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Implementation of the Red and White Village/Urban Village Cooperatives as an Instrument of Village Economic Development: A Study of Institutional Governance and the Role of Regional Governments

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Abstract

The Red and White Village/Urban Village Cooperative (KDKMP) is a national strategic program established through Presidential Instruction Number 9 of 2025 to accelerate economic equity from the village level. Within a short time, more than 80,000 cooperatives obtained legal status, yet by mid-2026 only around one thousand units were actually operating, prompting the operational target to be reduced to 40,000 units. This study analyzes the policy design and institutional framework of KDKMP, the gap between establishment and operationalization, and the governance requirements that would ensure cooperatives function as member-owned enterprises. It employs a descriptive-analytical qualitative approach through analysis of policy documents, official data, and literature. The findings show that KDKMP was built on a top-down acceleration logic relying on a presidential instruction, state bank financing, and the diversion of a large share of Village Funds, so that member participation and business readiness lag behind the pace of establishment. The cooperatives' function as harvest aggregators has not yet materialized, village fiscal capacity is under pressure, and governance risks are rising. This study recommends a stronger legal basis, phased operations based on business feasibility, accountability of cooperative officers, and a role for regional governments as supervisors and capacity builders.

Keywords: *red and white village cooperative, village development, institutional governance, village funds, regional government*

INTRODUCTION

Village development occupies a central position in Indonesia's economic equity agenda. Villages are not only the smallest administrative units but also spaces of food production, nodes in the distribution of basic goods, and the social base for much of the population. In the tradition of Indonesian economic thought, cooperatives are positioned as the pillar of the people's economy because they combine the principles of joint enterprise and kinship as mandated by Article 33 paragraph (1) of the 1945 Constitution. Hatta (1987) emphasized that cooperatives grow from members' awareness to help themselves collectively, not from the commands of outside parties.

The government revived this idea through the Red and White Village/Urban Village Cooperative program (Koperasi Desa/Kelurahan Merah Putih, KDKMP). Presidential Instruction Number 9 of 2025 on the Acceleration of the Establishment of Red and White Village/Urban Village Cooperatives assigns ministries, agencies, and regional governments to accelerate the formation of cooperatives in all villages and urban villages. The program is

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projected to become a people's logistics system, a distributor of subsidized goods, an aggregator of harvests, and a gateway to bank financing for village communities. In 2025, around 83,944 cooperatives were recorded as established (INDEF, 2026).

The speed of establishment was not matched by the speed of operation. The President inaugurated the operation of 1,061 KDKMP on 16 May 2026 (Kompas, 2026). A month later, the government cut the operational target from 80,000 to 40,000 units by the end of 2026, with another 21,689 units still under physical construction and preparation (Bisnis.com, 2026a). As of 15 October 2026, 10,070 KDKMP were declared ready to operate, but only around a thousand were fully operating in distributing subsidized goods (Metro TV News, 2026b). The gap between the number of cooperatives established and those actually functioning is the core problem that needs to be examined.

Problems have also emerged in financing. The 2026 Village Fund ceiling was set at IDR 60.57 trillion, of which around IDR 34.57 trillion, or 57 percent, was allocated centrally to support KDKMP (INDEF, 2026). The Ministry of Finance also prepared to pay installments for KDKMP construction using part of the Village Fund starting in September 2026 (Investortrust, 2026). This policy has raised concerns about the shrinking fiscal space of villages for other development needs that have so far been financed by the Village Fund.

Studies on village governance show that the quality of village institutions largely determines the success of programs from the center. Rambe (2021) shows that the authority and legitimacy of village leadership directly affect the effectiveness of village governance, while Askamaini and Zarzani (2024) emphasize the need to protect the rights of village communities in every village governance policy. At the macro level, Rambe et al. (2024) note a paradigm shift from decentralization to centralization in various policies after the Job Creation Law. KDKMP is an important case for testing this tendency in the village economic sector. Accordingly, this study addresses three research questions:

1. What are the policy design and institutional framework of KDKMP?
2. Why is there a gap between the establishment and operationalization of KDKMP?
3. What institutional governance is needed for KDKMP to function as an instrument of village economic development?

This study aims to analyze the policy design of KDKMP, explain the factors causing the implementation gap, and formulate governance principles that can be applied by the central government, regional governments, and cooperative officers.

METHOD

This study uses a qualitative approach with a descriptive-analytical design. The data are secondary, consisting of policy documents, namely Presidential Instruction Number 9 of 2025, ministerial regulations on financing and regional support, and Law Number 25 of 1992 on Cooperatives; official program progress data published by ministries between July 2025 and October 2026; and studies by research institutions and scholarly articles. For the normative aspects, this study examines the consistency of policy instruments with the principles of cooperative law (Tanjung, 2024).

The analytical framework draws on three perspectives. First, the principle of cooperatives as member-owned and democratically managed enterprises (Hatta, 1987; Birchall, 1997). Second, the theory of common-pool resource governance, which stresses that local institutions endure when rules are made and monitored by their users (Ostrom, 1990). Third, a village development perspective that places village communities as subjects rather than objects of development (Chambers, 1983). The data were analyzed through data condensation, data display, and conclusion drawing, with triangulation across official documents, mainstream media reports, and academic studies.

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RESULTS AND DISCUSSION

1. Policy Design and Institutional Framework of KDKMP

KDKMP was built through a presidential instruction subsequently elaborated by a number of technical regulations. Presidential Instruction Number 9 of 2025 assigns tasks to ministries and agencies, including the Ministry of Cooperatives, the Ministry of Finance, the Ministry of Villages, the Ministry of Home Affairs, the National Nutrition Agency, and the Finance and Development Supervisory Agency. Financing arrangements were formulated through a Minister of Finance regulation on KDKMP loans involving state-owned banks (Himbara), the Revolving Fund Management Agency for Cooperatives and MSMEs, and regional banks (DPR RI, 2025). Minister of Villages Regulation Number 10 of 2025 regulates the mechanism of village head approval for KDKMP financing, while Minister of Home Affairs Regulation Number 13 of 2025 regulates the support of regents and mayors in cooperative funding.

This design reveals a highly centralized policy character. Cooperative formation is targeted nationally, financing is designed by the central government, and loan repayment is tied to the Village Fund. This pattern differs from the principle of cooperative formation in Law Number 25 of 1992, which positions cooperatives as enterprises formed and owned by their members. Such a centralizing tendency is consistent with the finding of Rambe et al. (2024) regarding the shift from decentralization to centralization following the Job Creation Law.

The use of a presidential instruction as the main instrument also deserves scrutiny. A presidential instruction is binding within the government bureaucracy but cannot create new rights and obligations for the public. When a program requires changes to the structure of village financing and creates loan repayment obligations, a stronger legal basis becomes important to ensure legal certainty. A similar critique was put forward by Tanjung and Arminsyah (2024) concerning the formation of major policies through instruments that simplify norm-making processes, causing public participation and regulatory quality to be neglected.

Institutionally, KDKMP sits at the intersection of cooperatives, village governments, and state banks. The village head approves financing, the Village Fund becomes the source of repayment, and state banks act as creditors. This construction raises questions about the status of financial risk if a cooperative defaults. Rambe (2022) has shown that the issue of state financial status in enterprises linked to the state often creates legal uncertainty regarding who bears the losses and how accountability is examined.

Another institutional issue is the potential overlap with Village-Owned Enterprises (BUM Desa). BUM Desa are enterprises owned by village governments that have so far run various business units, such as trading agricultural inputs, savings and loans, and managing clean water. KDKMP, by contrast, are member-owned enterprises. If both institutions run the same type of business in the same village, they will compete for a limited market, and the Village Fund that capitalizes both will be divided. Therefore, the division of business lines between KDKMP and BUM Desa should be determined through village deliberation from the outset.

2. The Gap between Establishment and Operationalization

The trajectory of KDKMP since 2025 reveals a pattern of accelerated establishment disproportionate to operational readiness. A summary of its development is presented in Table 1.

Table 1. Development of the Establishment and Operationalization of KDKMP

Time	Development	Source
March 2025	Presidential Instruction Number 9 of 2025 sets the acceleration of cooperative formation in all villages and urban villages	Presidential Instruction 9/2025
End of 2025	Around 83,944 cooperatives institutionally established	INDEF (2026)

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Time	Development	Source
February 2026	Nearly 20,000 units under physical construction with average progress of 20 percent	Metro TV News (2026a)
16 May 2026	The President inaugurates the operation of 1,061 cooperatives	Kompas (2026)
June 2026	Operational target cut from 80,000 to 40,000 units by the end of 2026	Bisnis.com (2026a)
July 2026	Transactions dominated by subsidized fertilizer and basic goods; harvest aggregator function not yet visible	Bisnis.com (2026b)
15 October 2026	10,070 cooperatives ready to operate; around one thousand fully operating	Metro TV News (2026b)

Source: Compiled from policy documents and official news (2025–2026).

These data point to at least three causes of the gap. The first is a reversed policy sequence. Cooperatives were formed first as legal entities, and only then were buildings, capital, and business models sought. According to Birchall (1997), however, long-lasting cooperatives are those born from members' real economic needs identified from the outset. In Banten, for example, 1,551 cooperatives had been formed by October 2025, yet none had applied for financing from Himbara (DJPb Kanwil Banten, 2025). This indicates that institutional formation has not been followed by business plans ready for financing.

The second cause is weak member participation. Cooperatives formed on the basis of administrative targets tend to be perceived as government programs rather than as belonging to residents. Ostrom (1990) shows that local economic institutions endure only when users are involved in formulating rules and monitoring their implementation. Without such involvement, members have no incentive to sustain the cooperative, while officers are more oriented towards meeting targets from above.

The third cause is a mismatch between business models and village needs. Bisnis.com (2026b) notes that operating cooperatives are still dominated by sales of subsidized fertilizer and basic goods, while the function of aggregating farmers' harvests is not yet visible. Yet it is precisely this aggregator function that is most expected to strengthen farmers' bargaining position and shorten supply chains. When cooperatives merely become top-down distribution channels, the added value for the village economy is limited.

The history of Indonesian cooperatives offers a relevant lesson. During the New Order, Village Unit Cooperatives (KUD) were formed simultaneously with full government support, mainly to distribute fertilizer and purchase farmers' rice. When government support and facilities were reduced, many KUD lost their function because they had not grown from members' needs and ownership. The KDKMP pattern, which relies on distributing subsidized goods, risks repeating this experience unless it is promptly followed by stronger member participation and business diversification based on village potential.

The gap is exacerbated by fiscal pressure on villages. The diversion of around 57 percent of the 2026 Village Fund to support KDKMP reduces villages' ability to finance basic infrastructure, social services, and community empowerment (INDEF, 2026). Askamaini and Zarzani (2024) stress that the right of village communities to development must be protected in every village governance policy. If the Village Fund is absorbed to repay installments of cooperatives that are not yet productive, village communities may bear a double burden: reduced village public services and benefits from cooperatives that have yet to materialize.

3. Required Institutional Governance

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For KDKMP to function as an instrument of village economic development, its governance needs to rest on three principles: member ownership, business feasibility, and accountability. The principle of member ownership requires that strategic decisions, including loan applications and choice of business, be taken through genuine members' meetings rather than mere formalities. The principle of business feasibility requires that operations and financing be provided gradually based on assessment of business plans rather than numerical targets. The principle of accountability requires clear responsibility on the part of officers and supervisors for the management of public funds and loans.

The accountability of officers is particularly important because KDKMP manage large sums of money. Tanjung et al. (2024) show that the officers and supervisors of an enterprise bear administrative, criminal, and civil legal risks if they neglect their duties. This principle is relevant for cooperative officers managing loans from state banks. Without clear governance standards, the risks of non-performing financing and local irregularities, as several observers have warned (Bisnis.com, 2026a; INDEF, 2026), will increase.

Regional governments have a strategic role as supervisors and capacity builders. So far, the role of district and city governments has been directed mainly at funding support and land facilitation. This role needs to be expanded to include business assistance, officer training, linking cooperatives to local markets, and data-based performance monitoring. This requires regional bureaucracies oriented towards performance and service, in line with the direction of bureaucratic reform and institutional development put forward by Armayanti et al. (2025).

Transparency is an essential condition for such accountability. Economists argue that KDKMP financing, which involves very large loans from state banks, requires a monitoring and evaluation dashboard accessible to the public (Bisnis.com, 2026c). Such a dashboard should at least include the operational status of each cooperative, the number of active members, the value of loans and installment payments, the types of business run, and annual financial reports. With open information, cooperative members, village governments, and the public can participate in oversight, allowing irregularities to be detected earlier.

Based on this analysis, this study formulates an agenda for strengthening KDKMP governance, presented in Table 2.

Table 2. Agenda for Strengthening KDKMP Governance

Aspect	Main Problem	Recommendation
Legal basis	The program relies on a presidential instruction and scattered technical regulations	Regulation in a presidential regulation or a new cooperative law guaranteeing the principle of member ownership
Operational phasing	Formation precedes business plans and capital readiness	Gradual operation and financing based on business feasibility assessment
Member participation	Cooperatives perceived as government programs	Substantive members' meetings, cooperative education, and farmer involvement from planning
Business model	Dominated by sales of fertilizer and basic goods	Strengthening the harvest aggregator function and partnerships with local markets
Village finances	A large share of the Village Fund allocated to KDKMP	A maximum cap on the Village Fund share and evaluation of its impact on village public services
Accountability	Risks of non-performing financing and local irregularities	Governance standards for officers, periodic audits, and a public performance dashboard

Source: Author's formulation based on the analysis.

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This agenda requires a change of perspective from measuring success by the number of cooperatives formed to measuring it by the economic benefits experienced by members. Chambers (1983) warns that village development designed from above without listening to community needs tends to produce projects that look successful on paper but are fragile on the ground. The evaluation of KDKMP business performance launched by the Ministry of Cooperatives in August 2026 (Kontan, 2026) is the right moment for such a correction.

CONCLUSION

KDKMP is an ambitious policy that succeeded in forming tens of thousands of cooperatives in a short time but has not yet succeeded in turning them into operating enterprises that deliver economic benefits to members. A centralized policy design, a formation sequence that precedes business plans, weak member participation, business models that do not match village needs, and pressure on the Village Fund are the main causes of the gap between establishment and operationalization.

This study recommends strengthening the legal basis of KDKMP to guarantee the principle of member ownership, phasing operations and financing based on business feasibility, capping the share of the Village Fund allocated to cooperatives, setting accountability standards for officers, and expanding the role of regional governments as supervisors and capacity builders. Further research should assess KDKMP performance empirically at the village level, including in North Sumatra, to measure its impact on the incomes of farmers and village entrepreneurs.

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