

Potential for Budget Disharmonization in the Management of the Merah Putih Village Cooperative

Adnan Hasanudin ¹, Atik Winanti ², and Aurora Jilena Meliala ³

¹ Master of Law, UPN "Veteran" Jakarta, Indonesia; adnanhasanudin03@gmail.com

² Master of Law, UPN "Veteran" Jakarta, Indonesia; atikwinanti@upnvi.ac.id

³ Master of Law, UPN "Veteran" Jakarta, Indonesia; aurora@upnvi.ac.id

* Corresponding Author : adnanhasanudin03@gmail.com

Abstract: This research aims to determine whether the budget formulation of the Merah Putih Village Cooperative is in accordance with the norms and statutory regulations as stipulated in Law Number 25 of 1992 concerning Cooperatives, particularly in relation to Article 33 paragraph (4) of the 1945 Constitution, which emphasizes the principle of independence in the national economy. The results of this study focus on optimizing the establishment of the Merah Putih Village Cooperative to support the formation of national-scale cooperatives that function not only as savings and loan institutions driving the economy, but also address the challenges and risks that may arise from the establishment of the Merah Putih Cooperative. First, the issue of economic scale is crucial. Operations at the village level are often limited by available resources and market reach. Second, human resource capacity is a determining factor. The management of funds amounting to IDR 3–5 billion requires financial, business, operational, and marketing management skills that are not always present in every village. Experience with Village-Owned Enterprises (BUMDes) shows that one of their main challenges is finding local residents who are truly skilled managers. Third, elite capture or control by local elites can become a bottleneck. In villages with weak governance, influential figures may abuse their authority to control the cooperative for personal gain. Similar occurrences are often found in grant programs from Ministries/Agencies or the private sector, where key individuals dominate and exploit these resources for their own interests. Fourth, the risk of fraud.

Keywords: Budget Disharmonization; Cooperative Management; Legal Compliance.

1. INTRODUCTION

Etymologically, the term "cooperative" is derived from the English word "cooperatives," which is a combination of "co" and "operation." In Dutch, it is referred to as "coöperatie," meaning cooperation. In Indonesian, the term has been adopted and pronounced as "koperasi." According to Mohammad Hatta in his book "The Cooperative Movement in Indonesia," a cooperative is defined as a joint effort to improve the economic livelihood of its members based on the principle of mutual assistance [1]. A cooperative is a form of enterprise founded upon idealistic visions, missions, and objectives; therefore, it is highly commendable and of great social value if such a cooperative is able to develop rapidly and achieve success comparable to that of private enterprises or State-Owned Enterprises [2]. A cooperative, as an economic organization, relies fundamentally on the trust of the community, whereby individuals entrust their funds to the cooperative based solely

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on the belief that their money will be recoverable in due course and accompanied by a return or reward [3].

A cooperative, which is an association or economic organization consisting of individuals or legal entities that grants its members the freedom to join and withdraw in accordance with prevailing regulations in Indonesia, is governed by Law of the Republic of Indonesia Number 25 of 1992 concerning Cooperatives. The cooperative operates on the principle of kinship in conducting its business activities, with the primary objective of enhancing the physical well-being of its members [3]. Thus, it can be stated that a cooperative is not merely a collection of capital and must serve humanity, not material interests. A cooperative constitutes a form of cooperation or mutual assistance based on the principles of equality in status, rights, and obligations, as well as the awareness of its members, without coercion or intimidation, and is aimed at serving the collective interests of its members.

Village cooperatives, in essence, play a vital role in improving community welfare, particularly in the collective management of local resources, and many villages already have Village-Owned Enterprises (BUMDes) responsible for managing village businesses. If the establishment of the Merah Putih Cooperative is made mandatory in every village, it may, in fact, complicate the local economic structure.

Furthermore, there is potential for such cooperatives to become new instruments for the government to exert more centralized control over village economies. In contrast, the original spirit of village funds was decentralization, granting villages the autonomy to manage their own development and economies. With the establishment of government-initiated cooperatives, villages may lose their autonomy in managing budgets and developing local enterprises.

In accordance with Presidential Instruction Number 9 of 2025, which seeks to promote national self-reliance through sustainable food self-sufficiency as the realization of the second Asta Cita and village-based development for economic equity as the realization of the sixth Asta Cita towards Golden Indonesia 2045, it is necessary to establish Merah Putih Village/Sub-district Cooperatives through the establishment, development, and revitalization of cooperatives in villages/sub-districts. To achieve this, strategic, integrated, and coordinated measures between ministries/agencies and local governments are required to optimize and accelerate the formation of Merah Putih village/sub-district cooperatives.

Minister of Cooperatives Budi Arie Setiadi has issued Circular Letter Number 1 of 2025 concerning Procedures for the Establishment of Merah Putih Village Cooperatives. The circular outlines the scope of accelerating the establishment of 70,000 Merah Putih Village Cooperatives throughout Indonesia, which are planned to be officially launched. Among other things, it covers the formation timeline, cooperative formation models, naming and types of cooperatives, management and supervisory bodies, cooperative business activities, as well as supervision and evaluation mechanisms. Cooperatives may be established through three approaches: new establishment, development of existing cooperatives, and revitalization of cooperatives. Furthermore, the naming of cooperatives must begin with the word "Koperasi," followed by the phrase "Desa Merah Putih," and end with the name of the respective village.

The principle of independence in cooperatives is regulated in Law Number 25 of 1992 concerning Cooperatives, particularly in Article 4, which sets forth the functions and roles of cooperatives, as well as Article 33 paragraph (4) of the 1945 Constitution, which affirms the principle of independence in the national economy. It stipulates that the national economy shall be organized based on economic democracy with the principles of togetherness, equitable efficiency, sustainability, environmental insight, independence, and by maintaining a balance of progress and national economic unity. The Principle of Independence: Cooperatives must be able to stand on their own in making business and organizational decisions. Independence also means responsible freedom, autonomy, self-reliance, and the courage to be accountable for all actions in managing the enterprise and the organization.

The reason the author is interested in conducting this research is to ascertain whether the budget formulation of the Merah Putih Village Cooperative is in accordance with the norms and statutory regulations as stipulated in Law Number 25 of 1992 concerning Cooperatives, particularly with reference to Article 33 paragraph (4) of the 1945 Constitution, which emphasizes the principle of independence in the national economy. Based on the aforementioned considerations, the author is interested in adopting the title: "Potential for Budget Disharmonization in the Formation of the Merah Putih Village Cooperative." The formulation of the problems in this research are as follows: (a) What is the potential for budget disharmonization in the management of the Merah Putih Village

Cooperative? (b) What are the appropriate regulations regarding budgeting in the management of the Merah Putih Village Cooperative?

2. LITERATURE REVIEW

Pancasila Economic System Theory

The Pancasila Economic System Theory represents a distinctive economic framework that fundamentally diverges from conventional capitalist and socialist paradigms by integrating Indonesia's foundational philosophical principles into economic governance and practice [4]. This theoretical construct, initially conceptualized by Emil Salim in 1967 and subsequently developed by prominent economists such as Mubyarto, establishes an economic model predicated upon the five principles of Pancasila, emphasizing divine values, humanistic approaches, nationalist economic policies, democratic deliberation, and social justice as core determinants of economic activity [5]. The theory posits that economic development must transcend materialistic considerations to encompass spiritual and moral dimensions, thereby creating a controlled market economy that balances state intervention with private enterprise while prioritizing collective welfare over individual prosperity [6]. Contemporary scholarly analysis within Scopus-indexed literature demonstrates that this framework serves as a normative foundation for Indonesia's constitutional economic architecture, particularly through Article 33 of the 1945 Constitution, which mandates collective enterprises based on familial principles and cooperative structures [7]. The theoretical significance of Pancasila economics lies in its capacity to provide an alternative development paradigm that addresses market failures through cooperative mechanisms while maintaining cultural authenticity and social cohesion in the face of globalization pressures.

Mohammad Hatta's Cooperative Theory

Mohammad Hatta's Cooperative Theory constitutes a seminal contribution to cooperative economics and development theory, establishing the foundational framework for understanding cooperatives as instruments of economic democracy and social transformation within developing economies [8]. Recognized as the "Father of Indonesian Cooperatives," Hatta's theoretical formulation draws upon principles of solidaritet (solidarity) and individualiteit (individual dignity) to construct a cooperative model that transcends mere economic transactions to encompass moral and social dimensions of human organization. His theoretical framework posits that cooperatives serve as vehicles for economic empowerment of marginalized

populations, particularly in agrarian societies, by enabling collective resource mobilization, shared risk management, and democratic participation in economic decision-making processes. Research indicates that Hatta's cooperative theory emphasizes the transformation of economic relationships from exploitative capitalist structures to collaborative arrangements based on mutual aid, democratic governance, and equitable distribution of economic benefits among members [9]. The enduring relevance of Hatta's theoretical contributions is evidenced in contemporary cooperative development initiatives, where his emphasis on member education, democratic control, and economic participation continues to inform cooperative management practices and policy frameworks across diverse economic contexts.

Cooperative Management Theory

Cooperative Management Theory encompasses a specialized body of knowledge that addresses the unique governance, organizational, and operational challenges inherent in managing cooperative enterprises within complex economic environments [10]. This theoretical framework distinguishes cooperative management from conventional business management by emphasizing member-centered decision-making processes, democratic governance structures, and the integration of social objectives with economic performance indicators. Contemporary literature demonstrates that Cooperative Management Theory incorporates elements from organizational behavior, strategic management, and stakeholder theory to address the distinctive challenges of managing organizations where members simultaneously function as owners, customers, and beneficiaries [11]. The theory articulates the Cooperative Management Equilibrium Model, which requires member engagement and cohesion to address market failures effectively while maintaining organizational sustainability and competitive advantage. Advanced theoretical developments within this field examine how cooperative management practices must balance the competing demands of economic efficiency, democratic participation, and social responsibility, particularly in the context of technological advancement and global market integration. Research findings indicate that successful cooperative management requires sophisticated understanding of collective action principles, participatory governance mechanisms, and value-based leadership approaches that align organizational practices with cooperative principles and member expectations [12].

3. PROPOSED METHOD

Community Legal Awareness on Land Registration in Muara Dua Sub-district, Lhokseumawe City

Legal awareness is the awareness of a person or a community group to the rules or laws that apply. Legal awareness is not merely something that grows spontaneously in the conscience of the community. It must be recognised that the rule of law communicated to the community is the first step in fostering legal awareness. Therefore, the development and cultivation of legal awareness in society is important so that the level of compliance with the law can be increased, in accordance with the emphasis (Soerjono Soekanto, 2004).

There are several indicators that can be used to measure the level of legal awareness of the people of Muara Dua Sub-district, Lhokseumawe City in the implementation of land registration. Indicators used to measure the legal awareness of the people of Muara Dua Sub- district, Lhokseumawe City, among others: (Sudikno Mertokusumo, 1981)

a. **Knowledge of the obligation to register land**

Based on the results of the study, it is known that more than half of the respondents (66.7%) already know and realise the obligation to register the land they own and 33.3% who are less aware of the existence of land registration obligations. From the results of the above research it can be said that most of the people of Muara Dua District, Lhokseumawe City know about the obligation to register land.

b. **Community perceptions of land ownership**

Based on the results of the study, it is known that some respondents still have insufficient knowledge of land registration and have never sought information about land registration. The lack of socialisation and legal counselling on land registration is one of the factors that influence the lack of public knowledge about land registration. They do not understand that with a land certificate, their rights and obligations as the owner of the land are legally protected by the state. As proof of land ownership, their

perception relies on the deed of sale and purchase. Some respondents have the perception that as long as the land is physically in their possession, either lived on or inherited, then they have full rights to the land.

c. Knowledge of land registration rules

Public understanding of land registration is influenced by factors of knowledge, information and experience. Lack of information and understanding can create obstacles in increasing public legal awareness. From the results of interviews with respondents, it shows that 7 respondents do not deeply understand the regulations related to the transfer of land rights. The understanding of the people of Muara Dua Subdistrict, Lhokseumawe City about the rules of land registration is still low. This is due to the lack of public legal awareness and the lack of information obtained by the people of Muara Dua District, Lhokseumawe City.

d. Respondents' desire to register their land

The results showed that more than half of the respondents realised the importance of land registration. However, there are still people who do not want to register their land, this is due to several obstacles, such as the relatively expensive processing fees, the long registration process, and also there are still many lands owned by residents who come from inherited land and are still in dispute with their families so they cannot apply for land registration.

Furthermore, Keuchik Uteunkot, Muara Dua Subdistrict, Lhokseumawe City explained that in his village there is only a small portion of land that has not been registered, which shows that public awareness is quite high in terms of land registration, however there are still land disputes that occur in the community, such as: inheritance disputes that do not have certificates, and unclear land boundaries.

Keuchik's Role as a Committee in Land Registration in Muara Dua Sub-district

Land is a natural resource that has a very important role because it has been needed for humans for various purposes of life such as housing, farming, and opening businesses. Land also supports various natural vegetation, the results of which are very useful for humans and animals. Development policy in the land sector in Indonesia is essentially based on the provisions of the 1945 Constitution Article 33 paragraph (3) which reads "The land, water and wealth contained therein shall be controlled by the state and utilised for the greatest prosperity of the people". UUPA is a law that contains the basic principles in the agrarian sector which is the basis for efforts to reform agrarian law in order to be expected to provide legal certainty for the community in utilising the functions of the earth, water and space and the natural resources contained therein (Arie Sukanti Hutagalung, 2012).

In Article 8 of PP No. 24 of 1997 concerning Land Registration, the role of the village head in land registration is as a member of the Adjudication committee, which is a committee that conducts land registration from village to village (Florianus, S.P Sangsun, 2008). Meanwhile, according to Article 24 of Government Regulation No. 24 of 1997 concerning Land Registration, the village head has a role in providing proof of ownership of land rights if there is no written evidence confirming land ownership. This means that to confirm who is the owner of a land that does not have written evidence of ownership, the village head issues a Land Certificate. From the results of the research, it is known that the role of the village head in land registration, namely:

- a. Assisting the community so that their land has legal certainty by having a certificate. The village head provides socialisation and also administrative relief to facilitate the community in the land registration process;
 - b. Cooperate with BPN through the PTSL programme and counselling to villages;
- and

c. Provision of SKT (Surat Keterangan Tanah) for uncertified land.

The position of Keuchik in the first time land registration through the transfer of rights due to sale and purchase is absolutely necessary, because the position of Keuchik in this case is as a party to legalise and a party who knows in the documents of proof of initiation in the first time land registration, especially through sale and purchase.

Based on an interview with Mr M. Yusuf Keuchik Uteunkot "we from the village office participate in preparing the administration, witnesses, Dusun, Sekdes, Keuchik also sign and check all documents, later the Keuchik also checks again the origin of the land to be registered".

The role of the village government in land services, among others, is regulated in the Regulation of the Minister of Home Affairs Number 8 of 2015 concerning the Organisational Structure and Work Procedures of the Village Government, in this case the village government, among others, has the function of fostering defence issues, as stipulated in the provisions of Article 6 Paragraph (3) letter a. In addition, there is also a Regulation of the Minister of Home Affairs Number 7 of 2016 concerning Village Government Administration which, among others, regulates the management of general administration which consists of recording activities in the village land book and village treasury land book.

When connected with the duties and obligations of the village head, their implementation includes leading the implementation of village government, fostering the life of the village community, fostering the village economy, maintaining peace and order of the village community. Apart from the duties and obligations of the village head above, the role of the village head in the event of a customary dispute relating to customary rights is to reconcile village community disputes, represent the village in and out of court and can appoint a legal representative.

Government Efforts to Increase Community Legal Awareness in Registering Land

In an effort to improve services in the land sector, especially in accelerating and improving the implementation of land registration, the government is required to be more active and not just waiting for people who want to register their land.

The government has been conducting land registration in various forms of land agency work programmes, including adjudication programmes, land consolidation, land redistribution of land reform objects and other self-help mass certification programmes. For this reason, the government as the party responsible for pursuing land registration has made a policy to provide convenience to the community in order to have legal certainty over their land rights.

One of the flagship programmes of land registration activities implemented by the government is the Complete Systematic Land Registration (PTSL) programme, PTSL is a land registration process for the first time, which is carried out simultaneously and covers all land registration objects that have not been registered in a village or kelurahan area (A.P Parlindungan, 1999).

The PTSL programme is expected to raise public awareness about the ownership of certificates as proof of land ownership. This awareness will encourage people to register their land in order to obtain legal certainty.

The PTSL programme, which in the community is often referred to as land certification, is a form of implementation of the government's obligation to ensure legal certainty and protection of community-owned land ownership, the absence of legal certainty over land often triggers disputes or disputes over land in various regions in Indonesia.

Based on an interview with Mr M. Yusuf Keuchik of Uteunkot village: "Usually there are land disputes from inherited land because it was not certified from the beginning so they claim each other that it is their land, there are some

that are resolved in the village and some that go to court".

The PTSL programme is further regulated in Minister of Agrarian and Spatial Planning/Head of the National Land Agency Regulation Number 35 Year 2016. The regulation is amended by Minister of Agrarian and Spatial Planning/Head of the National Land Agency Regulation Number 1 of 2017 on Amendments to Minister of Agrarian and Spatial Planning/Head of the National Land Agency Regulation Number 35 of 2016 on Accelerating the Implementation of Complete Systematic Land Registration.

The aforementioned regulation was amended again to become Regulation of the Minister of Agrarian and Spatial Planning/Head of the National Land Agency Number 6 of 2018 (Permen ATR/BPN No. 6/2018). The renewal of the rules for PTSL occurred because the rules related to the previous PTSL still needed substantial or material improvements to adjust to the provisions of laws and regulations related to land registration and other land provisions (Achmad Sulchan, 2019).

In general, an application for the issuance of a land title certificate must follow a procedure determined by the Provincial BPN and District Land Office as the agency authorised to issue the certificate. In addition to the prescribed procedures, applicants must also fulfil requirements that are determined unilaterally by the BPN (through BPN Head Regulations). The procedures and requirements vary depending on the type of land rights (Adrian Sutedi, 2017).

The Ministry of ATR/BPN has a very important role in increasing public awareness and participation in the land registration process. As the agency responsible for the management and registration of land rights. One of the important steps taken by the Ministry is to introduce the systematic land registration (PTSL) programme, which aims to register all land parcels in Indonesia. This programme not only makes it easier for people to obtain legal certainty over land ownership, but also helps reduce land disputes that often occur due to unclear legal status.

The Ministry of ATR/BPN also continues to innovate by using digital technology in the land registration process. This makes it easier for the public to access land information and apply for registration more efficiently. In addition, BPN has been aggressively socialising and educating the public on the importance of owning a land certificate as a form of protection for their property rights. With these measures, BPN has helped to create a more orderly land administration in Indonesia, provide a sense of security for the community, and create a more transparent land system.

4. RESULTS

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 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.

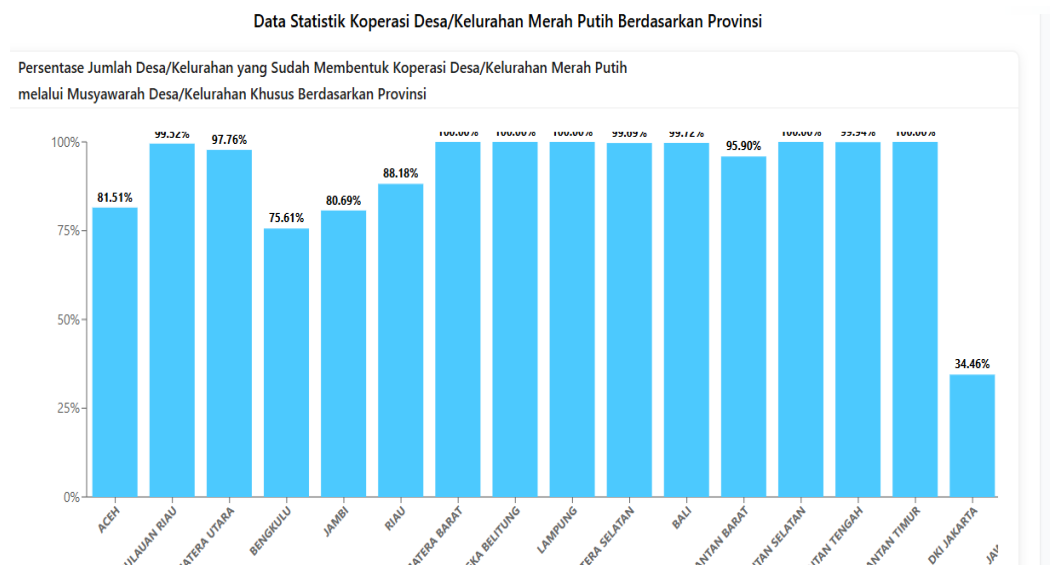


Figure 1. Statistical Data of Merah Putih Village/Sub-district Cooperatives by Province

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

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

How is the Potential for Budget Disharmony in the Management of the Merah Putih Village Cooperative

The allocation of village funds from the State Budget (APBN) is fundamentally intended to support infrastructure development, community empowerment, and local economic growth through Village-Owned Enterprises (BUMDes). Redirecting these funds to entities such as the Koperasi Merah Putih (KDMP) introduces significant risks of policy overlap, including covert budget diversion and potential conflicts of interest, especially if the cooperatives are controlled by non-community actors. This redirection may also foster unhealthy competition with BUMDes, threatening existing village enterprises and potentially leading to economic segregation. Effective management of such a program requires robust transparency and accountability mechanisms, as misappropriation and inefficiency have historically plagued village fund policies. The introduction of KDMP as new entities raises critical questions regarding oversight, profit distribution, and the voluntary participation of villages, which must be protected to uphold the spirit of the Village Law that positions villages as development subjects.

Operational challenges are compounded by limited economies of scale, restricted market reach, and insufficient human resources. Managing funds of Rp 3–5 billion per village demands advanced financial and operational expertise rarely found at the village level, as evidenced by the persistent struggles of BUMDes. Governance quality is closely tied to human resources, and weak local governance increases the risk of elite capture, where influential individuals exploit cooperatives for personal gain, diminishing collective benefits. The risk of fraud escalates with larger fund allocations, manifesting in fictitious reporting, inflated proposals, and corruption at various levels, as seen in past misuse of village funds.

Sustainability is another major concern; without sound business models, many KDMPs could exhaust their capital within five years and become dependent on continued government injections, undermining long-term viability. The expansion into savings and loan services also raises the risk of non-performing loans, particularly given the overlap between users of such services and those engaged in high-risk financial behaviors.

Three scenarios emerge: an optimistic outcome where 30–40% of KDMPs become independent and productive, a moderate scenario with limited growth and high attrition, and a pessimistic scenario where over 70% fail, resulting in financial loss and eroded public trust in cooperatives. To mitigate these risks, the government must develop a comprehensive roadmap encompassing incubation, growth, and autonomy phases, focus on capacity building, and allow operational flexibility. Consolidation at the sub-district level may be necessary to achieve economic scale, alongside the adoption of assessment systems to monitor progress and tailor interventions.

Collaboration with cooperative movements, academia, and incubators is essential for scaling best practices and providing ongoing support. Strengthening internal and external

oversight, ensuring transparent reporting, and fostering community participation are critical to prevent misuse and build trust. The lessons from previous cooperative programs highlight the dangers of dependency, business feasibility issues, internal conflicts, inadequate human resources, and political interference. Therefore, KDMPs must be developed through participatory processes, grounded in sustainable business models, staffed by competent and ethical personnel, synergized with local stakeholders, and supported by robust audit and complaint systems. Independence from political interests must be institutionalized to safeguard the integrity and sustainability of the program. If successful, KDMPs could deliver significant, widespread economic benefits; if not, they risk exacerbating material and reputational losses for Indonesia's cooperative sector.

What are the appropriate regulations regarding budgeting in the management of the Merah Putih village cooperative

The issuance of Presidential Instruction (Inpres) No. 9 of 2025 marks a comprehensive legal framework for accelerating the establishment of 80,000 Merah Putih Village/Urban Cooperatives (Koperasi Desa/Kelurahan Merah Putih) across Indonesia. This instruction mandates coordinated and integrated measures among ministries and regional governments, with explicit regulation of funding sourced from the State Budget (APBN), Regional Budget (APBD), Village Budget (APBDes), and other lawful sources. Each cooperative is allocated an estimated budget of IDR 3–5 billion, with funding mechanisms including public funds, government loans through state-owned banks (Himbara), and regional transfers, all subject to local government determination and oversight.

The formation and operation of these cooperatives must adhere to the principles and organizational structures set forth in Law No. 25 of 1992 on Cooperatives, as well as subsequent government regulations and ministerial decrees. The cooperatives' Articles of Association (Anggaran Dasar/AD) and Bylaws (Anggaran Rumah Tangga/ART) must be formulated and amended through participatory member meetings, ensuring transparency, accountability, and alignment with statutory requirements. The legal establishment requires a notarial deed and formal approval from the Ministry of Law and Human Rights, as recently streamlined by Ministerial Regulation No. 13 of 2025.

Financial governance within Merah Putih Cooperatives is structured around transparent and participatory processes, encompassing planning, budgeting, implementation, supervision, and reporting. Budgets must be based on approved work plans, reflect the cooperative's objectives, and be ratified by the Annual Members' Meeting (RAT). Income sources include member contributions, business revenues, government support, and lawful external funding, while expenditures are allocated for operational costs, investment, business development, and community welfare. The management is responsible for budget execution, accurate record-keeping, and regular financial reporting accessible to all members. Oversight is conducted by

the cooperative's supervisory body, empowered to monitor compliance and request clarifications from management.

The legal framework also stipulates that any amendments to the cooperative's budget or organizational documents must be enacted through member meetings, with all financial activities subject to statutory and internal governance. Member obligations include mandatory capital contributions, while profit distribution (Sisa Hasil Usaha/SHU) is proportionate to each member's shareholding. The cooperatives are required to maintain financial transparency and accountability to reinforce member trust and ensure the effective and efficient use of funds in pursuit of cooperative and community welfare objectives.

To optimize the regulatory environment, ongoing legal reforms are recommended to address deficiencies in the current Cooperatives Law, strengthen cooperative professionalism and supervision, clarify sanction mechanisms, and adapt to technological and economic developments. These reforms should facilitate easier cooperative establishment, enhance financial support (including revolving funds and subsidies), and promote local economic empowerment through training, capacity building, and strategic partnerships with the private sector and state-owned enterprises. Such measures are essential for ensuring that Merah Putih Cooperatives function not merely as savings and loan institutions but as dynamic engines of local economic development and social welfare.

5. DISCUSSION

The potential for budget disharmonization in the management of Merah Putih Village Cooperatives presents a significant legal and governance challenge that requires comprehensive analysis through contemporary literature and international best practices. This discussion examines the theoretical foundations, practical implications, and regulatory frameworks surrounding cooperative budget management with particular emphasis on transparency, accountability, and governance mechanisms as documented in recent research.

The establishment of Merah Putih Village Cooperatives under Presidential Instruction No. 9 of 2025 represents a paradigmatic shift in Indonesia's rural economic development strategy, yet it raises fundamental questions about budget harmonization and institutional coordination. Contemporary governance theory emphasizes that effective cooperative management requires robust internal control mechanisms that enhance organizational transparency and accountability [14]. This theoretical foundation aligns with the broader literature on cooperative governance, which demonstrates that member participation in governance structures is crucial for organizational survival and effectiveness [15].

The agency theory framework, extensively applied in cooperative governance research, provides critical insights into the potential for budget disharmonization [16]. Research indicates that cooperative governance frameworks must address agency problems through clear separation of decision oversight and operational management, while establishing

transparent monitoring mechanisms [17]. The application of this theoretical lens to Merah Putih Cooperatives suggests that budget disharmonization may emerge from inadequate governance structures that fail to properly delineate financial oversight responsibilities between various stakeholders.

International best practices in budget transparency demonstrate that effective financial governance requires comprehensive disclosure mechanisms, participatory budgeting processes, and robust oversight systems [18]. The literature consistently shows that transparency and accountability play crucial roles in improving public financial governance and significantly contribute to enhanced financial management efficiency and public trust [19]. In the context of village-level cooperatives, participatory budgeting emerges as a critical tool for ensuring democratic decision-making and preventing elite capture [20].

Research on cooperative financial management practices reveals that while credit management and traditional budgeting may not significantly affect performance, transparent dividend management and accountability mechanisms demonstrate substantial positive impacts. This finding has particular relevance for Merah Putih Cooperatives, where the integration of savings and loan functions with broader community development objectives may create competing demands on financial resources. The literature emphasizes that effective governance frameworks must incorporate performance metrics and key performance indicators that align with strategic goals while maintaining transparency [21].

The potential for disharmonization in Merah Putih Cooperative budgets is significantly influenced by Indonesia's complex regulatory environment, which has been characterized by overlapping jurisdictions and inconsistent policy implementation. Contemporary research on Indonesian village governance reveals that inadequate information provision and institutional weaknesses emerge as significant contributors to financial mismanagement, beyond direct financial motives and compensation issues. The legal framework analysis of Indonesian cooperatives indicates that current regulations often subordinate and discriminate against cooperatives in economic legislation, creating an environment that is not conducive to cooperative development [22].

The revision of Law No. 25 of 1992 concerning Cooperatives, currently under legislative review, represents a critical opportunity to address these regulatory gaps. However, the literature suggests that legal framework effectiveness depends not merely on statutory provisions but on the broader institutional context and implementation mechanisms. The experience with previous cooperative legislation, including the Constitutional Court's annulment of Law No. 17 of 2012, demonstrates the importance of aligning cooperative law with constitutional principles and international cooperative identity standards [23].

The potential for budget disharmonization is particularly acute given the existing institutional landscape of village-level economic entities, including Village-Owned Enterprises (BUMDes) and traditional cooperative structures [24]. Research on collaborative

governance in decentralized fiscal systems indicates that effective coordination requires clear delineation of roles and responsibilities among different institutional actors [25]. The establishment of Merah Putih Cooperatives alongside existing BUMDes creates potential for resource competition and conflicting mandates that may undermine both institutions' effectiveness.

Contemporary studies on village financial management reveal that social capital and community participation significantly influence the success of village-owned enterprises. However, the literature also indicates that weak governance structures and limited community involvement in oversight can lead to accountability deficits. The planned injection of substantial financial resources (Rp 3-5 billion per cooperative) into Merah Putih Cooperatives without corresponding strengthening of governance mechanisms may exacerbate these challenges [24].

The international literature on cooperative financial regulation emphasizes the importance of specialized regulatory frameworks that protect cooperative autonomy while ensuring financial stability. Research demonstrates that effective cooperative regulation must balance member autonomy with prudential oversight, particularly regarding capital requirements and deposit protection. In the context of Merah Putih Cooperatives, this balance becomes critical given the scale of government financial support and the potential for moral hazard [24].

Innovation in governance mechanisms, including the adoption of digital financial management systems and blockchain technology for ensuring transparency, represents a promising avenue for addressing budget disharmonization risks. The literature suggests that cloud-based financial management systems with real-time data accessibility and automated reporting capabilities can significantly enhance transparency and reduce opportunities for financial mismanagement [21]. However, the effectiveness of such technological solutions depends on corresponding improvements in human resource capacity and institutional culture.

The synthesis of international literature and Indonesian-specific research suggests that preventing budget disharmonization in Merah Putih Cooperatives requires a multi-faceted approach combining legal reform, institutional strengthening, and governance innovation. The evidence indicates that successful cooperative development depends on participatory processes that engage communities in meaningful decision-making roles, rather than top-down implementation strategies. This finding has particular significance for the rapid establishment timeline envisioned for Merah Putih Cooperatives [26].

Furthermore, the literature emphasizes that sustainable cooperative development requires integration with existing institutional frameworks rather than displacement of established entities [27]. The potential conflict between Merah Putih Cooperatives and BUMDes suggests the need for careful coordination mechanisms and clear differentiation of

roles and responsibilities. International experience demonstrates that collaborative governance approaches, which leverage the strengths of multiple institutional actors, tend to be more effective than competitive arrangements [28].

The evidence from Scopus-indexed research indicates that budget disharmonization in cooperative management can be effectively addressed through comprehensive governance reforms that prioritize transparency, accountability, and participatory decision-making. However, the success of such reforms depends critically on the broader institutional environment and the commitment of all stakeholders to cooperative principles and democratic governance.

6. CONCLUSIONS

The study reveals that the current Village Fund (*Dana Desa*) framework suffers from hidden budget reallocations which foster unhealthy competition between the Merah Putih Village Cooperative (*Koperasi Merah Putih*) and the Village-Owned Enterprise (BUMDes). Such covert diversions undermine the intended objective of strengthening existing rural economies and expose the fund to significant risks of corruption and inefficiency. To uphold the integrity of the program, it is imperative that any continuation of this policy be accompanied by stringent guarantees of transparency and accountability in all stages of fund management.

Furthermore, the governance of Koperasi Merah Putih's financial activities must adhere to a comprehensive regulatory scheme encompassing planning, budgeting, execution, oversight, and reporting. Budgets should be formulated through participatory processes aligned with the cooperative's objectives and ratified by members at the Annual Members' Meeting (*Rapat Anggota Tahunan*). In addition, establishing robust audit, monitoring, and grievance mechanisms tied to national (APBN), regional (APBD), and village fund regulations will minimize conflicts, reinforce stakeholder collaboration, and ensure that the cooperative's by-laws reflect a culture of familial solidarity and active member participation in its business ventures.

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