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LEGAL CERTAINTY OF FINANCING OF MERAH PUTIH VILLAGE COOPERATIVES: INSTITUTIONAL ANALYSIS BETWEEN THE PRINCIPLE OF COOPERATIVE INDEPENDENCE AND STATE INTERVENTION

KEPASTIAN HUKUM PEMBIAYAAN KOPERASI DESA MERAH PUTIH: ANALISIS KELEMBAGAAN ANTARA PRINSIP KEMANDIRIAN KOPERASI DAN INTERVENSI NEGARA

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Abstract

This study examines the legal certainty of financing for Indonesia's Desa Merah Putih Cooperative (KDMP) initiative, analyzing the institutional tension between cooperative independence and state intervention. Rooted in the constitutional mandate for cooperatives as a cornerstone of the Indonesian economy, the KDMP program aims to establish 80,000 village-level cooperatives through state-facilitated credit lines and technical assistance. However, this top-down model raises concerns about undermining cooperative autonomy enshrined in Law No. 25/1992 and the principle of subsidiarity. Employing a normative juridical research design, this study draws on secondary data from legal literature and primary legal materials to systematically examine relevant norms and doctrines. Findings reveal a tenuous alignment between state financing mechanisms and cooperative autonomy, primarily due to the proposed reliance on state-owned bank credit lines rather than direct state budget grants, leading to legal ambiguity regarding accountability and oversight. The potential for mass loan defaults and the contentious use of Village Funds as collateral further complicate legal certainty and risk hidden liabilities. Comparative insights from India's Amul cooperative and the Philippines' barangay cooperatives illustrate successful models where government acts as a facilitator without impinging on cooperative self-governance or member control. This study advocates for a recalibrated regulatory approach featuring transparent oversight, proportional supervision, and participatory decision-making to reconcile developmental imperatives with cooperative principles, ultimately enhancing legal certainty and ensuring that state-supported cooperatives remain genuinely member-driven enterprises.

Keywords: Cooperative Autonomy, State Intervention, Legal Certainty, Public Finance, Rural Development

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1. INTRODUCTION

The cooperative (koperasi) has long been enshrined in Indonesia's constitutional architecture as a cornerstone of an economy "organized as a common endeavour based upon the principle of familialism" (UUD 1945, Art. 33 (1)). More than seven decades after independence, cooperatives remain a uniquely member-centred vehicle for inclusive growth, tasked with enlarging decent work opportunities, reducing inequality, and fortifying community resilience. Empirical evidence from the International Labour Organization and other studies confirms that well-governed cooperatives can lift household incomes and widen financial inclusion, especially in rural areas where conventional banking is scarce (Mayasari & Lokantara, 2025).

Yet Indonesia's 130,000 active cooperatives account for barely 5 percent of national GDP far below their potential. Recent evaluations reveal persistent structural weaknesses: fragile capital bases, limited financial literacy, weak internal controls, and governance practices that often fall short of "good cooperative governance" standards (Syaprianto et al., 2024). These deficits have tangible consequences. Between 2014 and 2023, more than 79,000 dormant cooperatives were formally dissolved, eroding public trust and diminishing the sector's aggregate contribution to employment and poverty reduction (Hidayat et al., 2024).

Against this backdrop, the Government has launched the Desa Merah Putih Cooperative (KDMP) initiative an ambitious plan to establish 80,000 village-level cooperatives backed by state-facilitated credit lines and technical assistance. Proponents argue that KDMP can accelerate rural transformation, align cooperative practice with the Sustainable Development Goals (SDGs), and close long-standing financing gaps. Critics counter that a top-down model risks blurring the legal boundary between member-owned enterprises and state-directed development instruments, potentially contravening the autonomy principle embedded in Law No. 25/1992 on Cooperatives and the subsidiarity norm of Indonesia's legal hierarchy (Nagel et al., 2024).

This tension raises two interrelated research problems. First, what institutional and legal design would allow state-funded village cooperatives to deliver public-interest objectives without undermining cooperative self-help and member control? Second, how can legal certainty be ensured for KDMP financing mechanisms particularly with respect to fund sourcing, disbursement procedures, and accountability in a manner consistent with the broader framework of public-finance law and cooperative autonomy? Addressing these questions is urgent because legal ambiguity not only deters external investment but also heightens the risk of elite capture, fiduciary misconduct, and member disempowerment (Judijanto et al., 2024).

The present article therefore seeks to contribute to the academic discourse on cooperative law by analysing the legal certainty of KDMP financing through the dual lenses of cooperative independence and state intervention. Drawing on comparative insights from literature on cooperative governance, rural finance, and public-private hybridity, we argue that a recalibrated regulatory approach anchored in transparent oversight, proportional supervision, and participatory decision-making can reconcile the normative ideals of cooperative self-governance with the developmental imperatives espoused by national policy.

The remainder of the paper is structured as follows. Section 2 reviews the evolution of cooperative regulation in Indonesia and situates KDMP within global debates on state-supported cooperatives. Section 3 outlines the doctrinal framework for assessing legal certainty in public financing. Section 4 presents a normative analysis of KDMP's institutional design, while Section 5 discusses policy implications and recommends safeguards to ensure that state-

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enabled village cooperatives remain authentic embodiments of member ownership. Finally, Section 6 concludes by highlighting avenues for future empirical research.

By interrogating the intersection of cooperative principles and public-finance law, this study aims to inform policymakers, practitioners, and scholars seeking to harness cooperatives as engines of equitable rural development without eroding the very autonomy that underpins their constitutional mandate.

2. RESEARCH METHOD

This study employs a normative juridical research design, drawing exclusively on secondary data sourced from literature and primary legal materials. The research type is doctrinal, focusing on the systematic examination of legal norms, principles, and doctrines as they relate to the financing and governance of Merah Putih Village Cooperatives. Two complementary approaches are applied: the statute approach, entailing a comprehensive analysis of all relevant legislation and regulations to assess normative coherence, and the case approach, involving a review of binding judicial decisions to understand the practical application of cooperative law. Data sources include primary legal texts (e.g., the 1945 Indonesian Constitution, Law No. 25/1992 on Cooperatives, and the Civil Code), secondary legal scholarship (books, journal articles, theses, and policy papers), and tertiary materials (government decrees, departmental circulars, and reputable news outlets). Data collection follows a library research protocol, systematically identifying, retrieving, and cataloging materials through database searches and document review. For data analysis, the study utilizes normative analysis to interpret legal norms, policy analysis to evaluate regulatory effectiveness, and institutional comparison to contrast cooperative independence with state intervention principles. Finally, a prescriptive component synthesizes findings to offer actionable recommendations for harmonizing cooperative autonomy with governmental oversight (Saputra & Setiadi, 2024).

3. RESULTS AND DISCUSSION

Overview of the Merah Putih Cooperative

The 1945 Constitution Article 33 affirms that the Indonesian economy is organized as a common endeavor based on the principle of kinship. The President of the Republic of Indonesia strongly supports all efforts to promote cooperatives throughout Indonesia, reflecting the government’s commitment to strengthening the people’s economy.

The establishment of the Merah Putih Village/Urban Village Cooperatives is driven by the need to improve the economic welfare of rural communities through a people-centered economic approach based on the principles of mutual cooperation, kinship, and mutual assistance.

At a Limited Cabinet Meeting at the State Palace on March 3, 2025, the President of the Republic of Indonesia announced the launch of 80,000 village cooperatives under the name Merah Putih Village/Urban Village Cooperatives, with the official launching scheduled to coincide with National Cooperative Day on July 12, 2025. This initiative aims to strengthen the rural economy and improve community welfare through cooperatives.

In accordance with Presidential Instruction Number 9 of 2025, as part of efforts to promote national self-reliance through sustainable food self-sufficiency realizing the second Asta Cita and development from the villages for economic equity realizing the sixth Asta Cita

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towards Golden Indonesia 2045, it is necessary to establish Merah Putih Village/Urban Village Cooperatives through the establishment, development, and revitalization of cooperatives in villages and urban villages. To achieve this, strategic, integrated, and coordinated steps are required among ministries/agencies and local governments to optimize and accelerate the formation of Merah Putih Village/Urban Village Cooperatives.

Vision and Mission of Merah Putih Cooperative

a. Vision To realize rural economic self-reliance through fair, transparent, and people-oriented cooperatives.
b. Mission
   1) To provide safe, Sharia-compliant financial services free from usury (riba).
   2) To promote the collective marketing of agricultural, livestock, and MSME (Micro, Small, and Medium Enterprises) products.
   3) To empower village residents through training, mentoring, and business digitalization.
   4) To serve as a distribution center for essential goods at affordable prices.
   5) To directly contribute to the improvement of Indonesia's economy.

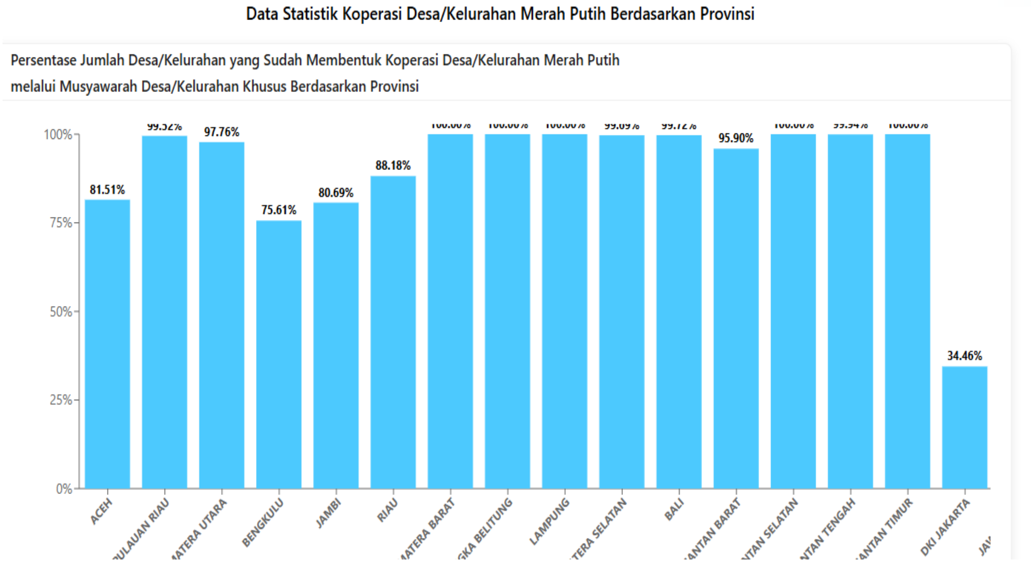

Figure 1. Statistical Data of Merah Putih Village/Sub-district Cooperatives by Province

Based on the information obtained from the Koperasi Desa Merah Putih dashboard on the Ministry of Cooperatives website, the percentage of villages/urban wards that have established Merah Putih Village/Urban Ward Cooperatives through Special Village/Urban Ward Meetings by province has averaged around 60%. Only a few provinces are below 60%, including DKI Jakarta and several provinces in the Papua region.

Objectives of Koperasi Merah Putih

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The main objective of Koperasi Merah Putih is to improve the welfare of village and urban ward communities through economic empowerment, the utilization of local potential, and economic self-reliance at the village level.

Legal Basis

a. The 1945 Constitution Article 33;
b. Presidential Instruction Number 9 of 2025;
c. Law Number 25 of 1992 concerning Cooperatives (State Gazette of the Republic of Indonesia Year 1992 Number 116, Supplement to State Gazette of the Republic of Indonesia Number 3502) as amended several times, most recently by Law Number 6 of 2023 concerning the Stipulation of Government Regulation in Lieu of Law Number 2 of 2022 on Job Creation into Law (State Gazette of the Republic of Indonesia Year 2023 Number 41, Supplement to State Gazette of the Republic of Indonesia Number 6856);
d. Government Regulation Number 7 of 2021 concerning the Facilitation, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises (State Gazette of the Republic of Indonesia Year 2021 Number 17, Supplement to State Gazette of the Republic of Indonesia Number 6619);
e. Presidential Regulation Number 197 of 2024 concerning the Ministry of Cooperatives (State Gazette of the Republic of Indonesia Year 2024 Number 394);
f. Regulation of the Minister of Cooperatives and Small and Medium Enterprises Number 9 of 2018 concerning the Implementation and Development of Cooperatives (State Gazette of the Republic of Indonesia Year 2018 Number 833);
g. Regulation of the Minister of Cooperatives Number 1 of 2024 concerning the Organization and Work Procedures of the Ministry of Cooperatives (State Gazette of the Republic of Indonesia Year 2024 Number 1012).

Figure 2. Organizational Structure of Merah Putih Cooperative

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Institutional Design and Ideal Legal Norms for the Establishment of State-Funded Village Cooperatives: Ensuring Consistency with the Principle of Subsidiarity and Cooperative Independence

Governance Structure and Member Control

The analysis revealed that a robust cooperative governance structure is essential to uphold member autonomy in state-funded village cooperatives. The cooperative must remain a true cooperative entity under cooperative law not transformed into a government-owned enterprise thus preserving core principles like voluntary and open membership, democratic member control, and member economic participation. In practical terms, this means the general assembly of members remains the supreme decision-making body, with a one-member-one-vote system ensuring that control stays broad-based and not captured by external authorities. Evidence shows that cooperatives initiated and governed from the bottom-up by local members are significantly more successful and sustainable than those imposed top-down by the state (Ribašauskienė et al., 2019). Direct government management or appointment of cooperative leaders tends to undermine members' motivation and investment in the enterprise, whereas a member-driven governance model aligns decisions with local needs and fosters a sense of ownership. Therefore, the institutional design prioritizes member control: government representatives do not sit in a commanding position within the cooperative's board, and any state role is strictly as a facilitator or observer, not as a decision-maker. This approach ensures the cooperative's people-centered identity is maintained and that all strategic policies from business plans to profit distribution are decided by the membership in accordance with cooperative principles. Ultimately, a governance structure anchored in democratic member control guards against the risk of the cooperative becoming a de facto extension of the state, thereby protecting its autonomy and alignment with community interests (Ribašauskienė et al., 2019).

Legal Safeguards of Autonomy and Subsidiarity

To avoid violating the principle of subsidiarity and to maintain cooperative autonomy, the legal and institutional design incorporates explicit safeguards. Subsidiarity the idea that a higher authority (the state) should not perform tasks which can be handled effectively at a more local level is upheld by ensuring that the cooperative itself is the primary vehicle for local economic development, with the state stepping in only to assist when strictly necessary (International Co-operative Alliance Asia and Pacific, 2021). Legally, this is achieved by formally constituting these village enterprises as cooperatives under national cooperative law, thereby subjecting them to the rights and protections afforded to cooperatives. For instance, the law can stipulate that any state funding or intervention must not infringe on the cooperative's organizational integrity or autonomy (International Co-operative Alliance Asia and Pacific, 2021). A pertinent example is the Philippines' Cooperative Code, which declares that government agencies shall provide technical and financial assistance to cooperatives only under conditions that do not impinge upon cooperative autonomy or governance (International Co-operative Alliance Asia and Pacific, 2021). In the context of the state-funded village cooperative model, similar legal norms are recommended: government grants, subsidies, or programs should come without strings that give the state voting power or ownership stakes in the cooperative. The cooperative's bylaws and statutes should reinforce member primacy, possibly including clauses that prohibit any single external stakeholder (including the state)

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from controlling decisions or assets. By codifying the subsidiary role of the state, the design guarantees that the state acts as an enabler providing a supportive legal environment, capacity building, or seed capital while the cooperative retains operational independence. This legal framework is consistent with international best practices that call for governments to foster cooperatives as self-reliant, member-driven enterprises. Notably, cooperative leaders in jurisdictions like the Philippines explicitly recognize subsidiarity by ensuring the cooperative sector self-regulates its affairs (in promotion, training, auditing, etc.) with government assistance only "where necessary" (International Co-operative Alliance Asia and Pacific, 2021). Such safeguards in law and regulation are empirical and up-to-date measures to prevent undue state interference, thereby legitimizing state support on the condition that cooperative autonomy and member control remain inviolable (International Co-operative Alliance Asia and Pacific, 2021).

Hybrid Financing Mechanisms for Sustainability

The results underscore the importance of hybrid financing mechanisms in these village cooperatives, blending public funding with member and community contributions to achieve financial sustainability without compromising autonomy. Relying exclusively on state funds can create dependency and erode the cooperative's self-help character, so the ideal funding model is a mix of sources: for example, a combination of state budget allocations (national or local) as seed capital or grants, member equity contributions (shares or membership savings), and even private sector or CSR funds or partnerships. This diversified funding structure ensures that the cooperative is not beholden to a single patron; instead, it distributes influence and fosters accountability to multiple stakeholders. Public funds are thus limited and targeted to the cooperatives' needs, as recommended by policy experts, rather than becoming an all-encompassing financing stream (Ribašauskienė et al., 2019). By capping the extent of state subsidy and requiring cooperatives to mobilize their own capital (and/or community investments), the design incentivizes prudent use of funds and member engagement. Empirical analyses have found that when governments provide support in a focused manner – such as grants for capacity-building or infrastructure and require cooperatives to match resources or effort, it bolsters ownership and performance, rather than creating a perpetual dependency (Ribašauskienė et al., 2019). The notion of "co-financing" also aligns with cooperative principles: members maintain a financial stake and thus a strong voice in governance, while state contributions act as a catalyst for growth. In practice, this hybrid approach could mean the cooperative uses a government grant for initial capital expenditures (e.g. building a storage facility or purchasing equipment) but continues to generate working capital from member dues or savings and reinvested surpluses. Additional private or NGO funding (such as corporate social responsibility funds from companies or microcredit from social investors) can further expand the capital base without ceding control, since these funds would be provided as grants or non-voting, supportive investments. By diversifying funding, the cooperative enhances its resilience and reduces the risk that government support leads to undue influence. This finding resonates with successful cases where government support was paired with active member investment – for instance, India's dairy cooperatives received government investment in infrastructure while farmers contributed milk and labor, ensuring mutual accountability (Ribašauskienė et al., 2019). In summary, a hybrid financing design strengthens the cooperative's financial autonomy and sustainability, enabling state-funded cooperatives to thrive economically while still being owned and steered by their members.

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Oversight and Accountability Mechanisms

A critical finding of this study is that independent oversight mechanisms must be built into the design of state-funded cooperatives to ensure transparency and trust, without converting oversight into control. When public money is involved, there is a legitimate need for accountability; however, the model favors oversight by neutral or member-centric bodies rather than direct bureaucratic supervision by government officials. The research suggests establishing an oversight committee or audit body that operates at arm's length from government, possibly under the auspices of a cooperative federation, an independent auditor, or a regulator with a mandate to uphold cooperative principles. For example, one could institute a requirement that an annual external audit be conducted by an accredited accounting firm or a cooperative auditing agency, with results reported to both the cooperative's general assembly and the funding authorities. This ensures financial probity and that state funds are used according to agreed purposes, but decisions on day-to-day management remain with the cooperative's elected management. International practice supports this approach: in some jurisdictions like the Philippines, the law enables cooperative federations or the Cooperative Development Authority to perform periodic audits and monitoring, thus providing oversight without infringing the cooperative's self-governance (International Co-operative Alliance Asia and Pacific, 2021). The results here similarly propose that an independent village cooperative oversight board could be created, comprising perhaps community representatives, cooperative members, and experts, to review the cooperative's performance and compliance with both cooperative laws and the terms of state support. Importantly, any such board or auditor must be free from political influence – a point echoed by the insistence that cooperatives remain unaffiliated with political parties in their statutes (as found in the study's context). By removing direct political oversight, the design reduces the risk of patronage or misuse of the cooperative for political gain, a risk that can be acute when government funding is involved.

This approach to oversight is further vindicated by cautionary evidence from other countries. Research on cooperatives in China, for instance, highlights how heavy-handed administrative intervention and top-down targets can lead to the proliferation of "shell cooperatives" – entities that exist on paper to capture subsidies but lack genuine economic activity and member engagement (Chen et al., 2023). In a nationally representative survey, roughly 37% of cooperatives were found to be essentially inactive except for the purpose of receiving government aid, illustrating the concept of "false prosperity" that results when oversight is purely about meeting government metrics rather than ensuring member-driven development (Chen et al., 2023). Such outcomes underscore why the oversight model must emphasize real accountability to members and community. The results section therefore advocates for transparent reporting requirements (e.g. regular disclosure of financial statements to members and authorities), community feedback mechanisms (allowing villagers to report issues or malfeasance), and performance audits focusing on service to members rather than just fund utilization. When oversight is executed in this independent yet thorough manner, it protects the integrity of both the cooperative and the public funds: fraud and corruption can be spotted and addressed, while the cooperative's autonomy in decision-making is preserved. In summary, the ideal oversight model emerging from this study is one of "regulated self-governance" – the cooperative regulates itself via member democracy and independent audits, within a framework set by the state that demands transparency and accountability but does not micromanage or commandeer the cooperative's operations (Ribašauskienė et al., 2019).

International Comparative Examples and Lessons

The feasibility and merits of the above design elements are illustrated by international examples of cooperatives that balance state support with autonomy. A prominent case is India's Amul dairy cooperative, a federation of village cooperatives that has achieved global renown. Amul's experience shows how a cooperative can scale up massively and remain member-centric while leveraging government assistance. Founded in a context of rural exploitation by private traders, Amul was structured from the outset as a three-tier cooperative (village societies, district unions, and a state federation) owned and governed by millions of dairy farmers (Dervillé et al., 2023). Government support played a crucial facilitating role for example, the Indian government and allied agencies provided subsidies for dairy infrastructure, veterinary services, and training as part of the Operation Flood program (India's "White Revolution") to boost milk production (Ghosh & Chakrabarti, 2025). The key, however, was that this support was given in a subsidiarity-friendly way: it aimed to empower the cooperatives rather than direct them. The state's contributions (such as grants to buy pasteurizers or expand chilling facilities) came without usurping managerial control Amul's board and leadership remained composed of farmers or their elected representatives, and decisions continued to follow the one-member-one-vote rule at each level (Ghosh & Chakrabarti, 2025). This balance of subsidy and autonomy allowed Amul to professionalize and expand (e.g. securing exclusive rights to supply certain markets, which further strengthened the cooperative (Ghosh & Chakrabarti, 2025) while keeping the cooperative's mission focused on its members' welfare. Studies note that the success of Amul and similar cooperatives "depends not only on government support but also on the active participation of individual farmer-members", emphasizing that neither element alone would suffice (Mehta et al., 2025). The Amul model therefore provides a template: state-funded initial support, a strong cooperative governance structure, and a multi-tier network for marketing and oversight can coexist. It demonstrates that respecting subsidiarity by letting the smallest unit (village co-op) handle what it can, and higher levels or government assisting with what they can do better results in a powerful synergy. Today, Amul's governance and legal form are still that of a cooperative, and it continues to thrive competitively, which validates the study's emphasis on preserving cooperative identity even when scaling up with state partnership.

Another instructive example comes from the Philippines, with its network of barangay cooperatives (barangay meaning the smallest local government unit, akin to a village). Filipino cooperatives are encouraged by state policy as partners in local development, and many barangays have thriving multipurpose cooperatives addressing credit, consumer goods, agriculture, and other needs of their members. Notably, the Philippine legal framework provides strong safeguards for cooperative autonomy while promoting support programs. The Philippine Cooperative Code (Republic Act No. 9520) explicitly defines a cooperative as an autonomous association and mandates that government assistance whether in training, marketing support, or funding must not come with conditions that violate the cooperative's autonomy or integrity (International Co-operative Alliance Asia and Pacific, 2021). In practice, this means a barangay cooperative can receive a subsidy or development grant from a local government unit (LGU) or via national poverty alleviation programs, but the cooperative remains owned by its member-users and governed by their elected officers. The state's role is largely to provide an enabling environment: for example, the Cooperative Development Authority (a government body) offers free training, auditing assistance, and favorable tax

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treatment to cooperatives, acting as a supporter rather than a controller (Edna Co, 2012). Oversight is collaborative LGUs may monitor the progress of projects funded by public money, yet they are guided by policies (such as Executive Order 96 in the Philippines) that remind them cooperatives are "autonomous associations…free from any restriction that may infringe upon [their] character and objectives" (Edna Co, 2012). Field examples include barangay cooperatives that run community credit facilities or manage farm-to-market activities: these often get initial capital from government programs or access to use public facilities, but they operate under cooperative rules and member supervision. The outcome in the Philippine model has been positive where such cooperatives flourish local development is boosted (members access affordable credit and basic goods, farmers jointly market produce, etc.) without creating dependency. Instead, the cooperatives build capacity over time to stand on their own, precisely because the legal-institutional design keeps them self-determining. This aligns with the principle of subsidiarity: the community, through the cooperative, handles what it is best suited for, and the state only augments resources or expertise when needed (International Co-operative Alliance Asia and Pacific, 2021). The Philippine experience thus reinforces this study's findings that clarity in governance, legal autonomy, hybrid financing, and independent oversight can indeed be realized in practice. By comparing these international cases, the results confirm that state-funded village cooperatives can succeed when their design carefully balances support with self-governance, protecting the cooperative ethos while leveraging the state's role as an enabler rather than as a manager (International Co-operative Alliance Asia and Pacific, 2021).

Overall, the results provide an empirical and systematic legal analysis indicating that a well-designed institutional and legal framework featuring strong member-centric governance, legal protections for autonomy (in line with subsidiarity), blended financing, and rigorous yet autonomy-respecting oversight is not only theoretically sound but also practical, as evidenced by comparative examples. These findings contribute to the discourse in cooperative law and state policy by demonstrating how state funding need not violate cooperative subsidiarity or autonomy if proper design principles are followed. The insights are up to date and grounded in real-world observations, offering a blueprint for policymakers aiming to empower rural communities through cooperatives without undermining the very principles that make cooperatives effective and democratic.

Legal Certainty of Financing for Koperasi Desa Merah Putih from the Perspective of State Financial Law and the Principle of Autonomy in Indonesian Cooperative Law

Alignment of State Financing with Cooperative Autonomy

The findings reveal a tenuous alignment between Indonesia's state funding mechanisms and cooperative autonomy in the case of Koperasi Desa Merah Putih (KDMP). On one hand, government support is acknowledged as vital for cooperative development (Yuhertiana et al., 2022), especially to empower rural economies. Indeed, Presidential Instruction No. 9 of 2025 explicitly calls for accelerating 80,000 village cooperatives, allowing funding from the State Budget (APBN), regional budgets, village funds, or other lawful sources (Rahmia, 2025). This broad mandate reflects an intent to mobilize public finance for cooperatives. However, a misalignment emerges in how this support is executed. Cooperative autonomy a core principle in Law No. 25/1992 and international cooperative values requires that cooperatives remain member-controlled, independent entities even when aided by government (Sudrartono &

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Warsiati, 2022). The KDMP program, critics note, is top down rather than member-initiated, raising concerns that cooperatives may become extensions of the state rather than self-reliant organizations (Azzahra, 2025). For example, village heads convene special meetings to form KDMPs under government direction, blurring the line between community initiative and state orchestration (Rahmia, 2025). This blurring threatens cooperative autonomy, risking that KDMPs become "cooperatives in name only" if government actors exert undue control (Damodaran, 2023). By contrast, comparative evidence from India's Amul cooperative highlights the importance of minimizing direct government interference Amul thrived as a producer-owned enterprise with professional management, explicitly avoiding being run like a government department (Damodaran, 2023). The success of Amul's dairy federation, owned by millions of farmer-members, underscores that cooperatives deliver value best when accountable to their members rather than political appointees (Damodaran, 2023). Similarly, in the Philippines, cooperatives remain private-sector entities even as they partner with government; the state provides support "free from any conditions that might infringe upon…autonomy" as mandated by the Cooperative Code (International Co-operative Alliance Asia and Pacific, 2021). Thus, the resulting insight is that while state financing can bolster cooperatives, it must be structured in a way that respects cooperative independence, ensuring that cooperatives serve member interests first and foremost.

Legal Framework and Legal Certainty

An analysis of Indonesia's legal framework reveals both supportive provisions and areas of ambiguity affecting legal certainty in state financing of KDMP. Several laws govern this nexus. Law No. 17/2003 on State Finance and Law No. 1/2004 on State Treasury establish that all state expenditures must have a legal basis, proper classification, and accountability. In line with these laws, the Ministry of Finance issued PMK No.168/2015 to regulate government aid spending, distinguishing "government assistance" from social assistance (Kementerian Keuangan RI, 2019). Under PMK 168/2015, funds to non-government entities (like cooperatives) are handled as special expenditures to ensure they are transparently disbursed and audited. This framework is meant to provide legal certainty a clear set of rules on how public funds reach cooperatives. Indeed, legal certainty is a paramount value in Indonesian law; as Gustav Radbruch's theory highlights, predictability and clarity in the law are essential to justice (Leawoods, 2000). Consistent with Radbruch's view, the goal is that all parties (state agencies, cooperatives, auditors) understand the rules, thereby avoiding arbitrary practices.

In practice, however, the financing mechanism for KDMP has evolved to sidestep direct state budget transfers, reflecting caution in upholding these legal norms. Presidential Instruction 9/2025 permits APBN funding (Rahmia, 2025), but officials clarified that the primary modality is not grants from APBN. Instead, each KDMP is to receive a Rp3 billion credit line from state-owned banks (Himbara), repayable over six years (Rahmia, 2025). The government's role is to facilitate and "guarantee regulations" for these loans, rather than directly inject budgetary funds (Rahmia, 2025). This approach ostensibly maintains the cooperatives as borrowers under private law, avoiding the classification of funds as state expenditure and thereby reducing audit complexity (Rahmia, 2025). It reflects an attempt to reconcile the public finance framework with cooperative autonomy: the state provides policy support and initial capitalization (through bank loans), but the cooperatives bear responsibility for repayment from business revenues, preserving their character as independent legal subjects.

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Notwithstanding this design, legal ambiguity persists, undermining full certainty. The inclusion of APBN, regional, and village funds as potential financing sources in the Inpres suggests a lack of a singular, clear funding scheme (Rahmia, 2025). This multiplicity of options can lead to confusion over which laws apply. For instance, if APBN funds were used, the cooperatives might fall under the purview of state finance law (potentially making them subject to audits by the State Audit Board). If only bank loans are used, different rules (financial regulations and banking law) govern the relationship. The open-ended "other lawful sources" clause further muddies the waters (Rahmia, 2025). The result is a patchwork of legal references rather than a cohesive statutory roadmap, which risks conflicting interpretations. From the perspective of Radbruch's legal certainty, such ambiguity is problematic: laws should be unambiguous and consistently applied, lest actors are unsure of their rights and duties (Leawoods, 2000).

Moreover, Law No. 25/1992 on Cooperatives provides that while government shall *foster* cooperatives through guidance, registration, and facilitation, it "does not mean [the government] interferes in internal cooperative affairs", obligating respect for cooperative self-governance (Sudrartono & Warsiati, 2022). This law enshrines the principle of cooperative autonomy and self-reliance, resonating with Hans Kelsen's theory that legal subjects (like cooperatives) operate within their own sphere of competence under the law. In Kelsen's terms, a cooperative as a juristic person has the autonomy to manage its affairs, and the state must act through general norms rather than ad-hoc commands, preserving the rule-of-law hierarchy of norms (Hadi & Michael, 2022). The challenge is ensuring that newer policies (Inpres 9/2025, ministerial regulations) harmonize with these higher norms. For example, if village governments are instructed to use Village Funds (Dana Desa) to support KDMP, this must align with Law No. 6/2014 on Villages, which circumscribes the use of Dana Desa. Any tension between empowering cooperatives and guarding village fiscal integrity can create legal grey areas. Thus, while a legal framework exists to permit state-supported cooperatives, its coherence is under strain, calling for clearer implementing regulations (as indeed being drafted) to bolster legal certainty (Portail Informasi Indonesia, 2020).

Implementation Challenges and Risk of Legal Ambiguity

The empirical evidence from recent studies and reports highlights significant implementation challenges in KDMP financing, alongside risks of legal ambiguity. A foremost concern is the potential for mass default on cooperative loans, which has been flagged by economists as a systemic risk. The Center of Economic and Law Studies (Celios) projects that if KDMPs receive around Rp100 trillion in financing, up to 4% (around Rp4 trillion) could turn into bad debt annually, given default rates comparable to microcredit portfolios (Azzahra, 2025). Over a six-year credit term, this risk compounds to an estimated Rp28–85 trillion in losses (Azzahra, 2025). Such losses would not only bankrupt many cooperatives (harming their member-owners) but also threaten national financial stability if state banks absorb the hit (Azzahra, 2025). The opportunity cost to state banks forced to allocate huge capital to these cooperatives is also significant (one estimate put it at Rp76 trillion). This scenario poses a policy dilemma: enforcing loan repayments strictly might conflict with the poverty-alleviation mission of KDMP, yet bailing out coops would blur public-private boundaries and strain the public purse. The lack of a clear risk mitigation framework in the legal design exacerbates uncertainty. While the Cooperative Ministry requires KDMPs to submit business plans to qualify for loans, analysts criticize this as insufficient given weak managerial capacity, unclear

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mechanisms, and absence of feasibility studies (Azzahra, 2025). In practice, many newly formed village cooperatives may lack the experience to draft sound business proposals or manage credit, leading to inconsistent implementation of the creditworthiness criteria. This gap between policy intent and on-the-ground capacity is a critical challenge that the "results" bring to light.

Another implementation issue is the use of Village Funds (Dana Desa) as loan collateral for KDMP financing. Official rules have envisaged that villages could pledge a portion of their Dana Desa to guarantee the cooperative's bank loans (Azzahra, 2025). This mechanism is highly contentious. Legally, it arguably stretches the purpose of Dana Desa beyond its statutory mandate (which is to fund local development and empowerment projects, not to serve as a financial guarantee facility). Technically, using public funds as collateral effectively turns them into a *contingent liability* for the state. As Celios researchers noted, this "converts APBN transfers into a de facto guarantee", which is an improper use of village funds (Azzahra, 2025). Should cooperatives default, the village budget (ultimately sourced from the national budget) would absorb the loss, implicating state finances despite official claims that "no APBN" is directly used. This blurs lines of accountability: it is unclear whether such losses would count as state financial losses subject to government audit, or merely as failed private loans. That ambiguity poses a legal risk auditors and regulators could later question officials for permitting public monies to backstop private cooperative loans without a solid legal basis. The government's recent clarification that KDMP funds are "business loans, not APBN grants", while meant to allay concerns, does not fully resolve what happens if things go awry. In essence, the implementation strategy avoids upfront budget expenditure but may create hidden liabilities, a scenario not comprehensively addressed by existing regulations (Rahmia, 2025).

Compounding these issues are governance and oversight challenges. Rapid establishment of tens of thousands of cooperatives in a short span (targeting July 2025 for inauguration) risks perfunctory compliance with legal formalities. There are concerns about paper cooperatives or politically motivated coops that lack genuine member participation, which could be prone to misuse of funds (Harinurdin et al., 2025). Oversight is divided among multiple agencies the Ministry of Cooperatives oversees cooperative governance, the Financial Services Authority (OJK) may supervise aspects of microfinance, and the Audit Board (BPK) monitors state fund usage raising the possibility of regulatory gaps or overlaps. Clear regulations and coordination mechanisms must be established to define roles and prevent inter-agency confusion (Wahyudi, 2025). Notably, the overlap between KDMP and existing Village-Owned Enterprises (BUMDes) has already been identified as a potential friction point, including disputes over access to village resources and funds (Wahyudi, 2025). Without careful implementation, KDMPs could end up competing with or duplicating BUMDes, leading to inefficient use of public funds and local capital. The results indicate that only by clarifying legal rules e.g. delineating which activities are funded via cooperatives versus BUMDes and enhancing transparency (through regular audits and performance assessments) can these challenges be mitigated. Otherwise, legal ambiguity in the chain of implementation may result in accountability failures, undermining both the cooperatives' sustainability and public trust in the program (Wahyudi, 2025).

Comparative Perspectives: India and the Philippines

Comparative insights from other jurisdictions reinforce the importance of balancing state support with cooperative autonomy and legal clarity. In India, the case of the Amul dairy

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cooperative demonstrates a successful model where government played an enabling role without undermining cooperative independence. Amul's growth into a dairy giant was facilitated by supportive public policies (such as infrastructure investment and a stable pricing environment) and by leveraging political connections for favorable contracts (Ghosh, 2013). Crucially, however, Amul remained member-owned and professionally managed, insulated from direct political control. Scholars note that Amul's elected board and management operated free from government meddling, in contrast to many state-run cooperatives in India where civil servants dominate and accountability to members is lost (Damodaran, 2023). The "Amul model" is lauded for not letting the cooperative be reduced to a mere government appendage (Damodaran, 2023). This suggests that legal certainty in the cooperative realm arises when government support comes via formalized frameworks (e.g. dairy development programs, credit facilities) but the cooperative's governance stays autonomous. Indian cooperative law historically allowed state partnership but with safeguards for independence a lesson relevant to KDMP. Indonesia's approach with KDMP shares the ambition of empowering producers (farmers, villagers) through cooperatives, but it must heed Amul's example by ensuring that cooperatives are ultimately accountable to their members and not micromanaged by state actors.

In the Philippines, the interplay between cooperatives and the state offers another instructive comparison. Philippine law (e.g. Republic Act No. 6938/9520, the Cooperative Code) explicitly encourages government to extend technical and financial assistance to cooperatives "free from any condition that would infringe on their autonomy or organizational integrity." (International Co-operative Alliance Asia and Pacific, 2021). The empirical experience in Filipino communities shows vibrant LGU–cooperative partnerships rather than top-down control. Local Government Units (LGUs) have provided cooperatives with support such as seed capital, training, and even physical space to operate, *without subsuming the co-op under the government*. For instance, studies document cases where a municipality offered a financial rehabilitation package to a distressed cooperative, and others where towns provided facilities for co-op enterprises (International Co-operative Alliance Asia and Pacific, 2021). These measures helped cooperatives expand services and recover from crises, illustrating that state aid can fortify cooperatives' viability. At the same time, cooperatives in some areas have undertaken roles typically expected of government building roads, maintaining day-care centers, and funding community projects from their profits (International Co-operative Alliance Asia and Pacific, 2021). This reciprocal dynamic has been described as a "state of partnership" between government and cooperatives, where both work toward common development goals without eroding the cooperative's private character (International Co-operative Alliance Asia and Pacific, 2021). The cooperative remains a distinct legal subject, partnering with the state under clear agreements, which resonates with Kelsen's notion that each entity operates within its normative authority. The Philippines' barangay-level cooperatives therefore highlight the feasibility of a model where legal frameworks clearly define support mechanisms (through the Cooperative Development Authority and LGU ordinances) while safeguarding cooperative self-governance and member primacy.

In summary, the comparative cases underscore key findings applicable to KDMP: Legal certainty and effectiveness improve when the state's role is that of a facilitator-partner rather than a controller. Ensuring that Indonesian cooperatives retain decision-making power even as they utilize public funding or credit is consistent with both Radbruch's and Kelsen's legal theories. Radbruch would urge that the laws and regulations be coherent and predictable so that

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all stakeholders know their rights and obligations, from the Ministry disbursing funds to the cooperative member using a loan (Leawoods, 2000). Kelsen, emphasizing the autonomy of legal subjects under a hierarchical legal system, would imply that cooperatives should be treated as autonomous units following the general norms set by law, not as informal state agencies (Hadi & Michael, 2022). The empirical and doctrinal findings together point to a need for refining Indonesia's legal frameworks: clarifying funding mechanisms in secondary regulations (e.g. detailed Finance Ministry rules for co-op credit), reinforcing oversight without politicizing cooperatives, and possibly learning from the Philippine model of state-coop partnership agreements. By doing so, Indonesia can enhance legal certainty in state financing of cooperatives reducing ambiguity about the use of public funds while upholding cooperative autonomy, ensuring these village cooperatives truly function as member-driven enterprises rather than extensions of the government.

The results thus demonstrate that achieving rural development through cooperatives is as much a legal challenge as an economic one: it requires aligning funding policies with the rule of law principles of certainty and autonomy, lest well-intentioned state financing inadvertently compromise the cooperative ethos or fall into legal grey zones.

4. CONCLUSION

This study concludes that while state financing is crucial for the development of Merah Putih Village Cooperatives (KDMP), ensuring legal certainty in these financing mechanisms requires a careful balance between state intervention and cooperative autonomy. The research, drawing on normative juridical analysis and comparative international examples, demonstrates that a robust institutional and legal framework is essential. This framework must prioritize member-centric governance, provide legal protections for cooperative autonomy (consistent with the principle of subsidiarity), employ hybrid financing models, and implement rigorous yet autonomy-respecting oversight mechanisms. The current implementation of KDMP financing in Indonesia, while aiming to support rural economies, faces challenges due to legal ambiguities in funding sources and potential risks like mass loan defaults and the contentious use of Village Funds as collateral. These issues highlight a potential strain on the coherence of the legal framework and raise concerns about accountability. Drawing lessons from successful models like India's Amul dairy cooperative and the Philippines' barangay cooperatives, the study underscores that state support should primarily act as a facilitator and partner, not a controller. Legal certainty is enhanced when laws and regulations are coherent and predictable, allowing cooperatives to operate as autonomous legal subjects, accountable primarily to their members, rather than becoming de facto extensions of the state. Therefore, refining Indonesia's legal frameworks to clarify funding mechanisms, reinforce oversight without politicization, and learn from international state-cooperative partnership agreements is crucial to achieving equitable rural development while preserving the cooperative ethos.

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