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Hybrid Fiscal-Backed Financing in Cooperative Policy: Institutional Design, Risk Allocation, and Governance Challenges in Indonesia

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Abstract
This study examines the institutional design and governance implications of hybrid fiscal-backed financing in Indonesia's cooperative development policy, focusing on the Koperasi Merah Putih program. The research aims to analyze how the integration of public fiscal instruments and private banking mechanisms reshapes risk allocation, accountability structures, and policy effectiveness. Using a qualitative policy analysis approach combined with institutional economics, this study evaluates recent regulatory developments, including Presidential Instruction No. 17 of 2025 and the draft Minister of Finance regulation on intergovernmental transfers. The findings reveal that the financing scheme constitutes a hybrid system in which the state functions as a liquidity provider, fiscal regulator, and systemic guarantor through transfer deduction mechanisms. While this design enhances credit accessibility and reduces financial risk, it simultaneously generates governance challenges, including financial ambiguity, moral hazard, institutional mismatch, and accountability gaps. The study proposes the concept of Hybrid Fiscal-Backed Cooperative Finance as a theoretical framework to explain these dynamics. The findings contribute to the literature on public finance innovation and institutional governance while offering policy recommendations to improve accountability, risk-sharing mechanisms, and institutional capacity for sustainable implementation.

Keywords: hybrid finance, fiscal backstop, cooperative governance, institutional economics, public policy
JEL Classification: A12, H81, P13

INTRODUCTION
Example of an Introduction Narrative
Background and Significance of the Topic

In the context of contemporary economic policy, the transformation of the state's role in development financing indicates a shift from a direct public expenditure model toward a finance-intermediation-based approach. The state no longer functions as the primary fund provider but rather as a facilitator that creates conditions for private sector involvement through innovative financing schemes. This approach has emerged as a response to fiscal constraints while addressing the need for accelerated and inclusive economic development, particularly at the local level.

In Indonesia, the Koperasi Merah Putih policy presents a financing model that represents a form of hybrid public finance, integrating fiscal instruments with banking credit mechanisms. Under this design, the state positions funds as a source of liquidity within the banking sector, while financing is implemented through credit schemes to development-executing entities, with repayment mechanisms guaranteed through fiscal transfer deductions such as the General Allocation Fund (DAU), Revenue Sharing Fund (DBH), and Village Fund. This model demonstrates the transformation of the state's role into that of a liquidity provider, fiscal regulator, and fiscal backstop.

Several previous studies have emphasized that innovation in public financing can enhance the efficiency and effectiveness of development, provided it is supported by appropriate institutional design (Mazzucato, 2018; Howlett, 2019). However, the institutional economics literature also warns that unclear regulations and incentive distribution can give rise to moral hazard and inefficiencies (North, 1990; Williamson, 2000). In the cooperative context, this challenge becomes more complex because collectively-based institutional structures are often not designed to manage large-scale and high-risk financing.

Although this policy offers an innovative solution, there is a research gap regarding how the integration of public and private financing affects governance and risk distribution in practice. Most studies still examine the two systems separately, thus failing to comprehensively explain the dynamics of hybrid policy. Additionally, empirical research on the state's role as a fiscal backstop in cooperative-based financing remains very limited.

Based on this context, this study aims to critically analyze the RPMK policy design in financing the Koperasi Merah Putih, focusing on institutional aspects, risk distribution, and governance. This research is expected to provide theoretical contributions through the development of the concept of hybrid fiscal-backed cooperative finance, as well as practical contributions for formulating more accountable and sustainable policies.

METHODS

This study employs a qualitative approach with a policy analysis design, combined with an institutional economics perspective. This approach was selected because it is capable of explaining the complex interactions between regulations, actors, and financing mechanisms within a hybrid finance scheme that involves multiple levels of government and economic sectors.

The data used in this study were sourced from official policy documents, including Presidential Instruction No. 17 of 2025 on the Acceleration of Physical Development of Stores, Warehouses, and Facilities for Village/Urban Cooperative Units of Koperasi Merah Putih, as well as the Draft Minister of Finance Regulation (RPMK) replacing PMK No. 49 of 2025 (concerning the Procedures for Loans to Village/Urban Cooperatives of Koperasi Merah Putih/KDMP), along with relevant academic literature on public finance, institutional economics, and cooperative governance. Data were collected through a systematic literature review and document analysis.

The analytical technique employed is descriptive-qualitative analysis with an interpretative approach. The analysis focuses on three main dimensions: institutional design, financing structure, and governance mechanisms. In addition, this study also develops a conceptual model to explain the relationships between actors and instruments within the hybrid financing system. This approach enables a critical evaluation of the policy's alignment with principles of efficiency, accountability, and economic sustainability.

RESULTS AND DISCUSSION

Results

The results of the study indicate that the financing structure within the Koperasi Merah Putih program forms a multi-layered financing system that conceptually integrates public policy instruments, fiscal mechanisms, and banking intermediation into a unified framework. At the initial stage, the macro-level policy established through Presidential Instruction No. 17 of 2025 serves as a normative foundation that mandates the acceleration of cooperative infrastructure development at the village and urban levels. This policy defines strategic objectives, program scope, and fiscal authorization, which together provide the legitimacy for project implementation. This stage emphasizes the role of the state as a policy enabler, acting as both a regulator and holder of the development mandate. With this normative basis, the entire implementation process can proceed within a clear legal and fiscal framework.

Subsequently, this macro-level policy is operationalized through fiscal technical regulations in the form of the Draft Minister of Finance Regulation (RPMK), which governs the procedures for disbursement, control, and deduction of transfers to regions and villages. The RPMK strengthens the state's function as a fiscal regulator by providing a formal mechanism for the flow of public funds. This instrument ensures that loans granted to implementing entities, such as PT Agrinas, are backed by legally valid and accountable fiscal guarantees. Thus, the RPMK acts as a bridge connecting the government's strategic objectives with on-the-ground implementation, creating continuity between macro-level policies and technical fiscal execution.

At the operational stage, the Ministry of Finance places funds in the banking sector as a form of liquidity support. Although these funds remain classified as public, they are used to enhance the financing capacity of the private sector. Commercial banks then serve as the primary intermediary by channeling loans to PT Agrinas, which implements cooperative infrastructure development. In this phase, the financing mechanism transforms into private credit relationships governed by modern banking principles. Despite its private nature, this process remains within the broader public policy framework, thereby establishing an integration between the public and private sectors.

The implementation of development by PT Agrinas produces physical assets such as stores, warehouses, and operational facilities, which are subsequently transferred to regional or village governments. This transformation underscores the hybrid character of the financing system, where private credit risk is complemented by public fiscal guarantees, producing outputs that can be directly utilized by the community. The final stage involves loan repayment through deductions from fiscal transfers, including the General Allocation Fund (DAU), Revenue Sharing Fund (DBH), and Village Funds. This mechanism directly links the state financial system with credit obligations. Thus, the entire financing cycle creates a strong integration between fiscal policy, banking intermediation, and public asset formation.

These findings confirm that the financing structure in the Koperasi Merah Putih policy no longer follows the conventional separation between public and private sectors. The system establishes a hybrid mechanism that combines fiscal policy, banking intermediation, and public asset formation within a single integrated cycle. The transformation from public financing to private credit, and subsequently to public assets, demonstrates flexibility and innovation in cooperative development financial management. Conceptually, this model provides a concrete example of how fiscal instruments and banking mechanisms can operate together within a unified policy framework. The system highlights the importance of coordination among the state, the banking sector, and implementing entities to achieve effective and sustainable development outcomes.

Discussion

These findings indicate that the Koperasi Merah Putih policy is a concrete example of hybrid public finance, where private financing is implemented with the support of state fiscal guarantees (Mazzucato, 2018). From the perspective of institutional economic theory, this model strengthens the role of the state as a risk absorber and market enabler, reducing credit risk for the private sector while simultaneously expanding financing capacity at the local level (North, 1990; Howlett, 2019). However, despite its innovative design, this approach raises several governance issues and institutional risks:

1) Financial ambiguity
   There exists a financial ambiguity, where funds are initially categorized as public, but once disbursed as bank loans, their status shifts to private, while repayments are still drawn through public fiscal mechanisms. This condition creates unclear accountability, particularly concerning audits and oversight, increasing the risk of misuse or procedural errors (Williamson, 2000).
2) Potential moral hazard
   Fiscal guarantees generate potential moral hazard because part of the credit risk is transferred from banks to the state. This can reduce credit discipline by both banks and PT Agrinas, creating agency problems, lowering efficiency incentives, and increasing the risk of suboptimal fund usage (North, 1990).
3) Institutional mismatch
   Local governments and cooperatives are not designed to bear medium- to long-term financing obligations. Automatic deductions from fiscal transfers may limit fiscal space and constrain other public spending priorities,

creating long-term fiscal risks (Howlett, 2019).

4) Accountability gap among actors
Multiple actors are involved—Ministry of Finance, banks, PT Agrinas, regional/village governments—but there is no clear division of responsibilities. This ambiguity increases the risk of institutional fragmentation and inter-actor conflicts (Williamson, 2000).

5) Absence of a hybrid finance audit system
The system does not fully fall within either public or private financial regimes, necessitating a new oversight model that integrates both. Without such a system, the risks of irregularities, inefficiency, and even corruption increase (Mazzucato, 2018).

Conceptually, these findings demonstrate that the success of hybrid finance policies depends not only on innovative design but also on the alignment of institutional structures, incentive distribution, and actor capacity. Without integrating these three aspects, the policy risks causing economic distortions and implementation failures (North, 1990; Howlett, 2019; Williamson, 2000).

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study demonstrates that the Koperasi Merah Putih financing policy represents an innovation within the framework of hybrid public finance, transforming the role of the state into a fiscal backstop and credit enhancer. Although it can increase financing access and reduce credit risk, the policy still faces significant challenges regarding accountability, risk distribution, and institutional capacity. These findings highlight that the design of hybrid policies requires strong integration of economic, institutional, and governance aspects to ensure effective and sustainable implementation.

Recommendations

The government needs to clarify the legal status and financial classification within the hybrid finance scheme to avoid accountability ambiguities. Furthermore, a more balanced risk-sharing mechanism between the state, banks, and local governments is necessary so that not all risk is borne by public fiscal resources. Strengthening institutional capacity and developing an integrated audit and reporting system are also priorities to enhance transparency and policy effectiveness. Future research is recommended to develop empirical approaches to quantitatively measure the economic impact of this policy.

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AUTHOR CONTRIBUTIONS

The author was responsible for all aspects of this study, including conceptualization, research design, data collection, document analysis, interpretation of findings, and manuscript writing. The author also performed the literature review, developed the conceptual framework of hybrid fiscal-backed cooperative finance, and formulated policy recommendations.

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