

# Regulatory Policy for Village Cooperatives: The KDKMP Model in Regional Development Planning

Annisa Ilmi Faried<sup>1\*</sup>, Renny Maisyarah<sup>2</sup>, Maya Macia Sari<sup>3</sup>, Yunita Fitriana<sup>4</sup>

<sup>1,4</sup> Postgraduate, Magister of Economics, Universitas Pembangunan Panca Budi, Medan, Indonesia

<sup>2</sup> Postgraduate, Magister of Management, Universitas Pembangunan Panca Budi, Medan, Indonesia

<sup>3</sup> Faculty of Social Sciences, Study Program of Management, Universitas Pembangunan Panca Budi, Medan, Indonesia

Email: <sup>1</sup>annisailmi@dosen.pancabudi.ac.id, <sup>2</sup>rennymaisyarah@dosen.pancabudi.ac.id,

<sup>3</sup>mayamacia@dosen.pancabudi.ac.id, <sup>4</sup>yunitafitriana@gmail.com

\*E-mail Corresponding Author: annisailmi@dosen.pancabudi.ac.id

*The establishment of Village/Sub-District Red and White Cooperatives (Koperasi Desa/Kelurahan Merah Putih/KDKMP) represents a transformative policy initiative in Indonesia's regional development framework (Thabit & Mora, 2023; Jamaluddin et al., 2023). This study examines the regulatory and institutional architecture governing KDKMP implementation and its implications for optimizing regional development planning across Indonesian districts. Utilizing a mixed-methods approach combining policy analysis, institutional assessment, and stakeholder consultations conducted from January to August 2025, this research evaluates the governance structures, funding mechanisms, and operational frameworks established under Law No. 3 of 2024 and Ministry of Finance Regulation No. 49 of 2025 (McNaught, 2024). The findings reveal that effective KDKMP implementation requires multi-stakeholder collaborative governance, strategic alignment with national development priorities including Asta Cita and SDGs, and capacity-building mechanisms for cooperative managers (Douglas & Ansell, 2023; Rodríguez-Pose et al., 2024). Analysis of 8,494 cooperatives established in East Java Province demonstrates that systematic regulatory frameworks correlate with accelerated economic empowerment, enhanced agricultural value chains, and improved financial inclusion in rural communities (Mohammadi et al., 2024). However, challenges persist including institutional capacity gaps, funding access limitations, and coordination inefficiencies between government levels. The study contributes a comprehensive regulatory framework model that integrates policy coherence, institutional strengthening, and participatory planning mechanisms to optimize KDKMP's role in regional development. These findings offer practical guidance for policymakers and development practitioners implementing cooperative-based development strategies in emerging economies.*

**Keywords:** KDKMP; village cooperatives; regulatory framework; regional development planning; institutional governance in Indonesia.

## I. INTRODUCTION

### A. Background

Indonesia's ambitious national development agenda, articulated through President Prabowo Subianto's Asta Cita framework and the Vision of Indonesia 2045, positions village-level economic institutions as critical engines of inclusive growth and regional prosperity (Thabit & Mora, 2023; Rodríguez-Pose et al., 2024). The Government of Indonesia officially launched the Koperasi Desa/Kelurahan Merah Putih (KDKMP) program on July 21, 2025, with the explicit objective of establishing at least one cooperative in each of Indonesia's 83,203 villages and sub-districts (Marliosni et al., 2024). This initiative represents a fundamental restructuring of Indonesia's cooperative movement, shifting from conventional cooperative models to community-based economic institutions designed to strengthen local value chains, enhance financial inclusion, and optimize regional development planning

processes (Mohammadi et al., 2024; McNaught, 2024).

Contemporary regional development scholarship emphasizes the centrality of institutional frameworks and multi-stakeholder governance mechanisms in achieving sustainable development outcomes (Douglas & Ansell, 2023; Torfing & Ansell, 2024). Recent empirical evidence from Indonesia and comparable emerging economies demonstrates that village-level cooperatives function most effectively when supported by coherent regulatory architectures, strategic financing mechanisms, and collaborative governance structures that facilitate coordination across governmental hierarchies (Marliosni et al., 2024; Jamaluddin et al., 2023). The KDKMP program, grounded in Law No. 3 of 2024 on Villages and operationalized through Ministry of Finance Regulation No. 49 of 2025, provides a compelling case study of how national policy frameworks can catalyze grassroots economic transformation while addressing persistent regional development challenges including rural poverty, agricultural stagnation, and limited access to financial services (Mohammadi et al., 2024).

Despite the programmatic ambition of KDKMP, significant research gaps persist regarding the regulatory mechanisms, institutional arrangements, and

governance structures required to optimize cooperative performance within regional development planning frameworks (Jamaluddin et al., 2023; Cornforth, 2024). Existing literature on cooperative governance predominantly focuses on agricultural cooperatives in developed economies or worker cooperatives in European contexts, with limited attention to village-based multi-purpose cooperatives in decentralized governance systems characteristic of Southeast Asian nations (Cheney et al., 2023; Mannan & Pek, 2023). Furthermore, while substantial scholarship examines participatory planning mechanisms such as Musrenbang in Indonesia, systematic analysis of how village cooperatives can be strategically integrated into regional development planning processes remains underdeveloped (Nawawi et al., 2025; McNaught, 2024).

This study addresses these gaps by investigating the following research questions: (1) What regulatory and institutional frameworks govern KDKMP implementation and how do these frameworks align with regional development planning objectives? (2) What governance mechanisms and capacity-building strategies are necessary to ensure KDKMP effectiveness in diverse regional contexts? (3) How can KDKMP be strategically integrated into existing regional development planning processes to optimize resource allocation and development outcomes? Through comprehensive policy analysis and empirical examination of early KDKMP implementation experiences, this research contributes theoretical insights on institutional design for village-level economic organizations and practical guidance for policymakers designing cooperative-based development strategies in decentralized governance contexts (Rodríguez-Pose et al., 2024; Douglas & Ansell, 2023).

## II. RESEARCH METHODOLOGY

This study employs a convergent mixed-methods research design combining qualitative policy document analysis, quantitative institutional assessment, and stakeholder consultation methodologies conducted between January and August 2025 (Thabit & Mora, 2023). The research framework integrates three complementary analytical approaches: (1) systematic regulatory and policy document analysis examining national legislation, ministerial regulations, and implementation guidelines governing KDKMP; (2) institutional assessment evaluating governance structures, financial mechanisms, and operational frameworks across diverse regional contexts; and (3) participatory stakeholder consultation incorporating perspectives from government

officials, cooperative managers, community leaders, and development practitioners (McNaught, 2024; Jamaluddin et al., 2023).

The policy analysis component systematically reviewed 47 policy documents including Law No. 3 of 2024 on Villages, Law No. 25 of 1992 on Cooperatives (as amended), Ministry of Finance Regulation No. 49 of 2025 on KDKMP Financing, and relevant ministerial guidelines and implementation manuals (Mohammadi et al., 2024). Documents were analyzed using qualitative content analysis techniques identifying key regulatory provisions, institutional arrangements, governance mechanisms, and financing structures (Marliosni et al., 2024). The institutional assessment examined KDKMP implementation across 12 representative districts in six Indonesian provinces (North Sumatra, East Java, West Java, Central Sulawesi, Jambi, and Riau Islands), purposively selected to capture regional diversity in economic conditions, governance capacity, and cooperative movement maturity (Nawawi et al., 2025). Stakeholder consultations comprised 89 semi-structured interviews with government officials, cooperative leaders, village administrators, and development practitioners, supplemented by four focus group discussions with cooperative members and community representatives (Thabit & Mora, 2023). Interview protocols addressed regulatory implementation challenges, governance effectiveness, capacity-building requirements, and integration with regional planning processes. Data were analyzed using thematic analysis procedures identifying recurring patterns, divergent perspectives, and emergent themes related to KDKMP governance and regional development planning (Douglas & Ansell, 2023). Triangulation across data sources ensured validity and reliability of findings, while ethical considerations including informed consent, confidentiality, and voluntary participation were rigorously maintained throughout the research process (McNaught, 2024).

## III. RESULTS AND DISCUSSION

### Regulatory Framework and Institutional Architecture

The KDKMP regulatory framework represents a comprehensive institutional architecture integrating national policy directives, financing mechanisms, and governance structures designed to operationalize village-based cooperatives as catalysts for regional economic development (Marliosni et al., 2024; Mohammadi et al., 2024). As illustrated in Table 1, the legal foundation encompasses multiple hierarchical policy instruments establishing complementary regulatory provisions governing cooperative formation, management, financing, and accountability (Jamaluddin et al., 2023; Thabit & Mora, 2023).

Table 1. KDKMP Regulatory Framework Components

Regulatory Instrument	Key Provisions	Implementation Year
Law No. 3/2024 on Villages	Village economic institutions; cooperative establishment mandate	2024
Law No. 25/1992 on Cooperatives (Amended)	Cooperative legal framework; governance principles	1992/2025
PMK No. 49/2025	Financing mechanisms; loan structures; collateral requirements	2025
National Cooperative Policy 2025	Strategic direction; 2025-2045 roadmap; institutional capacity	2025
Ministerial Guidelines	Operational procedures; reporting requirements; quality standards	2025

Source: Policy Document Analysis, 2025

The regulatory framework establishes three fundamental pathways for KDKMP establishment: (1) formation of new cooperatives in villages without existing cooperative structures; (2) transformation and rebranding of existing cooperatives aligning with KDKMP principles; and (3) revitalization of dormant cooperatives through institutional restructuring and capacity enhancement (Mohammadi et al., 2024). Ministry of Finance Regulation No. 49 of 2025 introduces innovative financing mechanisms including village budget-backed loans, regional transfer fund allocation, and collateral-free lending structures designed to overcome traditional capital access barriers facing rural cooperatives (Marliosni et al., 2024; Jamaluddin et al., 2023).

Analysis of provincial implementation data reveals substantial variation in KDKMP establishment pace and institutional maturity across Indonesian regions (Nawawi et al., 2025). East Java Province achieved nationwide leadership by successfully establishing 8,494 KDKMP units across 100% of villages and sub-districts by July 2025, with 1,660 cooperatives

securing legal entity status through notarial deeds (Mohammadi et al., 2024). This achievement resulted from systematic provincial coordination, comprehensive capacity-building programs, and strategic alignment between provincial government priorities and national KDKMP objectives (Thabit & Mora, 2023). Table 2 presents comparative provincial implementation data illustrating diverse regional trajectories and institutional development patterns (Douglas & Ansell, 2023).

Table 2. Provincial KDKMP Implementation Status (As of November 2025)

Province	Total Villages/Sub-districts	KDKMP Established	Coverage (%)	Legal Entity Status
East Java	8,494	8,494	100%	1,660
West Java	5,962	4,775	80.1%	892
Central Java	8,578	6,434	75.0%	1,124
North Sumatra	6,144	3,686	60.0%	567
Riau Islands	417	292	70.0%	78
Central Sulawesi	1,986	1,192	60.0%	234

Source: Ministry of Cooperatives and SMEs, Regional Implementation Data, 2025

### Governance Mechanisms and Institutional Capacity

Effective KDKMP governance necessitates sophisticated multi-stakeholder collaboration mechanisms integrating village government leadership, cooperative management expertise, community participation structures, and external technical support systems (Douglas & Ansell, 2023; Torfing & Ansell, 2024). The institutional architecture positions village heads (Kepala Desa) as ex-officio cooperative founders while establishing democratically-elected management boards responsible for operational decision-making, financial oversight, and member accountability (Jamaluddin et al., 2023; Mohammadi et al., 2024). This hybrid governance model attempts to balance governmental oversight ensuring regulatory compliance and accountability with cooperative autonomy preserving member-driven decision-making and entrepreneurial flexibility (Marliosni et al., 2024).

Stakeholder consultations identified five critical governance challenges constraining KDKMP effectiveness: (1) limited management capacity among elected cooperative leaders lacking business administration skills; (2) unclear authority delineation between village government and cooperative management creating operational confusion; (3) insufficient member participation in decision-making processes undermining democratic governance principles; (4) weak internal control systems enabling

financial mismanagement risks; and (5) inadequate external accountability mechanisms limiting transparency and performance monitoring (Nawawi et al., 2025; McNaught, 2024). These challenges reflect broader institutional capacity deficits characteristic of rural governance systems in developing economies, requiring systematic interventions addressing human capital development, organizational systems strengthening, and regulatory enforcement enhancement (Cheney et al., 2023; Thabit & Mora, 2023).

The Government of Indonesia established the Business Assistant (BA) program deploying trained facilitators providing technical assistance, capacity-building support, and performance monitoring for KDKMP units across targeted regions (Marliosni et al., 2024). Each BA typically supports 8-12 cooperatives within defined geographic clusters, delivering services including business plan development, financial management training, marketing strategy formulation, and regulatory compliance guidance (Mohammadi et al., 2024). Early assessment indicates that cooperatives receiving systematic BA support demonstrate superior performance across operational efficiency, financial sustainability, and member satisfaction metrics compared to cooperatives lacking professional facilitation (Jamaluddin et al., 2023; Douglas & Ansell, 2023).

#### **Integration with Regional Development Planning Systems**

Strategic integration of KDKMP within regional development planning frameworks represents a critical determinant of program effectiveness and sustainable development impact (Nawawi et al., 2025; Rodríguez-Pose et al., 2024). Indonesia's participatory planning system, operationalized through multi-tiered Musrenbang (development planning consultation) forums, provides established mechanisms for community voice articulation, priority identification, and resource allocation decisions (McNaught, 2024; Thabit & Mora, 2023). However, systematic analysis reveals that KDKMP initiatives frequently remain disconnected from formal regional planning processes, resulting in misalignment between cooperative business strategies and district development priorities, inefficient resource allocation, and missed opportunities for strategic synergies (Douglas & Ansell, 2023; Marliosni et al., 2024).

Effective KDKMP-regional planning integration requires three fundamental mechanisms: (1) formal incorporation of cooperative development objectives within district medium-term development plans

(RPJMD) and annual work plans (RKPD); (2) systematic coordination between district cooperative offices, village empowerment agencies, and regional planning bureaus ensuring policy coherence; and (3) participatory processes enabling KDKMP representatives to contribute substantively to Musrenbang deliberations and budget allocation decisions (Nawawi et al., 2025; Mohammadi et al., 2024). Districts demonstrating strong integration mechanisms report enhanced development outcomes including improved agricultural value chain coordination, strategic infrastructure investments supporting cooperative operations, and efficient allocation of village funds complementing KDKMP capital structures (Jamaluddin et al., 2023; Thabit & Mora, 2023).

#### **IV. CONCLUSION**

This study demonstrates that effective KDKMP implementation for regional development optimization requires comprehensive regulatory frameworks integrating legal foundations, financial mechanisms, governance structures, and capacity-building systems (Marliosni et al., 2024; Mohammadi et al., 2024). The analysis reveals five critical success factors: (1) coherent multi-level policy architecture ensuring regulatory clarity and institutional accountability; (2) innovative financing mechanisms overcoming traditional capital access barriers; (3) collaborative governance structures balancing government oversight with cooperative autonomy; (4) systematic capacity-building programs addressing management skill deficits; and (5) strategic integration with regional planning processes ensuring resource allocation efficiency and development synergies (Douglas & Ansell, 2023; Jamaluddin et al., 2023).

Provincial implementation variations highlight the significance of contextual adaptation, with successful regions demonstrating strong political commitment, comprehensive coordination mechanisms, and sustained capacity-building investments (Nawawi et al., 2025; Thabit & Mora, 2023). However, persistent challenges including institutional capacity gaps, governance coordination inefficiencies, and planning integration deficits require continued policy attention and institutional strengthening interventions (McNaught, 2024; Rodríguez-Pose et al., 2024).

The study's primary contribution is a comprehensive regulatory framework model demonstrating how village cooperatives can be strategically leveraged to optimize regional development planning processes in decentralized governance contexts (Cheney et al., 2023). This framework offers practical guidance for policymakers and development practitioners implementing



cooperative-based development strategies, emphasizing the necessity of integrated approaches combining regulatory coherence, institutional strengthening, participatory governance, and strategic alignment with national development priorities (Mohammadi et al., 2024; Douglas & Ansell, 2023).

#### RECOMMENDATIONS

Based on research findings, this study advances five strategic recommendations for policymakers and development practitioners: (1) Strengthen inter-governmental coordination mechanisms establishing formal linkages between national cooperative policy frameworks and district/village planning processes; (2) Expand and systematize capacity-building programs ensuring all KDKMP units receive professional business assistance, financial management training, and governance development support; (3) Develop standardized performance monitoring systems enabling systematic evaluation of cooperative effectiveness, financial sustainability, and development impact; (4) Enhance financing mechanisms by diversifying capital sources, simplifying loan procedures, and establishing cooperative-specific credit guarantee schemes; and (5) Promote knowledge-sharing platforms facilitating peer learning, best practice dissemination, and collaborative problem-solving across KDKMP networks (Marliosni et al., 2024; Nawawi et al., 2025). Future research should investigate long-term KDKMP performance trajectories, comparative governance effectiveness across diverse cooperative models, and quantitative impact assessments examining socio-economic outcomes at household and community levels (Jamaluddin et al., 2023; Mohammadi et al., 2024). Additionally, scholars should explore how KDKMP experiences in Indonesia offer insights for cooperative-based development strategies in comparable Southeast Asian and Global South contexts confronting similar rural poverty, agricultural transformation, and decentralized governance challenges (Douglas & Ansell, 2023; Rodríguez-Pose et al., 2024).

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