Islamic Cooperative Finance and Economic Empowerment: Evidence from Malaysia

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ABSTRACT:

Purpose: This study examines the determinants of economic empowerment among Islamic cooperative members in Malaysia, focusing on KOPSYA (Koperasi Pembiayaan Syariah Angkasa Berhad). Method: Using survey data from 127 respondents, we tested the effects of financial literacy, social capital and trust, governance and transparency, and regulatory support on economic empowerment, with cooperative economy as a mediating variable. Findings: Multiple regression and mediation analyses revealed that all four factors significantly predict economic empowerment (R^2=0.749). Regulatory and policy support showed the strongest effect (β=0.325), followed by financial literacy (β=0.218). The cooperative economy demonstrated a significant mediating role, amplifying the effects of these factors on member empowerment. Implications: These findings provide practical implications for policymakers and cooperative managers seeking to enhance financial inclusion through Shariah-compliant financing in Asian markets.

Keywords: Cooperative financing, Islamic financing, financial literacy.

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1. Introduction

The role of cooperative institutions in enhancing financial inclusion and promoting economic empowerment has gained significant attention globally, within developing economies (World Bank, 2020; Birchall, 2013). In Malaysia, KOPERASI PEMBIAYAAN SYARIAH ANGKASA BERHAD (KOPSYA) is a pioneering institution that integrates Islamic financial principles into the cooperative sectors. It was established with the core objectives of addressing the financing needs of its members involved in cooperative business and projects by offering Syariah-compliant financing solutions (SKM, 2022; Mohd Thas Thaker & Pitchay, 2018). KOPSYA provides Islamic financial products in line with the principles of fairness, ethical conducts and social justices (Dusuki & Abdullah, 2007), to members from marginalized and underserved communities (Obaidullah & Khan, 2008; Dusuki, 2008). Its steady growth in financing portfolio from 2020 to 2024 does reflect its increasing role in financial inclusion and economic empowerment aligning with impact in providing Syariah-compliant financial products and improving socio economy of cooperative well-being (Yusof & Bakar, 2012). But rising financing amounts pose challenges with regulatory compliance and increased competition, and the need for sustainable growth strategies (Hassan & Lewis, 2007; Bank Negara Malaysia, 2021), therefore this study is crucial (Salleh & Lajis, 2020; Nor & Hashim, 2021).

KOPSYA offers financing options such as cost plus financing(*murabahah*), profit sharing(*mudharabah*), diminishing partnerships (*musyarakah mutanaqisah*), and commodity trading(*tawarruqq*).

The challenge for cooperative institutions offering these financings is to compete with the conventional banks while ensuring that their Islamic financial products remain accessible, regulatory adaptation and financial education to promote the benefits of Shariah compliant financial solutions among members (World Bank, 2020; Ismail et al., 2021). Another critical challenge is the long-term impact of Islamic financial financing on the sustainability of cooperative institutions. While many cooperatives have adopted Islamic finance models, empirical research on their financial health, growth, and long-term liability is still lacking. It is unclear whether these cooperatives perform a better than those who are relying on conventional financing models or if they would face a greater financial portfolio as shown in the graph 1.1 above (RM447.3 million in 2020 to 750.71 million in 2024) suggest a positive financial growth but further research is needed to determine whether this trends is sustainable in the long run or not (Yusof & Bakar, 2012; Haniffa & Hudaib, 2007).

The research is driven by key questions that will examines both the benefits and limitations of Islamic financial products compared to conventional financing model and products (Dusuki, 2008; Pitchay et al., 2020). How the economic empowerment mediating financial literacy effects cooperative economy, social capital and trust effects, governance and transparency effects? How does the economic empowerment mediating regulatory and policy support effects on cooperative economy?

The significance gap of the study lies in exploration of operational framework of financial products and the impacts they have on both the cooperative's members and the broader cooperative economy (Yusof & Bakar, 2012). Additionally, the study is significant to examine the challenges faced such as regulatory compliance by Malaysian Cooperative Commission, or competition from conventional financial institutions. The study fills research gaps for continuous innovation in Islamic financial products and compliance (Pitchay et al., 2020; Fathi, M., Noordin, K., & Mansor, F. (2026)). Also, it fills research gaps to contribute valuable insights to the development of Malaysia Islamic cooperative financial ecosystem (Nor Hashim, 2021) as Islamic finance integration into the cooperative sector presents both opportunities and challenges that required deeper exploration (Dusuki & Abdullah, 2007; Bakar & Yusof, 2019).

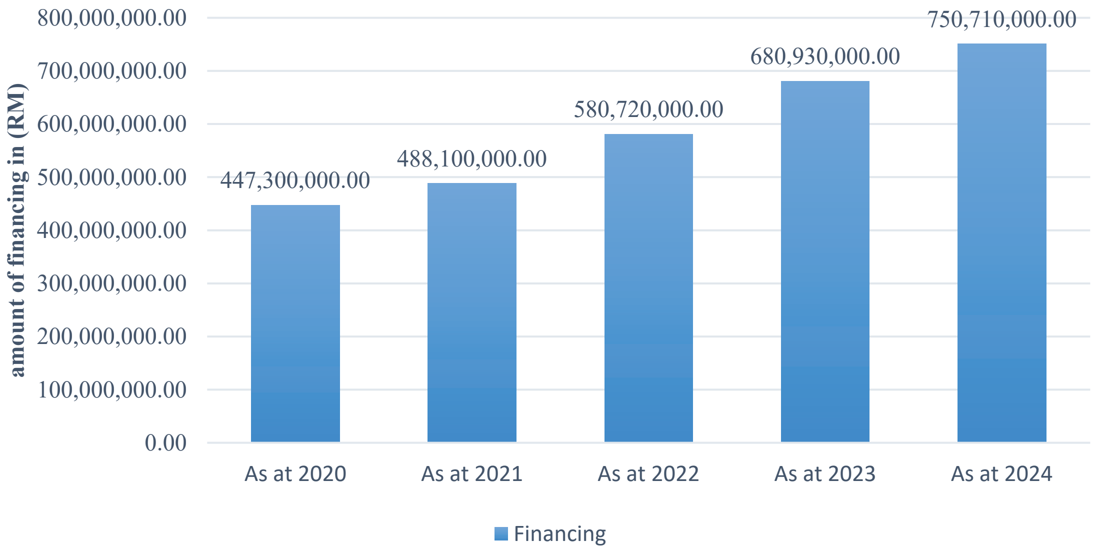
This research aims to paint a complete picture of how Islamic finance supports Malaysia's cooperative sectors. From financial growth and regulatory hurdles to member perception and sustainability, it will offer the valuable insights for improving financial inclusion and building a stronger and more ethical cooperative ecosystem (IIUM, 2022; Sabri, Salleh, & Kamaruddin, 2023; Kamaruddin, Salleh, & Shafii, 2024; Annizar & Junarsin, 2025, Fernanda, I. A., Nurhasanah, N., & Putri, D. (2023).

2. Literature review

This chapter discusses the theoretical issues underpinning the financing intermediation of KOPSYA for entire cooperative in micro, small, and medium businesses in the current economic landscape as well as the gap in the literature that this research seeks to address (Birchall, 2013; Majurin, 2012). To ensure a coherent discussion, this chapter examines the various financing sources available to KOPSYA today by considering the evolving of financial environment (Zainuddin et al., 2021; World Bank, 2020).

The sources of financing for KOPSYA are like the other Islamic cooperatives, typically include a variety of Shariah compliant financial products and funding mechanisms. These sources allow KOPSYA to provide the financing to its members while adhering to Islamic principles such as the prohibition of interest (Riba') and an emphasis on ethical, risk sharing financial solutions (Dusuki & Abdullah, 2007; Obaidullah & Khan, 2008) as in table 2.1 below.

Table 2.1: KOPSYA financing portfolio (in RM)



1.1 The graph highlight the steady growth of financing KOPSYA in 2020 until 2024.

Some common sources of financing KOPSYA utilizes from: members' contributions (as equity capital) and share capital through purchasing shares. This capital can be used as a base to finance the cooperative's operations and extend financing products to members (Zauinudin et al., 2021; SKM, 2020). These investment by cooperatives members is in accordance with Islamic principles like the profit sharing (*Mudharabah*) and partnership (*Musyarakah*) (Ayub, 2007; Haniffa & Hudaib, 2006). The Profit-Sharing Contracts (*Mudharabah and Musyarakah*) - Under *Mudharabah* contract, where principally, its members or investors provide the needed capital, and KOPSYA itself, provides management expertise. The profits are shared according to a pre- agreed ratio, while any financial losses are borne solely by the investors alone (Saeed, 2006; Iqbal & Mirakhor, 2011). *Musyarakah* financing involves a partnership where both of KOPSYA and its partners (including members, other cooperatives or financial institutions) contribute a capital for any joint venture. The profits are shared according to the partnership agreement while losses are shared in proportion to the capital invested (Usmani, 2002; Kamla & Rammal, 2013). In addition, external financing from Islamic Financing Institutions in the form of Shariah compliant loans or lines of credit are parts of KOPSYA sources incomes. KOPSYA collaborates with other Islamic financial institutions or banks for external funding options like CIMB, Alliance, MBSB, Banks Islam, RHB Islamic Banks. These funds are through Shariah compliant lines of credit or loans that are structured using profit sharing or lease-based contracts like *Mudharabah,Musyarakah, Ijarah or Murabahah* contract (BNM, 2023; ISRA, 2016).

Partnerships with other cooperatives is one of the sources. KOPSYA partners with other cooperative institutions or entities with have shariah compliant funding available like Malaysian Commission Cooperatives (SKM) Institute Cooperative Malaysia (IKMA) who give funding for pooling into one of resources to fund a larger initiatives or extension projects (SKM, 2020; IKMA, 2019).

Islamic Bonds (SUKUK) - Sukuk issuance probably is one of KOPSYA main source of income. KOPSYA issues sukuk to raise funds. Sukuk are Islamic bonds representing a share of an underlying asset, project or business. The returns on sukuk is derived from the income or profit generated by the asset or project in accordance with Islamic finance principles. This allows the cooperative to raise capital without incurring interest-based debt (Securities Commission Malaysia, 2021; Jobst et al., 2008). Grant and Government Funding - Government support is depending on the regulations and cooperatives policies in Malaysia, KOPSYA also receives government grants or financial support to enhance its service and promote financial inclusion within its community. These funds may be earned for specific projects such as social welfare programs, infrastructure development or entrepreneurship programs in underserved areas (Ministry of Entrepreneur and Cooperatives Development, 2022; BNM, 2023).

For the purpose of retention of profits like the other cooperatives, KOSPYA retains a portion of its profits and reinvests them into the business. This way allows the cooperative to grow its capital base organically and continue providing financial services to its members (Birchall, 2013; ICA, 2021). The use of these sources enables the cooperatives to enhance its financial inclusion efforts and support the long-term growth and sustainability of Malaysia's cooperative economy (Obaidullah & Khan, 2008; Dusuki, 2008).

KOPSYA offers them Shariah compliant financing alternatives that avoid the exploitative practices of high interest loans or excessive fees (Saeed, 2006; Iqbal & Mirakhor, 2011), where businesses and cooperative members help to uplift the marginalized communities (Fathi, M., Noordin, K., & Mansor, F. (2026)). The financing options offered by KOPSYA support the development of businesses creating employment opportunities, thereby addressing the economic challenges faced by low-income groups. This economic empowerment is one of KOPSYA's core contributions to the cooperative ecosystem (Yunus & Moingeon, 2010; Iqbal & Mirakhor, 2011).

Contributing to Islamic finance development as an Islamic cooperative financial institution, KOPSYA contributes to the broader growth of the Islamic finance industry in Malaysia. It assists strengthening the country's positions as a leading hub for Islamic finance by offering innovative, Shariah compliant financial solutions that meet the needs of cooperative members (BNM, 2023; Commission Malaysia, 2021). KOSPYA's success can serve as a model for other Islamic financial institutions seeking to serve the cooperative sectors. While primarily focused on the Malaysian market, KOPSYA's commitment to Islamic finance and cooperative values positions it as an important to Islamic finance and cooperative values may position it as an important player in international cooperative finance, particularly in regions seeking to integrate ethical and socially responsible financial solutions into their economic systems (ISRA, 2016; Saeed, 2006).

Providing financing to cooperatives members usually comes with several challenges and constraints. These challenges are often linked to both internal and external factors and their impact on the ability of financial institutions to effectively support cooperative growth and sustainability (Obaidullah & Khan, 2008; Dusuki, 2008). Complex regulatory environment for cooperatives adopting Islamic finance models to comply with, both conventional financial regulations and Shariah compliance standards, is among major ones. Particularly with compliance in navigating regulatory frameworks when there are differences between the rules governing conventional and Islamic financial institutions (BNM, 2023; Isra, 2016). For example, cooperative banks offering Shariah compliant products may face stricter scrutiny from regulators such as Bank Negara Malaysia (BNM) and the Malaysia Cooperative Commission (SKM), There are Shariah compliance costs also to ensuring that financial products are fully Shariah compliant requiring additional processes such as involving formation of Shariah advisory boards to review and approve products. This can increase operational costs and complexity which may limit the affordability and accessibility of financing for cooperatives (Haniffa & Hudaib, 2006; Iqbal & Mirakhor, 2011).

There is a lack of clear guidelines for Islamic cooperatives while Islamic finance has been well established principles, the specific guidelines for Islamic cooperatives like KOPSYA may still be evolving. The absence of clear and standardized regulations for Islamic cooperative financing creates confusion for both lenders and cooperatives (Dusuki & Abdullah, 2007; ISRA, 2016).

Limited access to capital for many cooperatives that particularly small or newly established ones for growth. Traditional financial institutions are often hesitant to lend to cooperatives because they may lack established credit histories or may not have sufficient collateral to secure loans. This is particularly problematic for Islamic financial institutions that operate under the principles of risk sharing and may be more caution about lending (Obaidullah & Khan, 2008; Ayub, 2007).

There is a high possibility of default risk in cooperatives, especially those serving lower income or marginalized communities. Members might face financial difficulties and make it harder for them to repay loans. Islamic finance principles such as profit sharing (*Mudharabah*) and the partnerships *(Musyarakah*) require a high degree of trust and mutual cooperation which can be strained if cooperatives members face a financial instability (Iqbal & Mirakhor, 2011; Saeed, 2006). Liquidity issues for many cooperatives who do not have the same level of liquidity as conventional financial institutions, making it difficult to access immediate financing. This can be compounded by the unique financing models that Islamic finance institutions offer not aligning with the immediate needs of cooperatives for working capitals (Jobst et al., 2008; BNM, 2023).

Understanding Islamic finance is one of the major barriers to adopting Islamic finance in cooperatives. The cooperative managers and members may not be well versed in Islamic financial principles and making them hesitant to adopt Islamic financial products over conventional ones (Zainuddin et al., 2021; Haniffa & Hudaib, 2006). Without proper education and awareness, the cooperatives might struggle to take full advantage of available financing options. There are weaknesses in educations and awareness among the cooperative that makes cooperative banking institutions couple with increasing the administrative costs in the process of ensuring compliance with Shariah law and managing Islamic financial products can be more complex and resource intensive than conventional financing (Haniffa & Hudaib, 2006; ISRA, 2016).

There are also high transaction costs for some cooperatives when attempting to access financing from Islamic financial institutions due to the additional documentation, verification processes and administrative steps involved in Shariah compliant financing (Ayub, 2007; Saeed, 2006).Competition with conventional financial institutions and Islamic financial institutions including cooperatives offering Shariah compliant products, often face stiff competition from conventional banks and financial institutions that provide simpler, quicker and less costly financing options. This can deter cooperatives from seeking Shariah compliant products especially when conventional loans are perceived as easier to obtain (Iqbal & Mirakhor, 2011; Kamla & Rammal, 2013). Resistance to change for some cooperatives may be due to a lack of trust or understanding of the benefits of Shariah compliant financing. The reluctance to embrace Islamic finance may be compounded by members lack of familiarity with its principles or a preference for conventional financial products that they know (Dusuki & Abdullah, 2007; Obaidullah & Khan, 2008).

The internal governance issues existed for some cooperatives struggles with weak structures creating inefficiencies in managing finances or monitoring loans. This makes them less attractive for extending financing (Haniffa & Hudaib, 2006; Birchall, 2013). Also, the lack of customization, while Islamic finance offers a variety of products but not all of them may be suitable for cooperatives. Products such as *Mudharabah, Murabaha, Ijarah, Musyarakah and tawarruq* may not be flexible enough to meet the diverse needs of cooperative businesses. Many cooperatives require tailored solutions that account for the unique nature of their operations. When Islamic financial institutions do not offer sufficiently customized products, the cooperatives may be less inclined to seek financing from them (ISRA, 2016; Zainuddin et al., 2021). Many cooperatives, especially those in rural areas lacks the technological infrastructure needed to manage modern financing solutions. This hinders their ability to efficiently handle transactions, monitoring financing or interact with financial institutions offering a Shariah compliant services (Yunus & Moingeon, 2010; Obaidullah & Khan, 2008).

The adoption of digital finance occurs while digital finance is growing globally (Shahzadi, Kanwal (2025)), many cooperatives still face challenges in adopting fintech solutions. This limits their ability to scale up operations and provide timely access to financing for their numbers (Securities Commission Malaysia, 2021; ISRA, 2016). The corporate financing frameworks plays a crucial role in shaping the stability, growth and socio-economic impact of cooperatives that particularly when underpinned by Islamic finance principles. These principles provide the cooperatives with an ethical, sustainable, and socially responsible financial structure.

KOPSYA is as example is excellent examples on how Islamic finance principles enhance financial stability. KOPSYA utilizes equity-based financing methods such as *Mudharabah and Musyarakah.* There are 9 hypotheses such as:

H1: There is significant relationship between financial literacy and economic empowerment.
H2: There is a significant relationship between social capital and trust with economic empowerment.
H3: There is a significant relationship between governance and transparency and economic empowerment.
H4: There is a significant relationship between regulatory and policy support with economic empowerment.
H5: There is significant relationship between financial literacy and the cooperative economy
H6: There is significant relationship between social capital and trust with the cooperative economy.
H7: There is significant relationship between governance and transparency with the cooperative economy.
H8: There is significant relationship between regulatory and policy support with the cooperative economy.
H9: There is significant relationship between the cooperative economy and economic empowerment

3. Methodology

The study also investigated the mediating role of the cooperative economy in linking Islamic finance practices to member economic empowerment. A structured questionnaire was used as the main tool for data collection, targeting respondents from various backgrounds including cooperative members, students, borrowers/ clients, and staff that involved in the cooperative sectors in Malaysia. A total of 127 respondents formed the sample size. The use of a 5-point Likert-scale ("1" highly disagree to "5" highly agree) survey enabled the researcher to quantify perceptions and experiences across the 6 key constructs based on aggregated mean score. This is shown in table 3.1 below.

Table 3.1. Measurement items

No.	Construct	Measurement items

1.	Financial Literacy (3)	1. "Financial knowledge helps to make a better economic choice?" 2. "KOPSYA or similar Islamic financial institutions actively support cooperatives?" 3. "Literacy on Islamic financing made it easier for members to fund business activities?"
2.	social capital & trust (3)	1. "Islamic finance provides fairer, more ethical financing compared to conventional systems?" 2. "I understand the key principles of Islamic finance?" 3. "I know Islamic finance is fairer for social development than conventional systems?"
3.	governance (3)	1. "There is less need for governing of education and training on Islamic finance within the cooperatives" 2. "Governance of Islamic finance has helped my cooperative grow in a more sustainable way?" 3. "Using Islamic finance has improved the financial health of cooperative?"
4.	regulatory & policy support (3)	1. "Islamic finance is a good long-term solution for cooperative sector development" 2. "Policy support of Islamic finance has helped my cooperative expand its service or membership" 3. "Stronger policy support and collaboration help Islamic cooperatives to grow"
5.	cooperative economy (3)	1. "My cooperative has increased its income/ revenue due to Shariah Compliant financing" 2. "We have been able to initiate and participate to the new projects or investments using the Islamic finance" 3. "Islamic finance helps to maintain economic balance within cooperative ecosystems"
6.	economic empowerment (5)	1. "a personal financial growth through Islamic finance programs in my cooperative" 2. "Cooperative members are able to start or grow a business/a better life with help from Islamic financing?" 3. "Shariah compliant financing has made a more secure financing" 4. "Islamic finance cooperative to avoid debt traps"

		5. "Islamic finance helped cooperatives to uplift low-income members"

The research employed a cross-sectional design, collecting data at a single point in time to capture current views and experiences. This design was appropriate for understanding the existing relationships between variables and evaluating the influence of Islamic finance within the cooperative sectors. The selected of 127 diverse respondents from different states and cooperatives roles allowed for broader insights into the accessibility, awareness and impact of Shariah-compliant financing tools.

A total 127 sample size of this study consisted of individuals that involved in the cooperative sector in Malaysia, particularly those with experience or awareness of Islamic financial institutions such as KOPSYA. This included cooperative members, students affiliated with financial or cooperative studies, staff and workers within cooperatives, borrowers or clients of Islamic financial products and the other stakeholders that engaged in cooperative economic activities. The diversity in roles ensures that the data captures a wide range of insights regarding the impact of Islamic finance on cooperative economic empowerment.

4. Results

The age composition of the respondents indicates a youthful profile with a substantial proportion of participants belonging to the younger age categories. The largest group of respondents show a strong representation of individuals with 18 to 30 years old comprising 42.1% of the total sample. This is followed by those aged 31 to 40 years who made up 33.3%. collectively, these two groups represent over 75% of the total respondents when suggesting that younger adults are actively involved in engaging with the cooperative finance and Islamic financial systems. Respondents aged 41 to 50 years accounted for 14.3% while only 10.3% were in the years and above category. This lower representation of adults may reflect a generational shift in the cooperative involvement where does the younger individuals are increasingly taking an interest in the ethical financial models, community-based financing and entrepreneurship supported through Shariah compliant instruments. The dominance of younger respondents aligns with the increasing trends of youth involvement in financial technology (Fintech) and the cooperative innovation in Malaysia. Many young cooperative members like Koperasi Belia Nasional Berhad are turning to digital Islamic finance solutions such as mobile apps offering *Murabahah* based microfinancing and online platforms for saving and their investments due to the convenience, transparency and compliance with Islamic principles.

Furthermore, the younger participants may be more inclined to explore Islamic finance as a sustainable alternative to conventional debt-based systems especially in light of economic uncertainties and the rising cost of living. Their perspectives are valuable for shaping future cooperative policies as they represent the emerging generation of cooperative leaders, entrepreneurs and digital finance users. In contrast, the relatively smaller percentage of older respondents may be due to less frequent use of online surveys or lower digital engagement though they still hold critical experience and legacy knowledge within the cooperative sectors.

In terms of gender, the data shows a relatively balanced representation with 53.2% male and 46.8% female respondents. This distribution reflects the active participation of both genders in cooperative financial activities while also suggesting that men may have a marginally higher presence in formal cooperative roles or be more responsive to financial related surveys. In Malaysia, especially in rural and semi urban areas, women often engage in microfinance, saving groups and income generating activities through cooperatives. A service like *Ar-Rahnu* (Islamic pawn brokering), *Qard Hassan* (benevolent loans) and *Mudarabah* based financing schemes offer the ethical and accessible alternatives for women to start or expand small businesses without conventional debt burdens. Moreover, the presence of women in Islamic finance indicates shifting cultural attitudes and enhanced confidence in financial decision making. The reliability score based on Cronbach

The results of the Pearson correlation analysis reveal that all relationships among the constructs are positive and statistically significant at the 0.01 level. This suggests that as one variable increases, the corresponding variable tends to increase as well while supporting the hypothesized linkages between the constructs. For instance, the correlation between financial literacy and cooperative economy yielded an R-value of 0.652 when indicating a strong and positive association. This means that individuals with higher financial literacy tend to contribute more positively to the cooperative economy. Similarly, the correlation between financial literacy and economic empowerment was found to be 0.667 when underscoring the direct impact of financial knowledge on individual capacity to improve their economic conditions. Likewise, social capital and trust demonstrated a moderate to strong positive correlation with both the cooperative economy when $r=0.609$ and economic empowerment when $r=0.642$. This suggests that cooperative members who exhibit higher levels of trust and social cohesion are more likely to contribute to, and benefit from, a robust cooperative economy. These findings affirm the importance of social dynamics in cooperative systems. Moreover, governance and transparency also displayed statistically significant correlations with both the cooperative economy when $r=0.584$ and economic empowerment when $r=0.609$. While slightly lower than the other variables, these values still indicate a meaningful relationship, implying that clear governance structures and transparency mechanisms are essential in fostering trust and efficiency within cooperative organizations. Another key variable, the regulatory and policy support showed a strong correlations with the cooperative economy when $r=0.643$ and with economic empowerment when $r=0.656$, highlighting the importance of institutional and policy frameworks in enabling cooperatives to flourish.

When regulatory conditions are favorable, cooperative societies like KOPSYA can operate more effectively thereby improving outcomes for their members. Perhaps most significantly, the correlation between cooperative economy and economic empowerment was the highest in the analysis, with an R-value of 0.712. This strong relationship confirms the central hypothesis of the study that a well-functioning cooperative economy significantly contributes to the economic empowerment of its members. This finding justifies the role of the cooperative economy as a mediating variable and suggests that the pathway from Islamic financial support to member empowerment is indeed routed through the health of the cooperative system.

The multiple regression model constructed in this study follows the basic linear form: Economic Empowerment= $B_0 + B_1$ (financial literacy) + B_2 (social capital and trust) B_3(governance and transparency) + B_4 (regulatory and policy support) + $_E$. The model summary output. The results indicate that approximately 74.9% of the variance in economic empowerment can be explained by the four independent variables combined. The F-test value is statistically significant when $p<0.001$ by confirming that the model is a good fit and the predictors reliably forecast economic empowerment. The model exhibits a good fit with an F-statistic of 183.673 when $p<0.001$ by confirming that the predictors collectively have a statistically significant effect on the dependent variable.

All four predictors are statistically significant at $p<0.001$. Regulatory and policy support shows the strongest influence on economic empowerment when $\beta= 0.325$ by suggesting its central role in enabling cooperative success. Financial literacy when $\beta=0.218$ and social capital and trust $\beta=0.214$ will contribute almost equally when underlining the importance of member education and trust-based networks. Governance and transparency also positively influence empowerment though slightly less so $\beta= 0.158$. These results imply that each variable contributes uniquely and significantly to improving the economic empowerment of cooperative members.

In a separate regression analysis, the cooperative economy was tested as a mediator and found to have a significant impact. This indicates that the cooperative economy plays a partially mediating role when enhancing the effects of financial literacy, trust, governance and policy on economic empowerment. It confirms that when cooperative systems are strong, the empowerment outcomes are significantly amplified.

A multiple regression analysis was performed with economic empowerment as the dependent variables. The findings revealed that all four independent variables significantly predicted positive effects on economic empowerment.

Mediation analysis was conducted to assess the role of the cooperative economy in transmitting the effects of the independent variables to the dependent variable. The result showed that the cooperative economy has a significant and strong effect on economic empowerment. Cooperative economic, Economy empowerment Standardized $\beta=0.856$, $t=33.729$, $p<0.001$as in table 4.1 below.

Table 4.1: Results

Variables	R-value	Significance (p-value)	Interpretation
FL ↔ CE	0.652	$p < 0.01$	Strong positive correlation
SCT ↔ CE	0.609	$p < 0.01$	Moderate to strong positive correlation

GT ↔ CE	0.584	$p < 0.01$	Moderate positive correlation
RPS ↔ CE	0.643	$p < 0.01$	Strong positive correlation
CE ↔ EE	0.712	$p < 0.01$	Strong positive correlation
FL ↔ EE	0.667	$p < 0.01$	Strong positive correlation
SCT ↔ EE	0.642	$p < 0.01$	Strong positive correlation
GT ↔ EE	0.609	$p < 0.01$	Moderate to strong correlation
RPS ↔ EE	0.656	$p < 0.01$	Strong positive correlation

This large beta value indicates that the cooperative economy plays a substantial mediating role, particularly in enabling the impacts of financial literacy, governance, and policy interventions to be realized through cooperative financial channels.

5. Discussions

The finding reveals that financial literacy among members significantly enhances their participation and decision-making capacity within the cooperative structure. Likewise, trust and social capital were found to be strong mediators that facilitate smoother interaction and better resource sharing, essential for sustaining a robust cooperative economy. The presence of transparent governance mechanism within KOPSYA boosts the confidence among member of cooperatives while supportive policies from regulatory bodies serve as catalysts for cooperative growth and innovation.

Furthermore, the research highlights the mediating role of the cooperative economy when reinforcing the idea that can will strength and efficiency of secondary cooperatives like KOPSYA directly correlate with members economic upliftment. The positive relationships among the variables will provide the practical implications for policymakers, cooperative leaders and Islamic financial institutions aiming to build a more inclusive and sustainable economic environments.

Interpretation of variables

The regression coefficients for each variable are displayed in tables 5.1 and hypothesis results in 5.2 below:

Table 5.1: Regression coefficient results

Independent Variable	Beta (β)	t-value	Sig. (p-value)
Financial Literacy	0.218	4.878	0.000
Social Capital and Trust	0.214	4.949	0.000
Governance and Transparency	0.158	4.302	0.000
Regulatory and Policy Support	0.325	8.021	0.000

Table 5.2: Hypothesis results

Hypothesis	Relationship	Path Coefficient (β)	Supported
H1	FL → EE	0.319	Yes
H2	SCT → EE	0.276	Yes
H3	GT → EE	0.253	Yes
H4	RPS → EE	0.294	Yes
H5	CE → EE	0.536	Yes
H6	FL → CE	0.478	Yes
H7	SCT → CE	0.427	Yes
H8	GT → CE	0.398	Yes
H9	RPS → CE	0.445	Yes

*Note:

FL- Financing literacy

SCT- Social capital and trust

GT- Governance transparency

RPS- Regulatory and policy support

EE- Economic empowerment

CE- Cooperative economy

While the study has made significant contributions, it is not without limitations, where the scope of the study could be expanded in future research to include qualitative data and explore the behavioral aspects in more depth.

H1: Financial Literacy has a significant direct effect on economic empowerment. The findings confirm that financial literacy has a significant and positive direct effect on economic empowerment.

H2: Social capital and trust have a significant direct effect on economic empowerment. This hypothesis was also supported with a β -value of 0.276. The social capital defined as the networks, norms and social trust that facilitate coordination and cooperation was shown to contribute significantly to economic empowerment.

H3: Governance and transparency have a significant direct effect on economic empowerment. Governance and transparency were found to have a positive effect on economic empowerment with a path coefficient of β =0.252.

H4: Regulatory and policy support has a significant direct effect on economic empowerment. Regulatory and policy support was found to play an important role in economic empowerment when β =0.294.

H5: Cooperative economy has a significant effect on economic empowerment. The strongest direct effect on economic empowerment came from the cooperative economy with a high β value of 0.536.
H6: Financial literacy has a significant effect on cooperative economy. Financial literacy was also found to significantly influence the strength of the cooperative economy when β=0.478.
H7: Social capital and trust have a significant effect on cooperative economy. The cooperative economy also benefits from strong social capital and trust when β= 0.427.
H8: Governance and transparency have a significant effect on cooperative economy. Effective governance and transparency within cooperatives significantly improve their economic functioning when β=0.398.
H9: Regulatory and policy support has a significant effect on cooperative economy. Finally, regulatory and policy support significantly contributes to strengthening the cooperative economy when β=0.445.

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