperatives do not view changes in supervision as an institutional threat, but rather as part of strengthening organisational governance. This approach is essential to ensure that the process of cooperative regulatory transformation can proceed gradually without undermining the social character of cooperatives as member-based economic institutions.

Impact

This research has both academic and practical implications for the development of cooperative governance in Indonesia, particularly during the regulatory transition towards a risk-based supervisory system. Academically, this research contributes to the study of public policy implementation by demonstrating that the success of a regulation is not solely determined by the clarity of formal rules, but is also influenced by the level of policy literacy among implementing actors at the institutional level (Hill & Hupe, 2002). The research findings indicate that cooperative managers' perceptions of the Self-Declaration policy play a significant role in determining the organisation's response to changes in the supervisory system. Consequently, this study broadens the perspective of cooperative research, which has hitherto focused primarily on legal and institutional aspects towards an approach that prioritises social factors, perceptions, and the capacity to interpret policy as key elements in the implementation of regulations.

From a practical perspective, the research findings indicate that the majority of cooperatives in Kediri City still face limitations in policy literacy and digital

administrative readiness when it comes to implementing the Self-Declaration system. This situation serves as a key indicator for local governments, the Ministry of Cooperatives and SMEs, and the Financial Services Authority (OJK) to design more adaptive and participatory support strategies. This research indicates that a regulatory approach that is overly administrative without institutional capacity building has the potential to cause resistance and misinterpretation at the cooperative level (Grindle, 2017). Therefore, future cooperative supervision policies need to be accompanied by programmes to improve policy literacy, provide training in digital administration, and simplify the mechanisms for classifying cooperative businesses.

Furthermore, this study also has implications for strengthening the protection system for cooperative members. The finding that the closed-loop model is the dominant choice indicates that cooperatives are seeking to maintain their member-based institutional identity and avoid the risks associated with changes to governance structures that are not yet fully understood. In this context, the implementation of the Self-Declaration policy could serve as a key instrument for clarifying the operational boundaries of cooperatives and preventing shadow banking practices within financial services cooperatives (Barra et al., 2024). With a clearer classification of businesses, the government can supervise in a more proportionate manner, in line with the level of risk associated with cooperative businesses.

This research also has implications for the development of digital transformation within cooperatives at the regional level. The findings indicate that digital reporting processes remain a challenge for small and medium-sized cooperatives. Consequently, this research can serve as a basis for local governments to strengthen the digital infrastructure and human resource capacity of cooperatives, so that the digitalisation of cooperative governance can proceed more effectively and inclusively (Latifah et al., 2025). In the long term, it is hoped that this strengthening of digital capacity will enhance the accountability, transparency, and sustainability of cooperatives as community-based economic institutions.

More broadly, this study underscores the importance of harmonising national regulatory standards with the social and institutional realities of cooperatives at the local level. Effective supervisory policies require not only robust legal instruments but also a social approach that recognises the characteristics of cooperatives as economic institutions based on member solidarity. Consequently, the findings of this study can serve as a reference for policymakers in developing a cooperative supervision model that is more context-specific, phased, and aligned with the institutional capacity of local cooperatives.

4. Conclusion and Recommendations

This study shows that cooperatives in Kediri City predominantly opt for a closed-loop business model in the implementation of the Self-Declaration policy as

stipulated in Circular Letter No. 7 of 2023. The main findings of the study reveal that this decision is influenced by the policy literacy of cooperative managers, perceptions regarding the complexity of supervision by the Financial Services Authority (*OJK*), and the desire to maintain the cooperative's identity as a member-based institution. Furthermore, limitations in digital administrative capacity and regulatory understanding also influence the tendency for cooperatives to choose the status deemed most administratively secure.

In practical terms, this study underscores the importance of strengthening policy literacy, providing technical support, and enhancing the digital capacity of cooperatives so that the implementation of the Self-Declaration policy can proceed more effectively. Local governments, the Ministry of Cooperatives and SMEs, and the *OJK* need to develop a regulatory communication model that is more participatory and easily understood by cooperative managers at the local level. Such an approach is necessary to reduce misinterpretation of regulations whilst enhancing the readiness of cooperatives to face the transformation of governance and risk-based supervision systems.

This study has several limitations. Firstly, the study was conducted only on cooperatives in the city of Kediri; therefore, the findings cannot yet reflect the conditions of cooperatives in other regions with different characteristics. Secondly, the study focused on the perceptions and policy literacy of cooperative managers; consequently, it has not yet conducted an in-depth analysis of the quantitative aspects regarding the financial and institutional readiness of cooperatives to transition to an open-loop model. Thirdly, the dynamics of policy implementation are still in the early stages; consequently, changes in the cooperatives' long-term responses cannot yet be comprehensively observed.

Further research is therefore recommended to expand the scope of the study to the regional and national levels, and to combine qualitative and quantitative approaches in order to assess the readiness of cooperatives more objectively. Future research should also examine the effectiveness of regulatory support programmes and the digital transformation of cooperatives in supporting the implementation of risk-based supervision policies in Indonesia.

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