

## **The Role of Cooperative in the Indonesian Economy**

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**Abstract:** *This study aims to evaluate descriptively the existence and role of cooperatives in the Indonesian economy. In 2016, the number of cooperatives in Indonesia reached 212,135 units with a total membership of 15% of the total population of Indonesia. 30% of cooperatives in Indonesia have been inactive for various reasons. The cooperative has contributed less than 2% to the Indonesia's gross domestic product and offered 0.5% job vacancy for the entire working population of Indonesia. The following suggestion is provided for further enhancing the contribution of the cooperative to the Indonesian economy, namely: (1) Increasing the participation of cooperative members; (2) Providing a conducive climate for cooperatives, access to finance and business development; (3) Increasing counseling and training for managers, supervisors and apparatus for co-operatives; and (4) Encouraging Micro-Small and Medium Enterprises (MSMEs) to establish secondary cooperatives.*

**Keyword:** *Cooperative; member; capital; turnover; economic growth; labor; Indonesia*

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### **I. Background**

The cooperative in Indonesia was first established in 1896 by a Mayor in Purwokerto (Nasution, 1990). The establishment of a cooperative at that time was to protect the citizens from being trapped in loan sharks. Type of established cooperative was saving and loan cooperatives. This business entity developed into the agricultural sector cooperatives. Then in 1908 and 1911, Boedi Oetomo and Syarekat Islam advocated establishing a cooperative as a means of economic struggle at the time. After Indonesia gained its independence in 1945, the cooperative was explicitly incorporated as the basis of a nation-based economy based on article 33 paragraph one of the 1945 Constitution.

Until 2016, the number of cooperatives in Indonesia reached 212,135 units with a total membership of 37,783,160 people (Ministry of Cooperatives and SMEs, 2016). Of those cooperatives, 30% were inactive for various reasons. There are several factors that trigger the cooperatives were inactive, such as the low human resources of cooperatives, cooperative management was not professional, cooperative members' participation was still lacking and mastery of the technology was inadequate. Besides, there were some cases of cooperatives that did deviations in managing cooperatives, so that the distrust of the community to cooperatives was increasing.

Looking at the releases issued by the International Cooperative Alliance (ICA) in [www.monitor.coop](http://www.monitor.coop), many cooperatives in the United States fill the list. 300 major cooperatives in the world, the first rank was a cooperative Zenyokoren from Japan that engaged in the insurance sector. Followed by Acdlec Electry Coop France, in the trade and services sector, and ranked third was the State Farm United States that engaged in the insurance sector. The cooperative of Indonesia, Gresik cement co-operatives were ranked 232 in 2013 and ranked 210 in 2012. Meanwhile, according to the Minister of Cooperatives and SMEs, Gede Puspayoga (2016), Indonesia managed to penetrate the world's cooperative, the Telkomsel Cooperative (Kisel) which was ranked 123 out of 300 world cooperatives. Of the 300 best cooperatives in the world, Indonesia has only one cooperative, while the United States has the 100 best cooperatives from the top 300 cooperatives in the world.

Based on the above background, this study aims to evaluate the contribution of cooperatives to the Indonesian economy. Cooperatives also contribute to reducing poverty, unemployment and improving people's welfare (DeVille et al., 2007). In addition, cooperatives in Indonesia are able to absorb labor by 0.5% of the total working population (Ministry of Cooperatives and SMEs, 2016).

To achieve the purpose of this study, this study used descriptive analysis. This study focuses on the existing data on cooperatives, such as capital, turnover, profit, and cooperative labor.

The rest of the study is organized in the following sections. Section 2 provides the literature and discussion of the results, and section 3 concludes the paper.

### Capital, Turnover and Profit of the Cooperative

Cooperatives established for the welfare of members and society in general. The cooperative has values based on self-help, self-responsibility, democracy, equality, equity and solidarity (ICA, 1995). Cooperative in running its business is more concerned with its members than to seek the maximum profit that is commonly done by business entities other than cooperatives. However, far from the purpose of seeking profit, the cooperative has a basic purpose to improve the welfare of members in particular and society in general. Cooperatives run their business in accordance with the needs and economic efforts of its members. Laurinkari (2004), states that the purpose of the cooperative is the empowerment not only on economic, but social and psychological for its activities. This means that the cooperative is not solely aimed at making a profit but far from it is to achieve prosperity together. Cooperatives put forward the strength of members rather than the strength of capital (Henzle, 1960). According to Michelsen (1994: 16) Cooperative is a membership organization that can determine business. It can be understood that members of the cooperative are run by members as users of the services / goods and as business owners of the business.

In running its business, cooperatives develop member economic business, not non members. Because the purpose of the cooperative is basically to improve the welfare of members. However, it does not rule out the possibility of cooperatives can obtain benefits that can be distributed to members. Royes and Smith (2007) state that the cooperative will return the revenues earned to its members or the number of patrons to be allocated to members and can also be saved for future use as capital. Basically, the cooperative is not intended to seek profit, but to maintain the business continuity of the cooperative needs to gain profit, known as SHU (Residual Result of Business).

Data show during the period of 2010-2015, turnover and profit of cooperatives have increased. In 2010 the cooperative in Indonesia earned Rp5.6 trillion in profit with a business volume of Rp76.8 trillion, profit and the volume of cooperative business was Rp6.3 trillion and Rp95 trillion in 2011. Then in 2012 the cooperative profit reached Rp6.6 Trillion and turnover of cooperatives Rp119.2 Trillion. Gain and business volume in 2013 Rp8.1 Trillion with total profit Rp125.5 Trillion. In 2014 the volume of business and profit cooperatives earn Rp189.8 Trillion and Profit Rp14.8 Trillion, the last in 2015 total profit and business volume obtained by cooperatives each Rp17.3 Trillion and Rp266.1 Trillion. Average percentage increase in 2010 to 2015 reached 5-7%. It identifies that cooperatives can contribute to the Indonesian economy.

Meanwhile, cooperative capital in Indonesia during the last six years also increased. In 2010 the total capital of cooperatives amounted to Rp64,7 trillion, then in 2011 and 2012, the amount of capital collected by cooperatives amounting to Rp75,4 and Rp102,8 trillion. Capital in 2013 reached Rp170, 3 trillion or an increase of 40% from the previous year. Total capital in 2014 and 2015 amounted to Rp200.6 and Rp242.4 trillion. Broadly speaking, the amount of capital from 2010 to 2015 has increased quantitatively. In 2013 the rate of capital increase reaches 40% from 2012. While in the year before and after 2013, the rate of increase in capital only ranges from 14% to 26%. This is because in 2013 the number of active cooperatives reached 143 thousand more with the number of cooperatives 203,701 units of cooperatives. In addition, in 2013 the existence of the cooperative society movement launched by the ministry of cooperatives, at the international level the world organization of the United Nations declared in 2012 as the year of cooperatives, so that affect the development of cooperatives in 2013. The impact of the policy is that people are interested to join to become a member of the cooperative. And this will implicate the growth of the value of capital in cultivation by members of the cooperative against the cooperative.

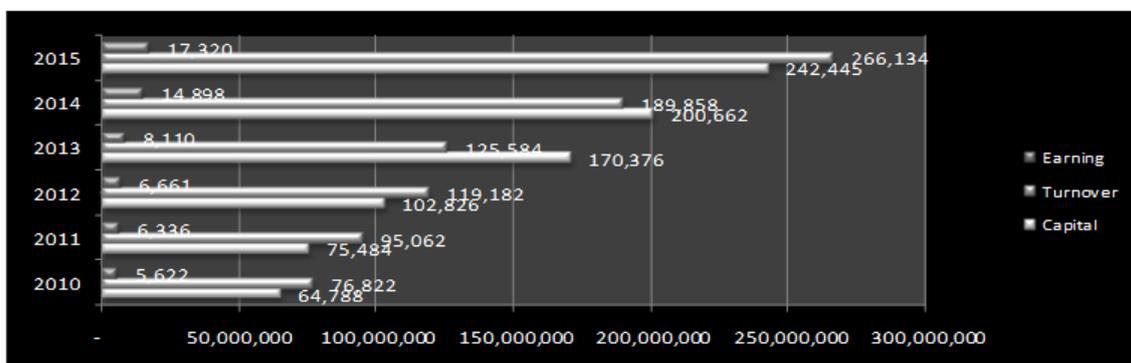


Fig 1. Number of Profit, Turnover and Capital of Cooperatives in Indonesia

### Cooperative and Economic Growth Indonesia

In article 33 of the 1945 of the Constitution, the foundation of economic democracy, the prosperity of society is preferred, not the prosperity of a person. Therefore, the economy is structured as a joint effort based

on the principle of kinship. Build a company that suits it is a cooperative. But until now the role of cooperatives has not been so visible to the Indonesian economy.

Burhanuddin (2013) states that, to date, we have not been too happy with the role that has been played by the cooperative in the Indonesian economy. We may tend to wonder how big the role of cooperatives in our economy. We need data. The information is somewhat less accurate and may not be accurate. Clearly the role of cooperatives in the formation of our GDP is very small (Prof. Mubyarto once estimated about 2%, Bambang Ismawan once mentioned 5%). Compare for example with Finland 21%, New Zealand 22%, Switzerland 16.4% and Sweden 13%, even in newly developing Kenya, the cooperative has a 45% GDP share.

According to the minister of Cooperatives and SMEs of the Republic of Indonesia (2016), the contribution of the cooperative sector to the Gross Domestic Product of Indonesia is only 1.7%; this figure is very small when compared with other sectors. However, cooperatives are an important part of the economy in a developing country because it can lead to realistic income, because cooperatives also contribute to reducing poverty, unemployment and improving people's welfare (DeVillie et al., 2007).

### **Cooperative and Manpower Absorption**

In terms of employment, the cooperative sector is only able to contribute 0.5% of the total population working in Indonesia. Based on data from the Central Bureau of Statistics (2016), the number of Indonesians working as many as 186,100,917 people in 2015, while the labor absorbed in the cooperative sector is only 574,451 people. In other words, the number of cooperatives that reaches hundreds of thousands is only able to absorb the workforce of less than 1% of total workforce in Indonesia. In 2010, the number of workers absorbed by the cooperative reached 358,768 people. In 2011 the number of employees of the cooperative amounted to 377,236 people, there is an increase in labor by 5% from 2010. In 2012 and 2013 the absorbed workforce reached number 431,506 and 473,604 people, while in 2014 the absorbed workforce of 567,445 people, in other words an increase of 16% from 2013.

### **Recommendations for Strengthening the Role of Cooperatives in the Indonesian Economy**

In quantity, the number of cooperatives in Indonesia reaches hundreds of thousands, but the active ones was only 30% with various kinds of problems. Among the problems that arise are the low resources of managers and participation of members. Members of the cooperative have a dual function that is as owner and user. Cooperatives are unique, members are service users provided by cooperatives (Marwa and Aziakpono, 2014). Therefore, to increase the level of participation of members of the cooperative, it requires continuous member education in the hope that the productivity of the cooperative will increase. Similarly, the manager of the cooperative, not only the pursuit of the number of members of the cooperative, but must be coupled with the participation of members.

The role of government is also needed as a catalyst and facilitator for cooperatives. Various classical problems experienced by cooperatives in Indonesia, such as business climate, capital and financing, and the low human resources of cooperative people. The Government can make various efforts to help solve the problem include: 1) Providing maximum space with the creation of a conducive climate, easy access to capital for cooperatives and business development efforts and business cooperation; 2) Improving counseling/training and counseling of cooperatives for managers, supervisors and officers of cooperative coaches in a sustainable manner, through pilot projects in several provinces, which later as a model for the development of cooperatives in Indonesia; and 3) Encouraging the perpetrators of Micro-Small and Medium Enterprises (MSMEs) to establish cooperatives jointly at the district, provincial and central levels. Thus, the cooperative logo or symbol as the "sokuguru" of Indonesian economy become materialized and not just as jargon only.

## **II. Conclusion**

This study aims to describe the performance and expectations of cooperatives in Indonesia. The number of cooperatives in Indonesia reaches 212,135 units with a total membership of 15% of the total population of Indonesia. 30% of cooperatives in Indonesia were inactive for various reasons. Percentage of cooperative contribution to Indonesia's gross domestic product is below 2%. While the absorption of labor, the cooperative is only able to absorb 0.5% of the entire working population of Indonesia. Some suggestions to enhance the contribution of the cooperative to the national economy as follows: (1) Increasing the participation of cooperative members; (2) Providing a conducive climate for cooperatives, access to finance and business development; (3) Increasing counseling and training for managers, supervisors and apparatus for co-operatives; and (4) Encouraging Micro-Small and Medium Enterprises (MSMEs) to establish secondary cooperatives.

The limitation of this research is in its use of aggregate level of cooperative data as a whole, regardless of cooperative type, such as saving and loan cooperative, agricultural cooperative, plantation and civil service cooperative. Future researchers are advised to identify which types of cooperatives contribute more to the Indonesian economy.

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