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INDONESIAN GENERAL GUIDELINES FOR COOPERATIVE GOVERNANCE (PUG-KOPIN)

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FOREWORD
COORDINATING MINISTER FOR ECONOMIC AFFAIRS

The Indonesian government recognizes the increasing importance of cooperatives as a form of people's economic strength. Therefore, support for cooperatives must be ensured so that they can grow and develop as people's business entities and as a form of economic democracy mandated by the Indonesian constitution. Hence the Coordinating Ministry for Economic Affairs welcomes the KNKG's initiative to publish the Indonesian General Guidelines for Cooperative Governance (PUG-KOPIN) for the first time, which is one of the important instruments to support the management of cooperatives so that they can grow and develop as sound and sustainable cooperatives.

It is expected that PUG-KOPIN can become a reference regarding the cooperative governance for the cooperative movement and all cooperative stakeholders in Indonesia. This PUG-KOPIN was not only developed by identifying the institutional environment in Indonesia, but also reflecting governance practices in various countries. I express my highest appreciation to KNKG which has published this PUG-KOPIN so that it is in line with cooperative governance developments and practices at the international level.

This PUG-KOPIN should serve as a reference for cooperatives in Indonesia in preparing, implementing, and evaluating their policies, in addition to surely being required to comply with applicable laws and regulations in Indonesia. It is expected that this PUG-KOPIN will also become one of the organizational instruments to be applied by cooperatives in Indonesia so that they are able to develop themselves, become robust and independent based on cooperative principles thus being able to act as pillars of the national economy.

Jakarta, 22nd July 2022

COORDINATING MINISTER FOR ECONOMIC AFFAIRS
OF THE REPUBLIC OF INDONESIA



Airlangga Hartarto

FOREWORD
GENERAL CHAIRPERSON OF THE NATIONAL COMMITTEE ON GOVERNANCE POLICY

The role of cooperatives as the pillar of the national economy is crucial, especially in helping the general public to build joint ventures based on deliberation and consensus, kinship, mutual aid, as well as democracy. This central role requires cooperatives to carry out their business processes effectively, among others by implementing good governance practices so that they are able to develop as a healthy and sustainable business entities like other forms of business entities. Therefore, the National Committee on Governance Policy (*Komite Nasional Kebijakan Governansi* (KNKG)) has taken the initiative to develop the Indonesian General Guidelines for Cooperative Governance (*Pedoman Umum Governansi Koperasi Indonesia* (PUG-KOPIN)) as a guideline for all cooperatives in Indonesia to be able to carry out good organizational governance practices.

Any company, whether large or small, requires good governance to maintain the continuity of its business. The same applies to cooperatives, good cooperative management is critical for the development and continuity of the cooperative business itself. In contrast to corporate governance in general, cooperative governance has the characteristic of involvement of Members as joint owners of cooperative joint ventures and the role of Supervisors and Directors, as well as Managers (if any), in cooperative management, focused on achieving Members' interests and welfare. It is important to ensure that the cooperative governance principles and guidelines can be implemented.

PUG-KOPIN is general guidelines for cooperative governance published for the first time by KNKG, as an effort to realize Article 33 of the 1945 Constitution, especially paragraphs 1 and 4 so that cooperatives are better able to play a role in the national economic system. Therefore, the preparation of PUG-KOPIN cannot be separated from the historical basis for the formulation of cooperatives, namely (1) the legal history of the preparation and formulation of constitutional provisions regarding the national economy by the Investigating Committee for Preparatory Work for Indonesian Independence (*Badan Penyelidik Usaha-usaha Persiapan Kemerdekaan Indonesia* (BPUPKI)), as well as (2) the thought of the founding father, especially Mr. Muhammad Hatta, who formulated and established the national

economic system in

In Article 33 paragraph 1 of the 1945 Constitution, namely “The economy shall be structured as a joint venture based on the principle of kinship.”

The 2022 PUG-KOPIN is based on Article 33 of the 1945 Constitution and the basic principles of cooperatives recognized by the world cooperative movement which can be seen from references to various global cooperative practices. So, in the Indonesian Cooperative Governance Framework, these two elements serve as the basic foundation of Indonesian cooperative governance practices.

The 2022 PUG-KOPIN consists of 8 (eight) Principles which are discussed in 8 (eight) Chapters, namely: (1) Members as Owners, Member Votes, Member Participation and Member Involvement in Cooperatives; (2) Cooperative Goals and Cooperative Leadership; (3) Roles and Responsibilities of Supervisors and Directors; (4) Composition, Success, and Evaluation of Supervisors and Directors; (5) Risks, Financial Management, Internal Control, and Compliance; (6) Remuneration for Supervisors, Directors, and Managers, (7) Ethical Behavior, Disclosure and Transparency; and (8) Other Stakeholders.

The 2022 PUG-KOPIN’s preparation process has undergone some relatively long preparation stages, starting from July 2021. These stages were implemented through several focus group discussions (FGDs) with expert councils, in the fields of Finance, Banking and Macroeconomics, as well as having two FGDs by inviting 10 (ten) cooperatives with different types and business activities, namely: (1) Cooperatives engaged in the field of financial services business, consisting of: (a) conventional Savings and Loans Cooperatives (KSP) – Kospin Jasa Pekalongan, Central Java, (b) CU (Credit Union) Pancur Kasih, Pontianak, West Kalimantan, (c) Sharia Savings and Loans and Financing Cooperatives (KSPPS) – Koperasi BMI, Tangerang, Banten, (d) Pusat Koperasi Kredit (Puskopdit), DKI Jakarta; (2) Community cooperatives engaged in the field of livestock and producer business, consisting of: (a) Koperasi Peternak Bandung Selatan (KPBS) - Pangalengan, Bandung Regency, West Java, (b) Koperasi Produsen Tahu Tempe (Primkopti), South Jakarta, DKI Jakarta; (3) Functional Cooperatives (Employee Cooperatives), consisting of: (a) Koperasi Warga Semen Gresik (KWSG), Gresik, East Java, (b) Koperasi Astra International, DKI Jakarta, (c) Koperasi Keluarga Guru Jakarta

(KKGJ)-DKI Jakarta, and (4) Koperasi Konsumen (Kopkun) Purwokerto, Central Java.

Before holding the limited public hearing, KNKG held an audience with the Minister of Cooperatives and SME as the main stakeholders.

In the limited public hearing, KNKG received inputs from various parties such as Eva Sundari (ICA Working Group for G20), Nining I. Soesilo (University of Indonesia), Ministry of Law and Human Rights, IKOPIN University, UKM Indonesia, Koperasi BMI Tangerang, Koperasi CU Pancur Kasih, and Koperasi Keluarga Guru Jakarta. On this occasion, KNKG expresses its gratitude to all parties who had provided input.

The preparation of the 2022 PUG-KOPIN was carried out by the Cooperative Commission which was formed by KNKG. On this occasion, KNKG expresses its highest gratitude and appreciation to the members of the Cooperative Commission who have supported me as the Chairperson of the Commission, consisting of: Sigit Pramono, Sidharta Utama, and Andi Ilham Said; as well as the Expert Council consisting of Teguh Boediyana, Hendri Saparini, Dewi Hutabarat and M. Arief Effendi; with the Formulators, namely Nana Sutisna and Vogy Gautama Buanaputra.

It is hoped that the 2022 PUG-KOPIN can provide a valuable and meaningful contribution to improving and developing cooperative governance in Indonesia.

Jakarta, 22 July 2022

National Committee on Governance Policy
General Chairperson



Mardiasmo

INTRODUCTION

The development of cooperatives began with the formation of "modern cooperative business" which was initiated by the Rochdale Equitable Pioneers Society or Rochdale Pioneers in 1844. The cooperative business was formed by 28 cotton craftsmen in Rochdale, northern England, with reference to 7 (seven) principles referred to as "The Rochdale Principles" (Fairbairn, 1994). "The Rochdale Principles" consist of: (1) open membership; (2) democratic control; (3) distribution of profits in proportion to transactions carried out by members; (4) limited interest on capital; (5) being neutral, not influenced by political or religious interests; (6) cash trading; and (7) promoting education. These principles were then adopted by the International Cooperative Alliance (ICA) as an international cooperative organization and then applied as well as developed by cooperatives in various countries.

Cooperatives are expected to be able to operate in alignment with the needs of their members because they are owned, controlled, and managed by their members in order to accommodate shared needs including economic, social, and cultural aspects (Coops4dev, 2021). Initially, the cooperative business system was developed as a form of labor movement to meet their needs amidst economic inequality and poor working system that they faced. The formation of a cooperative is not only aimed at making a profit, but also at emphasizing the profit-making process carried out by each member, as well as the way cooperative members provide values to their members and their community. The development of cooperatives continues and is able to adapt to human socioeconomic needs over time. In fact, the cooperative model has even gained global recognition and it is considered as one of those parties playing an important role in economic development and meeting the global needs (Coops4dev, 2021) and being resistant to the shocks of the financial crisis (McKillop et al., 2020). ILO (2014) states that cooperatives play an important role in achieving Sustainable Development Goals (SDGs) by reducing poverty and increasing employment opportunities, increasing economic transactions that are more stable compared to corporate-based businesses, and encouraging gender equality by increasing women's involvement in the local economy.

Cooperatives need a supportive institutional environment to be able to develop, especially in terms of the regulatory environment (Coops4dev, 2021; McKillop et al., 2020). In several countries that have been relatively successful in developing their cooperative businesses, such as New Zealand and France, there are regulations related to cooperatives that support the running of cooperative businesses in various fields. The two countries are considered countries with a fairly high level of support for the cooperative movement. Although they do not specifically appear

in the constitution of the two countries, the regulations they have support the running of cooperative businesses, including providing the recognition of rights and authority of cooperatives in carrying out economic activities (Coops4dev, 2021). With the recognition of the rights and authority of cooperatives, the contribution of cooperatives to Gross Domestic Product (GDP) in those countries is pretty significant. For example, cooperatives in New Zealand contribute about 13 percent of the total GDP (NZ Coop, 2021), so that New Zealand holds the title of "The world's most cooperative economy" given by the United Nations Department of Economic and Social Affairs (ICA-AP, 2020).

Ethically, implementing the principles and identity of cooperatives is able to make cooperatives in the United Kingdom become a forum for economic activities that is resilient and continues to develop, but on the other hand, it is also ambitious and successful in accommodating the needs and encouraging the welfare of its members (Co-operatives UK, 2021). By maintaining their principles and identity, cooperatives in many countries have proven capable of developing and competing with other business entities, such as corporations (Cuevas & Buchenau, 2018). Cooperatives are in fact the form of business that is most resistant to the blows of the financial crisis (McKillop et al., 2020).

In Indonesia, the cooperative movement has been going on for more than 120 years. The role of cooperatives is even mentioned in the Indonesian constitution as one of the important pillars of the economy. Cooperatives in Indonesia are expected to be able to act as people's economic movement and as business entities that play a role in creating an advanced, just, and prosperous society, as well as are based on Pancasila and the 1945 Constitution. This expectation is in accordance with the role of cooperatives as pillars of the national economy as stated in the mandate of Article 33 of the 1945 Constitution.

According to ICA, as of 2016, Indonesia is estimated to have 148,220 cooperatives. More than 50 percent of cooperatives in Indonesia are Savings and Loans Cooperatives, followed by Production Cooperatives, Consumer Cooperatives and Service Cooperatives. Data shows that, since 2000, cooperatives in Indonesia have developed quite rapidly, as evident from the increasingly diverse types of cooperatives in Indonesia which involve more youngsters and women in several sectors such as telecommunications, arts and crafts, fashion and technology industries (Coops4dev, 2021).

The bright future of cooperatives in Indonesia can also be seen from the increase in the average profit of cooperatives in Indonesia by 5-7 percent from 2010 to 2015, and thereby automatically increasing the contribution of cooperatives to the Indonesian economy (Coops4dev, 2021). The contribution of cooperatives in Indonesia to Gross Domestic Product (GDP) was around 4.48 percent in 2017

(Coops4dev, 2021) and increased to 5.1 percent in 2020 (Tempo, 2021). This shows the great potential of cooperatives to contribute more significantly to the country's economy. Nevertheless, cooperatives in Indonesia still face several major challenges, especially in terms of the institutional environment that conditions cooperative businesses.

A study conducted by ICA and the European Union shows that the institutional environment, especially the regulatory environment, constitutes a relatively major challenge to the development of cooperatives in Indonesia (Coops4dev, 2021). Therefore, according to the report, regulations in Indonesia limit cooperatives, including those related to social and economic issues, thus they are not free to determine their operations and industries.

In order to develop conducive atmosphere to the development of cooperatives, ICA recommends several suggestions for improvements to cooperative practices in Indonesia, especially in terms of the regulatory environment. Indonesia is expected to strengthen the philosophical foundation of cooperatives by referring to the globally understood identity, definition, values, and principles of cooperatives; involving theoretical analysis that distinguishes cooperatives from other types of businesses that apply in Indonesia; designing and recognizing mechanisms that are able to represent successful cooperatives; and considering the existence of regulations that govern specific conditions in the implementation of cooperatives (Coops4dev, 2021).

Based on practices and empirical studies in some countries that successfully developed cooperatives, as well as the recommendations from ICA mentioned above, cooperatives greatly need an institutional environment and adequate affirmative policies that enable cooperatives to develop, especially in the regulatory environment. This can be achieved by establishing a regulatory system that actually supports cooperatives to be able to compete and contribute socially and economically with other business legal entities.

In the framework of this background, KNKG took the initiative to develop the Indonesian General Guidelines for Cooperative Governance (PUG-KOPIN) as one of the efforts to create a conducive institutional environment, which can support cooperatives, allowing them to be managed properly and to develop into one of the robust and sustainable people's business entities by still upholding its identity, becoming a form of Indonesian people's economy.

Jakarta, 22nd July 2022

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CHAPTER 1 INTRODUCTION

1.1. DEFINITION AND PRINCIPLES OF COOPERATIVE GOVERNANCE

Cooperative governance is the structure, process, and ethical behavior used by cooperatives as guidelines in managing themselves with the ultimate goals: (a) to develop the economic (as well as social and cultural) potential of Members in particular and the community in general, (b) to promote and maintain current and long-term cooperative accountability, (c) to create values for the growth of cooperatives, and (d) to improve the welfare of cooperative Members as owners by still paying attention to other stakeholders' interests.

Cooperative Governance was developed by referring to: (a) the 1945 Constitution, especially Article 33 paragraphs 1 and 4, (b) Cooperative principles and values published by the International Cooperative Alliance (ICA) and applicable internationally, (c) Resolution Number A/RES/60/132, 60th Session of the General Assembly, 16 December 2005, Cooperatives in Social Development, and (d) paying attention to the results of the ILO General Conference on 3 June 2002, as well as (e) paying attention to the implementation of governance practices in several countries.

Cooperative governance encompasses 3 (three) strategic aspects, namely: (1) regulating the organizers (or managers) of cooperatives, including regulating the rights, obligations, authority and responsibilities of Supervisors and Directors who in operations, are assisted by Managers (if any); (2) regulating the cooperative management process in a measurable, systematic, and comprehensive manner based on the values, principles, and identity of cooperatives both internally and with other stakeholders; (3) regulating and applying cooperative ethical behavior to its stakeholders.

The definition of cooperatives used in the Indonesian General Guidelines for Cooperative Governance (PUG-KOPIN), is the definition set by the International Cooperative Alliance (ICA), namely: "*A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.*"

Cooperative management is carried out based on the principles of deliberation to reach consensus, mutual aid, democracy, and kinship whereby ownership and control are carried out by the Members themselves, thus differentiating cooperatives from other business entities such as Limited Liability Companies (PT). All cooperative Members constitute one big family with the same goal, namely to advance collective economic prosperity. This goal can be achieved if every

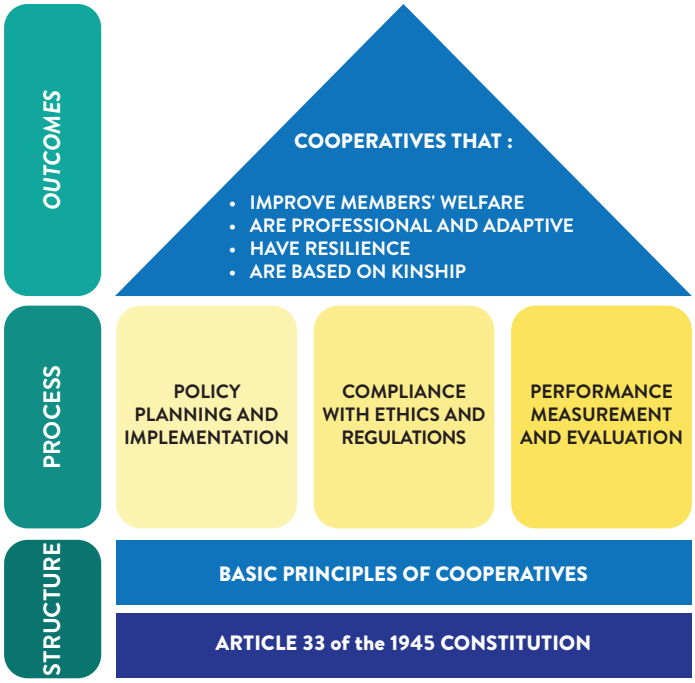
Member of the cooperative is willing to do real work and contribute services (participation) to the cooperative. The participation of Cooperative Membersis crucial to encourage cooperative management that is professional, sustainable, and easy to adapt to environmental changes (adaptive). Empirical research shows that cooperative is one of the business forms that are resilient and can adapt well to financial crises (McKillop et al., 2020). This resilience to financial shocks can make a cooperative an adaptive and sustainable organization. In addition to resilience, cooperative banks in various countries in Europe show a significant increase in market share indicating that cooperatives not only have the ability to adapt to turbulence during the crisis, but are also able to compete with the corporate business form by still prioritizing members' interests (McKillop et al., 2020).

Article 33 paragraph 1 states that the economy is structured based on the principle of kinship, meaning that the economic system used and developed should not rely on the principles of competition and individualism. Article 33 paragraph 1 can also be interpreted that the economy is structured from the national level to various regions in Indonesia. This entire economic structure is based on the principle of kinship.

Article 33 paragraphs (2) and (3) of the 1945 Constitution emphasizes that the state controls the earth and water as well as the natural resources contained therein and uses them for the greatest prosperity of the people. The intention is that all components can be processed and utilized for the benefit of the wider community and to improve the people's welfare. This control by the state also means that the state's economy should not only be controlled by, and provide maximum benefits to, a few individuals or groups of people, but must be used for the benefit of the wider community.

Based on the thoughts and references described above, PUG-KOPIN was structured in the systematics of the "Indonesian Cooperative Governance Framework" as follows:

Figure 1.1 Indonesian Cooperative Governance Framework



As explained at the beginning of this introduction, Indonesian cooperative governance is based on Article 33 of the 1945 Constitution and the basic principles of cooperatives recognized by the world cooperative movement which can be seen from references to various global cooperative practices. So, in the Indonesian Cooperative Governance Framework, these two elements serve as the basic foundation of and conditions Indonesian cooperative governance.

Furthermore, the Indonesian cooperative governance process is divided into three main processes, namely (1) policy planning and implementation, (2) compliance with ethics and regulations, as well as (3) performance measurement and evaluation. The first cooperative governance process, namely planning and implementing policies, serves as the basis for preparing governance principles and guidelines set out in Chapters 1, 2, 3, and 4. The second governance process, namely compliance with ethics and regulations, is explained in more detail in Chapters 6, 8, and 9. Meanwhile, the third governance process, namely performance measurement and evaluation, is elaborated in Chapters 5 and 7.

1.2. COOPERATIVE ORGANS

A cooperative consists of 3 (three) main organs, namely: (1) the ownership organ, namely Members who have sovereign through the Member Meeting (RA), (2) the top management of the cooperative, namely the Directors, and (3) the supervisory organ of the cooperative, namely the Supervisors. The Directors organ which plays a role in managing (organizing) the cooperative consists of at least the Chairperson, Treasurer and Secretary. In carrying out their duties, the

Directors can appoint Managers who are given the authority and power to manage the Cooperative business. The Directors ensure that the Managers fully understand and appreciate the benefits of good cooperative governance, processes and procedures through effective and sustainable training and communication programs.

The Supervisory organ, consisting of the Chairperson of Supervisors and its Members, supervises various management activities carried out by the Directors. Supervisors, in performing their duties and functions, can propose to form a Committee that is tailored to the size and scope of responsibilities. Supervisors and Directors account for their management and supervision functions and roles to the Members as owners. Both of them account for performance through the Member Meeting (*Rapat Anggota* (RA)) organ as the highest authority in a cooperative. Cooperative Supervisors, Directors, and Managers must first study and understand this guideline so that they can apply it according to the needs and best interests of the Cooperative in the long term. If possible, the Directors build an integrated governance, risk management, and compliance (GRK) system, by handling various uncertainties in an integrated manner and with high integrity, to ensure that the cooperative can achieve its goals.

RA is an organ where Members as owners decide on various main policies of the cooperative. As the owners' decision-making organ, RA is a collection of all members (cooperative group or members association or members society) as cooperative owners who jointly realize the rights of Members. On the other hand, RA is used by Supervisors and Directors as a forum to account for cooperative management activities, which also fulfills some of the Members' rights as owners of the Cooperative. Through RA, Supervisors and Directors are given release from responsibilities by Members as owners for the performance they have carried out in the past period, usually for 1 year.

1.3. PURPOSE OF THE APPLICATION OF COOPERATIVE GOVERNANCE PRINCIPLES AND GUIDELINES

The purpose of PUG-KOPIN is to serve as a reference for cooperatives in developing their governance guidelines while continuing to make adjustments to the conditions of the cooperative's internal environment, especially those related to activities, the size and complexity of the business being carried out, as well as the nature of the risks and challenges faced.

In PUG-KOPIN, there are "Principles" and "Guidelines" intended to encourage and establish the best cooperative governance practices in Indonesia which refer to the practices and development of the cooperative movement in Indonesia and in various countries, while maintaining the principles and identity of cooperatives

regulated by the 1945 Constitution, in accordance with the needs of cooperatives thus achieving the sustainable cooperative growth value in the long term.

"Principles" explain the substance of the output expected from the implementation of cooperative governance. "Guidelines" further explain several practices that are in principle to be implemented.

The "Guidelines" presented refer to cooperative governance practices that have been implemented in Indonesia and various countries in accordance with the principles established by ICA, as well as always reflect the basic principles of cooperatives mandated by the 1945 Constitution.

The global practice that serves one of PUG-KOPIN's references is the Cooperative Governance Guide in the Great Britain (United Kingdom), which generally applies a One-Tier System Governance system, namely Supervisors, Directors, and Executive Director are included in one forum called the Board. However, PUG-KOPIN aligns with the common practice among Cooperatives in Indonesia, which follows the Two-Tier System, distinguishing between the roles and functions of the Supervisory Board and the Board of Directors. In contrast, the key feature of the One-Tier System is that strategic decisions within the Cooperative are made collectively by both the Supervisory Board and the Board of Directors. Meanwhile, in the Two-Tier System, strategic decisions are made in stages, namely the Directors collectively and collegiately with the Supervisors having the role of supervising the management performance of the Directors. The similarity between the One-Tier System and the Two-Tier System is that the highest decision is placed on the Members at a Member Meeting (*Rapat Anggota* (RA)).

This PUG-KOPIN consists of 8 (eight) Principles which are discussed in 8 (eight) Chapters, namely: (1) Cooperative Members; (2) Cooperative Goals and Cooperative Leadership; (3) Roles and Responsibilities of Supervisor and Director; (4) Composition, Success, and Evaluation of Supervisor and Director; (5) Risks, Financial Management, Internal Control, and Compliance; (6) Remuneration for Supervisor, Director, and Manager, (7) Ethical Behavior, Disclosure and Transparency; and (8) Other Stakeholders.

1.4. USE OF THE INDONESIAN GENERAL GUIDELINE FOR COOPERATIVE GOVERNANCE

PUG-KOPIN can be applied to cooperatives developed based on the provisions of the Cooperative law applicable in Indonesia, namely: (1) cooperatives that collect funds (capital) from Members as owners, and (2) cooperatives that collect and manage funds that, in addition to from their Members, also come from other cooperatives and public funds (bonds, medium-term debt securities, investment capital).

The application of PUG-KOPIN is based on a comply or explain approach. This approach requires cooperatives to adhere to the principles and guidelines in PUG-KOPIN and to explain to stakeholders if they do not comply with certain principles or guidelines. Given the varying sizes, types, and complexity of cooperatives, the comply or explain approach provides flexibility to cooperatives in applying PUG-KOPIN. The application of PUG-KOPIN in cooperatives is disclosed in the Annual Report and cooperative website (if any).

This PUG-KOPIN can be applied to all types of businesses, products, and services developed by community cooperatives, cooperatives built and developed by company employees (or Worker Cooperatives based on the provisions and Laws governing Employment), as well as cooperatives the business activities of which have a broad impact on the sustainability of the environment and community.

1.5. UPDATE OF THE GENERAL GUIDELINE FOR COOPERATIVE GOVERNANCE

KNKG is obligated and committed to reviewing PUG-KOPIN at least once every 2 (two) years based on domestic and international governance developments, as well as making necessary adjustments. KNKG is fully aware that economic, social and cultural conditions, as well as the business competition environment continue to change rapidly, which is why updating PUG-KOPIN is greatly needed so that cooperatives remain able to play a role in the national economic system in accordance with the constitutional mandate of article 33 of the 1945 Constitution.

CHAPTER 2 MEMBERS AS OWNERS, MEMBER VOTES, MEMBER PARTICIPATION, AND MEMBER INVOLVEMENT IN COOPERATIVES

Cooperatives are a form of joint venture owned by their Members. Cooperatives are run based on the principles of deliberation to reach consensus, kinship, mutual aid, and democracy which enable their Members to actively participate in cooperative management.

2.1. MEMBERS AS OWNERS

Principles

2.1.1. A cooperative is an economic, social, and cultural organization owned by Members which is managed by deliberation to reach consensus, kinship, mutual aid, and democracy, as well as shows a clear chain of accountability between Members and Supervisors as well as Directors.

2.1.2. Members have clearly defined Member votes in the form of democratic and joint rights and responsibilities provided that the quorum asks for accountability for the performance of Supervisors and Directors in RA.

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2.1.2.1. A cooperative organizational structure that describes the relationship between Members and Supervisors as well as Directors in a clear and accessible manner, determined in writing, and communicated well to all Members on an ongoing basis.

2.1.2.2. The Cooperative documents any matters related to the role of Members; democratic rights owned by Members; decisions that must be discussed and determined through RA; information that needs to be received by Members as a form of accountability of Supervisors and Directors; and the Members' right to request information and request the convention of RA.

2.1.2.3. Supervisors and Directors have a clear and shared understanding of the Members' views. In addition to RA, Members are actively involved with Supervisors and Directors in various ways so that Supervisors and Directors understand and consider views on governance, performance, strategy, and the application of basic cooperative values, namely deliberation to reach consensus, kinship, mutual aid, democracy and principles in ICA.

2.2. MEMBERS' DEMOCRATIC ATMOSPHERE

Principles

2.2.1. Supervisors and Directors both encourage a dynamic democratic atmosphere and encourage Members to participate actively and democratically in the cooperative. The Directors apply policies and procedures that can encourage Members to exercise their democratic rights and actively participate in influencing cooperative policies formulated by the Directors with the approval of Supervisors.

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2.2.1.1. The Directors consider appropriate procedures to maximize Member participation in the cooperative with the approval of Supervisors. In accordance with their respective roles, Supervisors and Directors ensure that:

a. Members' democratic rights are clear and transparent in all forms of communication.
b. Various voting methods have been considered, including to use the digital (postal and electronic) technology.
c. Various methods have been considered for Members' attendance at meetings, including Members' participation in the Cooperative.
d. Participatory tools, such as consensus and decision-making, have been considered to inform important (key) decisions for developing cooperatives.
e. Provisions are made based on Members' needs and interests.
f. Notice regarding Member Meetings (annual Member Meetings, Member Meetings to elect Supervisors and Directors, Member Meetings to prepare RKAP) are communicated in a timely manner using various appropriate methods and approaches.
g. There are processes to ensure that elections are conducted fairly and transparently as well as are free from manipulation and undue influence.
h. Members can participate outside formal governance processes, for example through Member groups, social media, questionnaires, and attendance at events organized by Members themselves.

2.2.1.2. The Directors, under the supervision of Supervisors, monitor and evaluate all activities that have been designed to maximize Member participation in the cooperative. In monitoring and encouraging Member participation, Directors pay attention to the following:

a. Total number of cooperative Members.
b. Number of Members attending Member Meetings.
c. Number of Member committee and/or other Member groups in the scheme and the level of attendance at meetings.
d. Number of Members at Supervisor and Director election meetings

to ensure whether the number of voting Members is representative of the membership

e. Member's level of economic involvement with the cooperative.
f. Number of employees who are Members of the cooperative.
g. Member participation in training and education.

2.2.1.3. Every election of Supervisors and Directors is documented in the Annual Report, along with efforts made by Supervisors and Directors to increase Member participation in Supervisor and Director election meetings and in other activities.

2.2.1.4. If the Directors are considering the process of assignment, engagement, and merger with another cooperative, they ensure that members' interests are protected during the negotiation process. The Directors always provide sufficient and adequate information to the Members and Supervisors to determine whether or not the decision-making is approved by the Members and Supervisors.

2.2.1.5. If the Directors are receiving transfers for assignment, engagement, and merger with another cooperative with a transaction value equivalent to one-third or more of the cooperative's net assets in the latest balance sheet, they pay attention to Members' interests and need to consult with Supervisors to provide the information needed by the Members to disclose information preferences to determine whether or not the transfer is approved by the Members.

2.3. COOPERATIVE EDUCATION

Principles

2.3.1. The Directors provide cooperative education to Supervisors, Directors, and Members, aiming to impart knowledge about cooperatives, particularly their values and principles. They also offer an overview of the history and development of cooperatives to new and prospective Members.

Guides

2.3.1.1. The Directors develop a comprehensive and formal cooperative introduction program tailored to the cooperative's needs.

2.3.1.2. The Directors develop a structured education and training program that needs to be completed by all Members, Supervisors and Directors. This program is informed at the annual management evaluation meeting of Directors. Directors can also develop a program for prospective Supervisors and Directors to enable them to acquire the skills needed to develop the cooperative.

2.3.1.3. Cooperatives provide regular cooperative education and training to their Members. The implementation of cooperative education and training is not only aiming to improve capabilities of Directors,

Supervisors, or employees in the area of cooperative knowledge, but can also be used as a tool to improve activities and businesses.

CHAPTER 3 COOPERATIVE GOALS AND COOPERATIVE LEADERSHIP

Cooperatives have the goal to improve their Members' welfare with democratic and sustainable management. Cooperatives are effectively led by Directors and supervised by Supervisors.

3.1. COOPERATIVE GOALS

Principles

3.1.1. Cooperatives' goal is to improve the welfare of their Members in particular and the community in general and participate in building the national economic order in order to create an advanced, just, and prosperous community based on Pancasila and the 1945 Constitution.

3.1.2. Supervisors and Directors are collectively and collegiately responsible for creating and maintaining the principles, identity, and values of cooperatives as well as providing a positive impact on Members' welfare through a successful long-term sustainable business development. Directors act as the cooperative's custodian to safeguard the current and long-term organization and business of Members.

Guides

3.1.1.1. The Directors provide an explanation regarding various considerations and suggestions for handling the opportunities and risks of cooperative management; sustainability of the cooperative business model; democratic cooperative management strategy through the involvement of Members as owners and controllers to contribute to cooperative development; and how cooperative values and identity influence decision-making. This explanation is set out in the Annual Report.

3.1.1.2. The Directors provide a statement set out in the Annual Report containing details of the current and long-term application of cooperative values and development strategies for its Members.

3.1.1.3. The Directors reveal plans for the sustainability of the cooperative in the medium and long terms in the Annual Report.

3.1.1.4. The Supervisors approve strategic and annual plans; supervise the execution of plans; and supervise the implementation of governance.

3.2. COOPERATIVE LEADERSHIP

Principles

3.2.1. Supervisors and Directors act based on high integrity, lead by setting a good example, live the values, and implement the culture governed

in the applicable provisions and regulations while still referring to the basic principles and values of the cooperative.

Guides

3.2.1.1. Supervisors and Directors determine the goals, strategies, culture and values of the cooperative. Directors ensure that various consultation methods are available in order to obtain views from Members and stakeholders in determining those goals, strategies, and values and communicating them to Members after being approved by the Directors.

3.2.1.2. The Directors assess and monitor the implementation of cooperative culture using a variety of techniques, including employee survey, employee welfare, diversity and inclusion information, Member retention, feedback sessions for the Directors, as well as ensuring that practices and behaviors in the cooperative are aligned with its goals, strategies and values. Cooperatives' Annual Report describes Directors' activities in relation to culture and any actions that have been taken to address dissatisfaction with that alignment.

3.2.1.3. Supervisors and Directors sign and comply with a code of ethics and behavior in managing the cooperative.

3.3. RESOURCE AVAILABILITY

Principles

3.3.1. The Directors ensure that the necessary resources are available to achieve the cooperative's purposes, goals, opportunities, and development strategies. Supervisors and Directors establish an effective framework, work plan, and work control mechanism so that risks can be identified, assessed, managed, and mitigated properly.

Guides

3.3.1.1. The Directors ensure that the cooperative has a budget and resources that have been approved and allocated efficiently and effectively.

3.3.1.2. The Directors can recruit Managers and delegate daily executive tasks to them with clear and appropriate instructions, ensuring that the Managers regularly report the cooperative's performance to the Directors.

3.3.1.3. The Supervisors approve the annual budget and resource allocation plan as well as investment to be made.

3.4. WHISTLE-BLOWING SYSTEM

Principles

3.4.1. The Directors ensure that the whistle-blowing policies and processes are carried out consistently while still paying attention to the values and identity of the Cooperative.

3.4.2. Members are encouraged to discuss strategic issues by inviting Supervisors and Directors.

Guides

3.4.2.1. There are procedures in the documented whistle-blowing system for Members, employees, and other stakeholders to submit complaints confidentially or anonymously. The Directors regularly review procedures for resolving arising problems and provide policies to ensure proportional and independent follow-up.

3.4.2.2. If the Directors have unresolved concerns about cooperative operations conducted by Managers, these concerns are documented in official records. If a Manager resigns due to these issues, they are asked to provide a written statement for submission to the Directors.

CHAPTER 4 ROLE AND RESPONSIBILITIES OF SUPERVISORS AND DIRECTORS

Supervisors and Directors carry out their roles and responsibilities democratically and independently in creating a sustainable value for the long-term best interests of the cooperative and its Members. Directors carry out their role as cooperative managers who will be supervised by Supervisors. Supervisors provide relevant input to Directors in order to achieve cooperative goals.

4.1. ROLE AND RESPONSIBILITIES OF DIRECTORS

Principles

4.1.1. The Directors convey the success (performance achievements) of the cooperative and act in the best interests of the cooperative as a whole, for Members' interests, and perform their duties in a way that is consistent with the values and principles of the cooperative (deliberation to reach consensus, kinship, mutual aid, democracy).

4.1.2. The Directors act objectively and fairly in serving Members' interests, including protecting the cooperative's assets.

Guides

4.1.2.1. The Directors are expected to understand the point of views or opinions of Members and stakeholders as well as include in a section in the Annual Report how Directors consider the point of views or opinions of Members and stakeholders in discussions and decision-making. Directors pay attention to the applicable rules and provisions in preparing the Annual Report.

4.1.2.2. The Directors encourage innovation that can create long-term values for the business in a changing and uncertain environment. The innovation can include designing innovative business models, products and services for members and non-members, promoting research, improving process quality, using data and information support, and collaborating with partners that emphasize output.

4.1.2.3. The Directors (Chairperson, Secretary, and Treasurer) immediately discloses potential conflicts of interest to Supervisors, and do not participate in decision-making in cases where the person concerned has a conflict of interest.

Principles

4.1.3. Directors are responsible for their performance to the Members of the cooperative. Directors show independent and objective assessment during their leadership period in order to encourage the culture of openness, strategies for facing challenges, and effective decision-making

processes. The Chairperson of Directors facilitates Supervisors and Directors in developing relationships, involvement, and participation.

Guides

4.1.3.1. The Directors review Member participation mechanisms to ensure they remain effective and enable Members to hold Directors accountable.

4.1.3.2. The Directors ensure that their obligations to stakeholders, such as employees, users, suppliers, and the community, remain performed as well as are understood and fulfilled.

4.1.3.3. The Directors create policies that included potential conflicts of interest and provide them to all directors, chief executives, and employees. All conflicts of interest are handled appropriately and recorded in a list available for inspection by Members.

4.1.3.4. The Chairperson of Directors facilitates effective communication and coordination between Supervisors and Directors.

4.1.3.5. The Chairperson of Directors holds regular meetings between Supervisors and Directors to coordinate regularly.

4.1.3.6. Supervisors and Member representatives approve the Annual Report in RAT.

4.1.3.7. The Annual Report includes a list of Supervisors and Directors.

Principles

4.1.4. The Directors have sufficient information and time to fulfill their responsibilities to Members. Directors perform duties, and take an active role in decision-making.

4.1.5. The Directors ensure they have the policies, processes, information, time, resources, and assurance needed to be able to function effectively and efficiently.

Guides

4.1.5.1. The Directors are provided with relevant and adequate information to support various cooperative agendas, including quality and appropriate performance and control data. Directors regularly review the quality and relevance of the information they receive.

4.1.5.2. The Directors receive information that allows full participation in resolving cooperative challenges, makes decisions to perform their duties effectively preferably 5 (five) working days before the Director meeting, and have access to appropriate additional sources of information outside the Director meeting.

4.1.5.3. The Directors hold regular meetings to perform their duties. The Annual Report sets the number of meetings.

4.1.5.4. The responsibilities of Directors, Supervisors and Committees are clearly set out, determined in writing, approved, and available to Members.

4.2. ROLE AND RESPONSIBILITIES OF SUPERVISORS

Principles

4.2.1. Supervisors form committees and delegate certain areas of their authority. The scope of the committee is clear and includes confirmation that the committee operates under the authority delegated by Supervisors.

4.2.2. Supervisors and their Committees (if has been established) demonstrate a high level of competence; according to organizational needs; have a combination of skills, knowledge, experience, democratic relationships with Members; and there is relevance to the long-term business development needs of cooperatives and their Members.

Guides

4.2.2.1. A periodic formal meeting schedule is available for Supervisors and Directors to discuss matters that specifically need to be discussed.

4.2.2.2. If the Cooperative has Managers, from time to time, Supervisors and Directors hold discussions without the Managers' presence.

4.2.2.3. The Supervisors regularly consider necessary Committees based on the cooperative's size, complexity, and risk profile, to enable Supervisors to carry out their role effectively. Committees that can be formed are the Audit Committee, Remuneration Committee, Nomination Committee, and Risk Committee.

4.2.2.4. Each Committee has an agreed-upon terms of reference, at least containing its scope and authority. The Committee reports its activities to Supervisors. Committees' terms of reference are available and regularly evaluated by Supervisors.

4.2.2.5. Members of Supervisors inform the Chairperson of Supervisors and the Chairperson of Directors if there is a potential conflict of interest, including as a result of their position as a consultant or manager of consumers, suppliers, creditors, or other business partners.

4.2.2.6. The Directors conduct periodic evaluation meetings to evaluate the cooperative's performance and implementation of governance.

Principles

4.2.3. The Supervisors review the organization's strategy at least annually and approve the mission, vision, and strategy of the organization formulated by the Directors. The Supervisors also review and approve the organization's activity plans, long-term financial plans, and short term financial plans.

4.2.4. The Supervisors provide considerations and monitor Directors for the management of their implementation. Supervisors and Directors need to be involved in decisions that are very important for the organization, which are governed in the organization's articles of association.

Guides

4.2.4.1. The types of decisions that require Supervisors' approval are disclosed in the Annual Report.

4.2.4.2. Supervisors and Directors hold an annual special meeting to evaluate the strategic plan and annual plan. This meeting invites Members or Member representatives.

4.2.4.3. The Directors present the evaluation and annual plan before Supervisors and Members at the annual special meeting.

Principles

4.2.5. The Supervisors propose to RA, which may be preceded by a proposal from an appointed Committee, the amount of remuneration for members of Directors and members of Supervisors that is in line with the organization's sustainable development and the long-term interests of the organization and its members and/or beneficiaries.

Guides

4.2.5.1. The Supervisors periodically review Directors' remuneration system.

Principles

4.2.6. The Supervisors supervise the effectiveness of cooperative governance policies and its implementation and propose changes if necessary.

Guides

4.2.6.1. The Supervisors monitor and ensure that the organization's governance framework and policies reach and are accepted by subsidiaries and other businesses in which the organization has significant involvement and capital investment.

Principles

4.2.7. The Supervisors supervise and direct the integrity of the organization's accounting and financial reporting system, as well as the independence of the internal and external audit functions.

Guides

4.2.7.1. Before approving the financial reports, the Supervisors receive a statement from the Chairperson of Directors and Members of the cooperative's Financial Director, that in their opinion, the entity's financial records have been properly managed and the financial reports have been developed in accordance with applicable accounting standards and provide a fair presentation of the organization's financial position and performance and that their opinion is formed based on an appropriately designed risk management and internal control system and implemented effectively.

4.2.7.2. Supervisors monitor, review, and approve the cooperative's Annual Report and Sustainability Report, ensure their integrity, and oversee the organization's disclosure and communication processes.

4.2.7.3. Independent personnel of Supervisors are highly expected to be able to contribute to honest, objective, active, and constructive discussions at Supervisor meetings.

4.2.7.4. The Charter of Supervisors is periodically reviewed. The charter of supervisors is a formal document that states the objectives, authority, and responsibilities of supervisory activities within the cooperative.

Principles

4.2.8. The Chairperson of Supervisors acts as the coordinator of Supervisors and ensures their effectiveness. The Chairperson of Supervisors encourages a culture of openness and constructive dialogue that allows a variety of views/opinions to be expressed, including coordinating the setting of appropriate Supervisor and Director meeting agendas and ensuring sufficient time is available to discuss all agendas.

Guides

4.2.8.1. Details of duties of the Chairperson of Supervisors are disclosed in the Annual Report and on the organization's website.

4.2.8.2. The Chairperson of Supervisors coordinates the distribution of supervisory roles among the members of Supervisors, chairs Supervisor meetings and represents Supervisors in affairs with parties outside the Supervisors.

4.2.8.3. The goals, authority, and responsibilities of Supervisors are set out in the Charter of Supervisors.

CHAPTER 5 COMPOSITION, SUCCESS, AND EVALUATION OF SUPERVISORS AND DIRECTORS

Cooperative Members have the highest power in determining Supervisors and Directors. The determination and evaluation of Supervisors and Directors are carried out in an accountable, formal, and democratic manner, by always prioritizing the long-term interests of the cooperative and its Members.

5.1. COMPOSITION AND EVALUATION OF DIRECTORS

Principles

5.1.1. The Directors are elected and appointed by democratically Members through RA based on the principles of kinship, deliberation and consensus to maintain the diversity of backgrounds in the composition of Directors.

5.1.2. The Directors consist of Chairperson, Secretary, and Treasurer, as well as have the knowledge, abilities, and expertise needed to properly fulfill the management functions and roles of Directors in the cooperative.

Guides

5.1.2.1. The Directors are elected by Members and can be re-elected by Members if the term ends with a period (interval) of no more than 5 (five) years. The term of office of Directors is a minimum of 3 (three) years and a maximum of 5 (five) years. Directors are not permitted to serve more than 2 (two) consecutive terms. Directors go through a break for one period before nominating themselves again as Directors.

5.1.2.2. If the election of Directors is carried out by Members through RA, the election process is included in a clear and relevant terms of reference, and is accessible, clear and previously set out in writing for approval by Members.

5.1.2.3. The Directors appoint a Chairperson and a Deputy Chairperson, if necessary, who are selected based on the leadership skills and responsibility abilities required for the role.

5.1.2.4. The appointment of the Chairperson is carried out and ratified by Members in RAT (Annual Members Meeting) or other RA accompanied by the taking of oath and promise to the cooperative.

5.1.2.5. A Chairperson of the Directors is elected according to the provisions outlined in the applicable regulations, serving a term of at least five years. This term can be extended for a maximum of two additional periods, allowing for up to ten consecutive years in total, based on the decision of the members in the RA.

5.1.2.6. The Secretary's responsibilities are accessible, clear, determined in writing,

and approved by the Chairperson of Directors.

Principles

5.1.3. The Directors are elected by Members (either directly or indirectly), and are responsible to the Members who own and control the cooperative. Directors ensure that there is an active, transparent, deliberative, friendly, and democratic approach to the renewal of Directors as well as consideration of terms of office and ensuring independence of thought and approach in developing the cooperative.

Guides

5.1.3.1. Members need to be provided with relevant information using various decision-making methods about prospective Directors in elections. This includes the responsibilities of Directors, time commitment, skills, cooperative knowledge, financial and risk management competencies, understanding of governance, and experience (mandatory) needed to develop cooperatives in the long term.

5.1.3.2. Adequate information is provided to Members so that they can make the right decisions. This information includes information about the skills, knowledge, and experience of Director candidates as well as explaining the reasons for running for Director position.

Principles

5.1.4. Supervisors and Directors participate in active discussions regarding composition and succession planning, including ensuring that the Directors have appropriate leadership criteria and appropriately represents the interests of cooperative members.

Guides

5.1.4.1. There is a documented succession plan for Directors. The Chairperson of Directors needs to be reviewed, evaluated, and ensured to have adequate skills, knowledge, and experience to advance the cooperative.

5.1.4.2. Supervisors and Directors regularly review its composition, succession plan, and number of their members to ascertain the nature, diversity and scale of the cooperative, the complexity of the risks their face, and their need to ensure appropriate Member representation.

5.1.4.3. The Supervisors can form a Nomination Committee proportionate to the size, complexity, and risks faced by the cooperative. The Nomination Committee consists of:

a. a minimum of 3 (three) people from the elements of Directors and Supervisors, or
b. no more than 50% of the total number of Director and Supervisor Members

5.1.4.4. The terms of reference for the Nomination Committee include the following key roles and responsibilities (in case of no Nomination Committee, all Supervisors will play the roles):
   a. to determine the succession plan for Directors
   b. to determine the process for appointing Managers (if any)
   c. to recommend Director evaluation process and whether it needs to be carried out by an independent party
   d. to monitor cooperative policies on diversity and inclusiveness

Principles

5.1.5. The Directors ensure that their composition reflects the diversity of membership; structured so that no one individual or group dominates; Newly elected Directors are balanced and experienced; promote diversity in gender, social and ethnic backgrounds, cognitive, and personal strengths. To ensure that Directors can carry out their role properly and act according to their potential, Supervisors and Directors consider the processes and procedures in recruiting nominated candidates, including maintaining independence in selecting prospective Directors.

Guides

5.1.5.1. The Directors regularly review and document diverse skills, experiences, and backgrounds. The selection process ensures that the needs of the cooperative and its members are met. Supervisors and Directors collectively demonstrate relevant understanding of the cooperative's business and Members' needs.

Principles

5.1.6. The Supervisors carry out a formal annual evaluation of Directors' performance. Director evaluation considers their composition, diversity, and how effectively the Directors work together to achieve the cooperative's goals and generate values for its members. Evaluation shows whether each Director can continue to contribute effectively and remain committed to their role in advancing the cooperative.

Guides

5.1.6.1. A formal and strict annual evaluation of the performance of Directors, and/or their Chairperson, and/or individual Director Members is needed. To ensure objectivity and independence, Supervisors and Directors consider conducting routine evaluations facilitated by external parties at least every 3 (three) years.

5.1.6.2. The Supervisors establish a self-assessment policy for the Directors to assess the performance of Directors collectively. The results of the self-assessment are submitted to Supervisors for assessment and, if

necessary, adjusted to the Supervisors' assessment.

5.1.6.3. The self-assessment policy or other assessment policies are based on benchmarks or assessment criteria that are specific, measurable, achievable, and relevant as well as in accordance with those determined by Supervisors.

5.1.6.4. The Chairperson of Directors with the support of the Secretary needs to act based on the evaluation results by first identifying the strengths and development needs of Directors. Each Director is involved in the evaluation process and takes appropriate actions when development needs are identified.

5.1.6.5. The Directors state in the Annual Report, its performance which is evaluated by Supervisors. The Committee and Supervisor Members explain how it will be handled and the development needs. If conducted by an external facilitator, the Annual Report includes identification of the facilitator and a statement about its relationship to the cooperative or Supervisor Members.

5.1.6.6. Individuals who are associated with competitors or with suppliers of the cooperative cannot become Supervisors, Directors, and Managers if based on the considerations of the Supervisors and Directors, those parties depend materially on the patronage of the cooperative.

5.2. COMPOSITION AND EVALUATION OF SUPERVISORS

Principles

5.2.1. Supervisors are democratically elected and appointed by Members through RA based on the principles of kinship, deliberation and consensus to maintain the diversity of backgrounds in the composition of Supervisors.

5.2.2. Supervisors consist of a Chairperson and Members. Supervisors have the knowledge, abilities, and expertise needed to properly fulfill the supervisory functions and roles of Supervisors in the cooperative.

Guides

5.2.2.1. The Supervisors are elected by Members and can be re-elected by Members if the term ends with a period (interval) of no more than 5 (five) years. The Supervisors are not permitted to serve more than 2 (two) consecutive terms. Supervisors go through a break for one period before nominating themselves again as Supervisors.

5.2.2.2. If the election of Supervisors is carried out by Members through RA, the election process is included in a clear and relevant terms of reference, is accessible, clear and previously set out in writing for approval by Members.

Principles

5.2.3. The Supervisors are elected by Members (either directly or indirectly), and are responsible to the Members who own and control the cooperative.

5.2.4. The Supervisors ensure that there is an active, transparent, deliberative, friendly and democratic approach to the renewal of Supervisors as well as consideration of terms of office and ensuring independence of thought and approach in developing the cooperative.

Guides

5.2.4.1. Members need to be provided with relevant information using various decision-making methods about prospective Supervisors in elections. This includes the responsibilities of Directors, time commitment, skills, cooperative knowledge, financial and risk management competencies, understanding of governance, and the experience (mandatory) needed to supervise and develop cooperatives in the long term.

5.2.4.2. Adequate information is provided to Members so that they can make the right decisions. This information includes details about skills, knowledge, and experience of Supervisor candidates as well as explaining the reasons for running for Supervisor position.

Principles

5.2.5. Supervisors and Directors participate in active discussions regarding composition and succession planning, including ensuring that the Supervisors have appropriate leadership criteria and appropriately represents the interests of cooperative members.

Guides

5.2.5.1. There is a documented succession plan for the Supervisors. The Chairperson of Supervisors needs to be reviewed, evaluated and ensured to have adequate skills, and also have knowledge and experience to advance the cooperative.

5.2.5.2. Supervisors and Directors regularly review its composition, succession plan, and number of their members to ascertain the nature, diversity and scale of the cooperative, the complexity of the risks their face, and their need to ensure appropriate Member representation.

5.2.5.3. The Supervisors can form a Nomination Committee proportionate to the size, complexity, and risks faced by the cooperative. The Nomination Committee consists of:

a. A minimum of 3 (three) people from the elements of Directors and Supervisors.

b. No more than 50% of the total number of Director and Supervisor Members.

5.2.5.4. The terms of reference for the Nomination Committee include the following key roles and responsibilities (in case of no Nomination Committee, all Supervisors will play the roles):
   a. Determine the succession plan for Supervisors.
   b. Recommend Supervisor evaluation process and whether it needs to be carried out by an independent party.
   c. Monitor cooperative policies on diversity and inclusiveness.

5.2.5.5. Independent Supervisor appointment process: is accessible, clear, established in writing, and approved by Members. This process includes an employment agreement for a certain period of time at least every 5 (five) years and is reaffirmed by Members in RAT.

5.2.5.6. The appointed Independent Supervisors are approved by Members in RAT or other RA.

Principles

5.2.6. The Supervisors ensure that their composition reflects the diversity of membership in a structured manner so that no one individual or group dominates. Newly elected Supervisors are balanced and experienced, promote diversity in gender, social and ethnic backgrounds, cognitive and personal strengths.

5.2.7. To ensure that the Supervisors can carry out their role properly and act according to their potential, Supervisors and Directors consider the processes and procedures in recruiting nominated candidates, including maintaining independence in selecting prospective Supervisors.

Guides

5.2.7.1. The Supervisors regularly review and document a variety of skills, experiences, and backgrounds. The selection process ensures that the cooperative's and its Member's needs are met. Collectively, the Supervisors demonstrate a relevant understanding of the cooperative's business and Members' needs.

Principles

5.2.8. The Directors carry out a formal annual evaluation of their performance.

5.2.9. The Supervisor evaluation considers their composition, diversity, and how effectively the Supervisors and Directors work together to achieve the cooperative's goals and generate values for its members.

5.2.10. Evaluation shows whether each Supervisor can continue to contribute effectively and remain committed to their role in advancing the cooperative.

Guides

5.2.10.1. A formal and strict annual evaluation of the performance of Supervisors, and/or their Chairperson, and/or individual Supervisor Members is needed. To ensure objectivity and independence, Supervisors and Directors consider conducting routine evaluations facilitated by external parties at least every 3 (three) years.

5.2.10.2. Individuals who are associated with competitors or suppliers of the cooperative cannot become Supervisors, Directors, and Managers if based on the considerations of the Supervisors and Directors, those parties depend materially on the patronage of the cooperative.

CHAPTER 6 RISKS, FINANCIAL MANAGEMENT, AND INTERNAL CONTROL

Cooperatives develop and implement effective risk management practices, financial management, and internal control systems to achieve long-term management goals, enhance Members' welfare, and ensure compliance with applicable regulations, all integrated into the cooperative governance system. Directors are expected to develop and implement these integrated strategies and systems with oversight and input from Supervisors.

6.1. FINANCIAL MANAGEMENT AND INTERNAL CONTROL

Principles

6.1.1. The Directors, under the supervision of Supervisors, establish formal and transparent policies and procedures to promote the long-term sustainability and success of the cooperative.

6.1.2. The Supervisors ensure the independence and effectiveness of the internal and external audit functions, which are reflected in the integrity of the financial reports. In reviewing financial reports, Supervisors ensure that Members' interests have been met and protected.

Guides

6.1.2.1. The Supervisors can form an Audit and Risk Committee which works to support the Supervisors' performance. The number of Committee Members is aligned with the size, complexity, and risk profile faced by the cooperative. The election committee for the Committee consists of:

a. a minimum of three Supervisor Members
b. no more than 50% of the number of Supervisor Members
c. at least one Member with recent financial experience relevant to the potential risks faced by the cooperative
d. Members who have competencies relevant to the sector in which the cooperative operates.

6.1.2.2. If the cooperative does not have an Audit and Risk Committee, its functions will be entirely carried out by the Supervisors.

6.1.2.3. The terms of reference for the Audit and Risk Committee include the following roles and responsibilities:

a. Monitor the integrity of financial reports and other reports related to financial performance
b. Manage the cooperative's main risks and oversee the internal

control framework

c. Review financial reports and ensure that the Directors are aware of significant financial reporting issues including reporting issues and considerations related to matters communicated by the auditor
d. Examine and review, if necessary:
   - Significant changes to accounting policies and practices.
   - The method used to record significant transactions or unusual transactions that require a different approach and certain judgments.
   - Whether relevant accounting standards and legal requirements have been complied with, taking into account the views of the external auditor.
   - Clarity and completeness of disclosure in the cooperative's financial reports and the context in which the statements are made, including statements about the cooperative's business continuity.
   - All material information is presented in the financial reports.
e. Monitor and review the effectiveness of the internal audit function.
f. Conduct tender processes and recommend the appointment, reappointment and dismissal of external auditors, approve the remuneration and requirements of external auditors, as well as review and monitor their independence and objectivity.

Principles

6.1.3. The Directors present a fair, balanced, and understandable assessment related to the survival and prospects of the cooperative, and communicate this to Members in a transparent manner.

Guides

6.1.3.1. Directors' statement set out in the Annual Report:

a. A description of the cooperative's current position and its main risks, including the cooperative's prospects for continuing to operate and fulfill its obligations to its Members.
b. An explanation of the responsibility for preparing the annual report and accountings, including a statement confirming their belief that the Annual Report and its accounts are presented in a balanced and understandable manner as well as provide the information necessary for Members to assess the financial position and performance of the cooperative in relation to the cooperative's strategic objectives, as well as hold the Directors accountable.

6.2. RISK MANAGEMENT

Principles

6.2.1. The Directors, under the supervision of Supervisors, are responsible for establishing risk management procedures, overseeing the internal control framework, and identifying the nature and level of main risks that the cooperative is willing to take to achieve long-term strategic goals and success in accordance with the cooperative's values and principles.

6.2.2. The Directors develop a governance system in integrated financial management and with high integrity, to ensure that the cooperative can manage finance in a transparent and accountable, as well as sustainable manner.

Guides

6.2.2.1. The Directors understand the nature and scope of the organization's major and substantial risks, and approve the organization's risk appetite.

6.2.2.2. The Supervisors monitor and provide input to ensure that the establishment and application of risk management policies are consistent with the organization's goals, targets, strategies, and risk appetite.

6.2.2.3. The Supervisors and Audit and Risk Committee (if any) carry out the task of assessing potential risks for the cooperative and disclose them in the Annual Report as well as include information that explains:

a. Description of the main risks.
b. Risk management policies can provide early warning signals for material risks.
c. Confirmation of procedures that have been established by directors to identify emerging risks.
d. How risks are managed and/or mitigated by directors.

6.2.2.4. Every year, the Audit and Risk Committee, if any, reviews the effectiveness of the cooperative's internal control and risk management system, reports it to Members, and discloses it in the Annual Report, including the methods used.

6.2.2.5. The Supervisors monitor and provide input so that main and substantial risks are identified through consideration of internal and external factors.

6.2.2.6. The Supervisors monitor and provide input to ensure that the impact and likelihood of risks occurring have been assessed, and that appropriate risk mitigation strategies and plans are in place.

Principles

6.2.3. If the cooperative is part of a business group or has subsidiaries or other businesses, the Directors ensure that the cooperative has appropriate means for the control process and receives adequate information about the performance of the business units and subsidiaries.

Guides

6.2.3.1. Director meeting agendas include regularly scheduled matters and reports related to the performance of subsidiaries and other businesses.

6.2.3.2. Performance reports on the cooperative's subsidiaries and other businesses are submitted in the cooperative's Annual Report.

6.2.3.3. If the subsidiaries or other businesses are in the form of a Limited Liability Company (PT), then the governance of the subsidiaries or other businesses will refer to PUG-KI (Indonesian General Guideline for Corporate Governance).

6.3. CONTROL OF SUBSIDIARIES

Principles

6.3.1. The Directors determine the appropriate requirements and criteria for personnel assigned to subsidiaries or other businesses of the cooperative.

6.3.2. The requirements include understanding and adherence to cooperative's principles and values as well as knowledge, skills, and work professionalism as required by the subsidiaries.

Guides

6.3.2.1. The requirements and criteria for personnel who can be placed in subsidiaries or other businesses are:

a. Having been a Member of the cooperative for at least 10 years.
b. Having an understanding of cooperative principles and values.
c. Having knowledge, skills and work attitudes that are in accordance with the development plan for the subsidiaries or other businesses.

6.4. WITHDRAWAL OF MEMBER CAPITAL

Principles

6.4.1. If the cooperative allows Members to withdraw their capital (principal savings, mandatory savings, and participation capital), The Directors ensure that the capital withdrawal is in accordance with the basic principles of the cooperative and does not harm Members' interests.

Guides

6.4.1.1. A statement that the cooperative has referred to the Indonesian General Guideline for Cooperative Governance (PUG-KOPIN) is determined in the Annual Report.

6.4.1.2. Remaining Annual Profit/Income (Sisa Hasil Usaha, SHU) is based on the size of Members' participation in the cooperative and is paid in fair proportions based on participation in cooperative programs and services.

6.4.1.3. In addition to SHU being paid to Members based on the Members' participation in cooperative services as stipulated in point 10, SHU is also distributed based on savings (principal and mandatory) and Members' participation capital in the cooperative.

6.4.1.4. In the event of dissolution of the cooperative, the remaining liquidation surplus will be distributed by deliberation to reach consensus, kinship, democracy, and cooperative principles governed in ICA.

CHAPTER 7 REMUNERATION OF SUPERVISORS AND DIRECTORS

Remuneration for Cooperative Supervisors and Directors is designed to align the interests of Supervisors and Directors with the interests and goals of the cooperative. Remuneration will be reviewed and approved by Members as cooperative owners. The amount of remuneration and remuneration policies for Director members and Supervisor members are formulated by Supervisors.

7.1. REMUNERATION OF DIRECTORS

Principles

7.1.1. The Supervisors ensure that the remuneration system and other contract requirements are set fairly, transparently and in line with the cooperative's values and principles.

Guides

7.1.1.1. The details and remuneration scheme for Directors (Chairperson, Secretary, Treasurer) that have been determined are submitted to Members in the Annual Report.

7.1.1.2. The system and amount of remuneration and contract requirements for the Directors are determined based on consideration of expectations, commitment, responsibilities held based on complexity, risk profile, and business fields developed by the cooperative.

7.1.1.3. Evaluation and review of the remuneration scheme for Directors are included in the cooperative governance agenda and are carried out at least every 3 (three) years, or according to the needs.

Principles

7.1.2. Remuneration policies and practices are determined formally and transparently as well as can ensure that each remuneration is in line with Directors' performance in accordance with targets and goals in accordance with cooperative's values.

Guides

7.1.2.1. Every remuneration policy is agreed upon by Members in RA.

7.1.2.2. To support performance optimization, Supervisors can form a Remuneration Committee. The number of Committee members is adjusted to the size, complexity, and risk profile faced by the cooperative. The Remuneration Committee consists of:

a. A minimum of three representatives from Supervisors.
b. No more than 50% of the number of representatives from Supervisors.
c. Representatives of Members who have relevant competencies in

the fields developed by the cooperative.

7.1.2.3. The terms of reference of the Remuneration Committee include the following roles and responsibilities (if there is no Remuneration Committee, the Supervisors will carry out these functions and roles):

a. Determine remuneration policies for Supervisors and Directors.
b. Recommend the system and amount of remuneration for Supervisors and Directors as well as
c. Report annually to Members regarding overall remuneration for Supervisors and Directors.
d. Approve the work plan and targets for each member of Directors including determining the performance-based payment scheme, and approve the total annual remuneration payments made based on the remuneration scheme.
e. Determine compensation policies for Supervisors and Directors starting with work engagements.

Principles

7.1.3. Cooperative Members have the responsibility to agree on the system and amount of remuneration for all Supervisors and Directors, and do so through independent consideration.

7.1.4. No Directors can determine the system and amount of remuneration themselves, but they are decided by Members through RA based on the recommendations of the Remuneration Committee (if any).

Guides

7.1.4.1. Members are responsible for and approve the system and amount of remuneration for Supervisors and Directors at RA. Supervisors and Directors ensure that Members have sufficient information and time before making decisions.

7.1.4.2. The Remuneration Committee's report is discussed and decided by Members in RAT (Annual Member Meeting).

Principles

7.1.5. The remuneration system and amounts are designed to align with the Directors' interests, considering the cooperative's long-term goals of creating sustainable value for the welfare of its Members.

Guides

7.1.5.1. The cooperative has a performance-based remuneration policy for Directors which is in line with achieving the long-term interests of the cooperative.

7.2. REMUNERATION OF SUPERVISORS

Principles

7.2.1. The Supervisors ensure that the remuneration system and other contractual requirements are set fairly, transparently, and in line with the cooperative's values and principles.

Guides

7.2.1.1. The details and remuneration scheme for Supervisors (Chairperson and Members) that have been determined are submitted to Members in the Annual Report to be ratified at RAT.

7.2.1.2. Evaluation and review of the remuneration scheme for Supervisors and Directors are included in the cooperative governance agenda and are carried out at least every 3 (three) years, or according to needs.

Principles

7.2.2. The remuneration of Supervisors is proposed by the Supervisors to be decided by Members. The amount of remuneration proposed to Member is determined by considering the role of each Supervisor member and the economic situation as well as the organization's performance. In addition, the amount of remuneration needs to take into account the Supervisor member's position as a chairperson and their membership in committees.

Guides

7.2.2.1. The remuneration of Supervisors is in the form of fixed remuneration. If Supervisory members are given performance-related remuneration, then the basis for giving it is linked to the long-term development of the organization and is different from that of Director members.

Principles

7.3. The remuneration system and amount are designed to effectively align with Supervisors' interests by taking into account the long-term targets of the cooperative in creating sustainable values for Members' welfare.

Guides

7.3.1.1. The cooperative has a performance-based remuneration policy for Supervisors which is in line with achieving the long-term interests of the cooperative.

CHAPTER 8 ETHICAL BEHAVIOR, DISCLOSURE AND TRANSPARENCY

Cooperatives have, socialize, and enforce a code of ethics that applies to their Members, Directors, Supervisors, and employees. Cooperatives also disclose material events in their Annual Reports transparently

8.1. ETHICAL BEHAVIOR

Principles

8.1.1. Cooperatives are committed to acting ethically and responsibly, upholding the values, principles, identity, and culture of cooperative organizations.

Guides

8.1.1.1. The Directors develop and establish a system used as an effort to prevent offers or acceptance of bribes as well as payments or other inducements to take actions that violate applicable regulations and provisions or that are unethical. Cooperatives can form an Ethics Committee if there are indications of ethical violations within the cooperatives.

8.2. BUSINESS PROCESS

Principles

8.2.1. Cooperatives encourage business processes that are apply deliberation and consensus, mutual aid, democracy, and kinship.

Guides

8.2.1.1. Cooperatives promote the values of deliberation and consensus, mutual aid, democracy, and kinship among their Members, Supervisors, Directors, and employees.

8.2.1.2. The Directors facilitate Members intending to help other Members who are experiencing financial difficulties.

8.2.1.3. The Directors, under the approval of Supervisors, can provide certain relief in purchasing cooperative goods and services by Members, especially for those experiencing financial difficulties.

8.2.1.4. Discussions, interactions, and decision-making between Supervisors and Directors are carried out by deliberation and consensus as well as democracy.

8.3. CODE OF ETHICS

Principles

8.3.1. Cooperatives have, socialize, and enforce a code of ethics that applies to their Members, Supervisors and Directors.

Guides

8.3.1.1. Supervisors and Directors foster the culture, values, principles, and identity of the cooperative as well as ensure that they and their employees understand the responsibility to behave in accordance with the code of ethics and code of conduct.

8.3.1.2. The Directors establish a monitoring program so that all cooperative personnel understand the relevant code of ethics and implement it effectively to avoid the cooperative's involvement in unethical behavior.

8.3.1.3. This statement is set out in the Code of Business Conduct and Ethics which clearly expresses the cooperative's expectations that each Supervisor and Director will:

a. Act in the best interests of the cooperative.
b. Act honestly and with a high standard of integrity.
c. Act independently, based on complete information, in good faith, and with caution.
d. Comply with the laws and regulations that apply to cooperatives.
e. Avoid actions that violate laws and regulations or unethical actions based on cooperative business code of conduct and ethics.
f. Not be involved or participate in any activities that will cause a conflict of interest with the cooperative's best interests or that will have a negative impact on the cooperative's reputation.
g. Do not exploit the property or information owned by the cooperative or its consumers for personal gain or cause losses to the cooperative and its Members.
h. Do not take advantage of their position or the opportunities generated by their position for personal gain.
i. Avoid acts of requesting or receiving payments or other benefits for themselves or for others or providing benefits to third parties in violation of laws and regulations from third parties.

8.4. ANTI-CORRUPTION POLICY

Principles

8.4.1. The Directors establish the anti-corruption and anti-fraud policy and practices.

8.4.2. The cooperative's code of conduct and code of ethics are enforced, communicated effectively, and integrated into the cooperative's strategy and operations, including the risk management system and remuneration

structure.

Guides

8.4.2.1. The Directors communicate the anti-corruption policy and provide training to the staffs and seek to expand anti-corruption efforts to stakeholders.

8.4.2.2. The Directors have built a system that can be used to process the handling of conflicts of interest, both potential ones and those that have occurred.

8.4.2.3. The Directors create guidelines for reporting violations (whistleblowing system) which can be used to encourage the reporting of behavior that violates regulations and provisions or is unethical, also including protection for whistleblowers.

8.4.2.4. Any material violations of the anti-corruption policy are informed to Supervisors and Directors.

8.4.2.5. Supervisors and Committees have systems in place that enable them to immediately identify if there is a material violation of ethical and behavioral guidelines.

8.5. DISCLOSURE AND TRANSPARENCY

Principles

8.5.1. The Directors disclose material events or facts as soon as possible after the occurrence of an incident. Directors are also obligated to convey it in the Annual Report.

Guides

8.5.1.1. The Directors disclose a written policy in carrying out the obligation to disclose information based on applicable regulations.

Principles

8.5.2. The Directors have disclosure and transparency policies and procedures that ensure the disclosure of material information and safeguard sensitive information and cooperative secrets.

Guides

8.5.2.1. The Directors utilize information technology effectively and more widely other than websites as a medium for information disclosure.

CHAPTER 9 OTHER STAKEHOLDERS

9.1. SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

Principles

9.1.1. Cooperatives carry out social and environmental responsibility, namely a commitment to participate in sustainable economic development to improve the quality of life of Members and a beneficial environment, either for the cooperative itself, the local community, or society in general. Implementation of this obligation needs to involve stakeholders, and be integrated with cooperative business processes by ensuring protection of stakeholders.

Guides

9.1.1.1. The Directors reveal the process for identifying and selecting stakeholders to be involved.

9.1.1.2. The Directors disclose significant views, input, and concerns raised by stakeholders obtained from their engagement, including:

a. Cooperative response, and
b. Stakeholder groups that provide views and input.

Principles

9.1.2. Supervisors together with Directors are responsible for, accountable, and transparent in sustainability governance, including determining cooperative sustainability policies, strategies, and targets.

9.1.3. Supervisors and Directors incorporate sustainability considerations when carrying out their roles, including among others, in the development and implementation of cooperative strategies, business plans, as well as main action plans and risk management.

Guides

9.1.3.1. The Directors ensure that the cooperative's strategy, priorities, and sustainability targets as well as performance against these targets are communicated to the stakeholders.

9.1.3.2. Supervisors and Directors always follow and understand sustainability issues that are relevant to the cooperative and its business.

9.1.3.3. The Directors implement policies that include criteria for selecting suppliers, transparent procurement mechanisms, efforts to increase supplier capabilities, and fulfillment of rights related to suppliers. Cooperatives also have policies that encourage and monitor suppliers to respect human rights, carry out social and environmental responsibility, treat their employees fairly, as well as ensure that suppliers have applied sustainable and value-based business policies and procedures.

9.1.3.4. Cooperatives carry out the social responsibility by applying the cooperatives' business knowledge and experience to develop and carry out social responsibility activities that concretely provide added value to the community.

9.1.3.5. Cooperatives carry out the environmental responsibility by preventing, reducing, and managing negative impacts on the environment from all aspects of operations carried out by the cooperatives, including the use of:

a. Raw materials,
b. Energy,
c. Water usage,
d. Renewable resource utilization,
e. Biodiversity utilization and rehabilitation, waste management and reduction in the impact of greenhouse gases and carbon emissions.

9.2. APPLICATION OF ETHICAL STANDARDS

Principles

9.2.1. The Directors ensure that cooperative operations uphold ethical standards, social and environmental responsibility, and that appropriate policies and procedures are in place to respect and comply with stakeholder rights.

Guides

9.2.2. Cooperatives implement healthy competition policies by prioritizing ethical business practices and avoiding anti-competitive behaviors to gain or protect their market position.

CHAPTER 10 CLOSING

PUG-KOPIN which was developed and published by KNKG carries a strategic meaning in creating strong and independent Indonesian cooperatives, both as people's economic movement and as business entities that participate in creating an advanced, just, and prosperous society based on Pancasila and the 1945 Constitution.

Furthermore, PUG-KOPIN encourages cooperatives to play a role in the national economic system which is structured as a joint venture based on the principles of kinship and economic democracy.

We really hope that PUG-KOPIN sent to the Cooperative community in Indonesia can be analyzed to provide input complete with adequate explanations and reasons.

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MANAGEMENT OF THE NATIONAL COMMITTEE ON GOVERNANCE POLICY FOR THE 2021-2024 PERIOD

STEERING BOARD:

1. Coordinating Minister for Economic Affairs (Chairperson)
2. Minister of Finance (Member)
3. Minister of Home Affairs (Member)
4. Minister of State-Owned Enterprises (Member)
5. Minister of National Development Planning/Head of the National Development Planning Agency (Member)
6. Minister of State Apparatus Empowerment and Bureaucratic Reform (Member)
7. Chairperson of the Board of Commissioners of the Financial Services Authority (Member)
8. Head of the Finance and Development Supervisory Agency (Member)
9. Secretary of the Coordinating Ministry for Economic Affairs (Secretary)

MANAGEMENT BOARD:

1. Mardiasmo (Chairperson)
2. Sigit Pramono (Deputy Chairperson)
3. Friderica Widyasari Dewi (Secretary General)

MEMBERS:

1. Deputy for SOE Business Development, Research, and Innovation, Coordinating Ministry for Economic Affairs;
2. Secretary General of the Ministry of Finance;
3. Deputy for Finance and Risk Management, Ministry of State-Owned Enterprises;
4. Deputy for Economic Affairs, Ministry of National Development Planning/National Development Planning Agency;
5. Deputy for Bureaucratic Reform, Apparatus Accountability and Supervision, Ministry of State Apparatus Empowerment and Bureaucratic Reform;
6. Deputy for Economic Affairs, Cabinet Secretariat;
7. Deputy for State Accounting, Finance and Development Supervisory Agency;
8. Deputy for Investment and Mining, Coordinating Ministry for Maritime Affairs and Investment;
9. Secretary General of the Ministry of Health;
10. Inspector General of the Ministry of Finance;
11. Director General of Regional Financial Development, Ministry of Home Affairs;
12. Director General of Fiscal Balance, Ministry of Finance;

13. Head of the Financial Education and Training Agency, Ministry of Finance;
14. Expert Staff for Regulations, Law Enforcement, and Economic Resilience, Coordinating Ministry for Economic Affairs;
15. Deputy Commissioner for Strategic Management IA, Financial Services Authority;
16. Deswandhy Agusman;
17. Franky Welirang;
18. Tirta Hidayat;
19. Eko Prasodjo;
20. Andi Ilham Said;
21. James Simanjuntak;
22. Sidharta Utama;
23. Antonius Alijoyo;
24. Herwan Ng;
25. I Gede Nyoman Yetna;
26. Orias Petrus Moedak;
27. Hari Purwantono;
28. Eddy Rintis;
29. Ivan Rizal Sini;
30. Junaedi Saibih;
31. Fuganto Wijaya;
32. Fransiska Oei.