

# Empowering the role of village owned enterprises (BUMDes) for rural development: case of Indonesia

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## Abstract

Poor economic condition, unemployment, quality education and lack of other basic infrastructures are the common problems of rurals in Indonesia and in many other countries. The rural potentials have not been optimally explored, hence a place to birth it becomes instead of to live. The government has actually tried several programs for rural economic development, for example by providing more facilities and infrastructure, even creating project PNPM (Program Nasional Pemberdayaan Masyarakat/National Program for Community Empowerment). However, the implementation and effect of these programs have been put into question. In Indonesia, this economic institution is BUMDes (Badan Usaha Milik Desa/ Village Owned Enterprise), the pillars of rural economic activity, serves as a social and commercial institution. This paper aims to explain how to strengthen the role of village owned enterprise for its role in rural development. Using qualitative approach, this study indicates that village owned enterprise is projected to be new economic strength in rural development in Indonesia and that the rural government can improve the role of village owned enterprise not only as a government's fund mediator but also as a facilitator to promote the rural economic activity properly through value addition. The paper aims to generate new insight of the role of village owned enterprise in Indonesia and its consequence to rural development.

## Keywords

Village owned enterprise; Rural economic development; Community development

## INTRODUCTION

Sustainable development is the design of the sustainable development, up to the small scale, including in the village. According to Djohan, regional autonomy policy is the entrance to the distribution of development, from big cities to the smallest unit of government at the village level<sup>1</sup>.

Regional autonomy also becomes an effective policy to reduce the rate of increasing urbanization. Research data by Soegijoko and Bulkin proved that in 1920, the proportion of the urban population is only 5.8 percent of the entire population. SUPAS 1995 showed that in that year, the level of urbanization in Indonesia has reached 35.91 percent<sup>2</sup>.

Citing from the projections of Tjiptohertono toward society urbanization, up to 2025 urban population in Indonesia in that year will reach 57.39

percent (table 1). Furthermore, the urban population is expected to be twice the number that existed at this time in the next 69 years (calculated since 1990).

Research conducted by Rustiadi, *et al.* (2010) about the increased urbanization in major cities shows that urbanization occurred because of the desire of each individual/group of people who want change in their life. Urban destination area usually have good economic conditions and supported by more developed cultures and governance. Furthermore, this research shows that rural-urban inequality development becomes the major cause in the increasing of urbanization in Java Island<sup>3</sup>.

Economic factor is the main cause of urbanization. According to Knox and McCharty (2011), the main cause of urbanization is due to economic changes that drive and driven by human factors, natural resources, and technology. All these factors, according to them, create different output in particular economic condition, social and physical in the deserted village as well as in the destination town.

<sup>1</sup>Djohermansyah Djohan, *Teori dan Praktek Pemerintahan Daerah*, pp 7-10, Grasindo, 2009.

<sup>2</sup>Urban population growth rate in the 1980-1990 period is two and a half times more than the growth rate of the population's overall, the magnitude of only 1.97 percent per year. UN reported that the urban population growth in Indonesia about 65 percent are caused by migration and reclassification. The rest is just 35 per cent due to natural population growth in the city itself. Quoted from Tjiptoherijanto. 1999. *Urbanization in Indonesia*. London: University of Indonesia, pp 55-62.

<sup>3</sup>Research Erman Rustiadi shows, urban population growth in Indonesia about 65 percent are caused by migration and reclassification. The rest is just 35 per cent due to natural city population growth.

Inequality in the development of village was corroborated by the findings of Indonesia Rural Empowerment (IRE). IRE research shows that there are 38,232 (54.14 percent) developed village category, which consists of 36,793 (52.03 percent) advanced category and 1,493 (2.11 percent) category is very advanced. Meanwhile, undeveloped villages totaling 32,379 (45.86), consists of 29,634 (41.97 percent) undeveloped category and 2,745 (3.89 percent) very undeveloped<sup>4</sup>.

**Table 1**  
Projection of Urbanization Growth

Year	Number of City Population (in Thousand)	Urbanization Growth (%)
2000	87,577.1	41.80
2005	102,534.1	46.01
2010	116,481.0	49.55
2015	129,245.3	52.60
2020	140,309.9	55.19
2025	150,052.0	57.39

According IRE, this inequality cannot be separated from not shifted development paradigm. The development program is focused only on the achievement of economic growth and neglected the programs of social equity and welfare of the villages. The effect was the development programs do not support the resource distribution in village community empowerment, but only focused on figures of economic growth. According to Sudjito, rural poverty due to the inequality development was the main cause of the mobility of the villagers moved to cities in search of new economic resources<sup>5</sup>.

The government has actually tried several programs for rural economic development, for example by providing more facilities and infrastructure, developing systems for agribusiness and small business, even creating project PNPM (Program Nasional Pemberdayaan Masyarakat / National Program for Community Empowerment). However, the implementation and effect of these programs have been put into question. Some programs create more dependency of rural communities on a variety form of grants and assistances from outside parties. One instance is a group of villagers form a cooperative solely to be able to obtain grants from various local government agencies such as Ministry of Cooperatives and SMEs, Ministry of Social Services (Handono, 2012). Furthermore the obtained grants are distributed equally to all members of the cooperatives. Even though government has urge the policy to offered

cheap credit (small loans) by various financial institutions, villagers generally are not interest to take credit offered. They prefer to propose the grants. Therefore the main activity of the cooperative seems to focus only on creating proposal to obtain grants rather than doing productive works. By this point, economic institutional mechanism is not effective enough, it implicates the dependence on government assistance and in turn weaken the spirit of economic independence.

Another issue obstacle to the success of the implementation is the dominance of government intervention hampering creativity and innovation of rural society in managing and running the rural economy. Research conducted in several countries about rural development programs by Gerard McClwee, finds that the fundamental problem of rural development was the limited authority. Gerard research shows that the main problem of unsuccessful rural development policy is a matter of authority. Most rural development method puts the villagers merely as objects of development and not as subject who have the decisive and strategic authority to manage village assets. In order to overcome the problem, the village should have clear authority, legally recognized, as the spirit of the constitution and implementable practice in resource governance and economics.

Based on these experiences, Indonesia needs a new approach expected to stimulate and to drive the rural economy through the establishment of economic institutions managed entirely by the rural community. The emerging of this economic institution should be based on the desires of rural communities by considering the potential of the village. In Indonesia, this economic institution is BUMDes (Badan Usaha Milik Desa/ Village Owned Enterprise), the pillars of rural economic activity, serves as a social and commercial institution.

This paper aims to explain how to strengthen the role of village owned enterprise for its role in rural development. Using qualitative approach, this study indicates that village owned enterprise is projected to be new economic strength in rural development in Indonesia and that the rural government can improve the role of village owned enterprise not only as a government's fund mediator but also as a facilitator to promote the rural economic activity properly through value addition. The paper aims to generate new insight of the role of village owned enterprise in Indonesia and its consequence to rural development.

**LITERATURE REVIEW AND HYPOTHESES**

Village owned enterprise (BUMDes) is projected to be a new economic power in rural areas. Act No. 6 of 2014 about Village, provides legal protection on village owned enterprise as economic actor who manage the village collective potential to improve

<sup>4</sup>IRE research.

<sup>5</sup>Arie Sudjito, *Politik Ketimpangan dan Pembangunan*, IRE Yogya Press, 2011, pp 34-45.

the welfare of the villagers. The existence of the Village Law No. 6 of 2014 is also expected to be a turning point in the emergence of the more powerful role of village owned enterprises, especially to revive the economy of the villagers.

Village owned enterprise is a pillar of economic activity in the village that serves as a social institution and commercial institution. Village owned enterprise as social institutions favor the interests of the community through its contribution in the provision of social services. Meanwhile, as the commercial institution, its aim to make profit by offering local resources (goods and services) to the market<sup>6</sup>.

The logic of village owned enterprise's establishment are based on the needs and potential of the village and as an effort to improve the welfare of the community. The plan and the establishment of village owned enterprise is built based on the community initiative, as well as on the principles of participatory cooperative, (user-owned, user-benefited, and user-controlled), transparency, emancipatory, accountability, and sustainability with the member-based and self-help mechanism. The most important of all is that the management of it should be done professionally and independently.

In his research on the empowerment of rural communities in China, Sigurdson defined the roles and functions of village owned enterprise. Some of these functions are encourage the development of economic activities in rural communities, increase creativity and productive economic business opportunities (entrepreneurship) of the low income members and encourage the development of the informal sector micro enterprise to create employment, which is free from the influence of the moneylenders. Economic empowerment through village owned enterprise have goals to serve rural communities in developing productive business, and to support economic activities accordance with the potential of the village and community needs.

Internal Affair Minister Regulation Number 39/2010 about Village Owned Enterprise (BUMDes) stated that village owned enterprise is rural enterprise established by the village government which capital ownership and management is arranged by the village government and society. Village owned enterprise is intended to accommodate all activities regarding social income improvement. The activities include economic

activity evolves according to the customs / local culture as well as economic activity managed by the community through the central government and local government project and program.

In conducting its business the principle of efficiency and effectiveness should always be emphasized. Village Owned Enterprise as a legal entity established based on legislation, and in accordance with the agreement of rural communities. Thus, the village owned enterprise forms can vary in every village in Indonesia. Variety of this form is in accordance with local characteristics, potential and resources of each village<sup>7</sup>.

Village owned enterprise also may play a role in contributing revenue to village. This condition may encourage every village government provides goodwill in response to the establishment village owned enterprise<sup>8</sup>. As one of the economic institution that operates in the village, it should have difference with the other economic institution in general. The purpose of that is to make the presence of village owned enterprise be able to contribute to the welfare of the villagers.

There are seven characteristics which differ village owned enterprise to other economic institutions: (1) Village owned enterprise owned by the village and managed together by village government and village community. (2) The capital source is from village budget (approximately for 51 %) and from villagers (49%) through equity (stock or share). (3) Use business philosophy based on local wisdom in running the activity. (4) Field of business carried on based on the potential and the results of market information. (5) Gains intended to improve the welfare of members (accompanying capital) and communities through village policy. (6) Facilitated by government, provincial government, local government, and village government. (7) Implementation is controlled jointly among village government, village consultative assembly (Badan Permusyawaratan Desa), and villagers.

Those characteristics above show that village owned enterprise differ in the way it established, managed and controlled. Village owned enterprise also more inclusive than cooperative. Cooperative only served its member, while Village Owned

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<sup>6</sup>Law No. 32 of 2004 on Local Government in Article 213 paragraph (1) states that "The village can establish village-owned enterprises in accordance with the needs and potential of the village". The substance of this law confirms the promise of fulfilling the request (demand compliance scenario) in the context of the village level development. The logic of village owned enterprise establishment is based on the needs and potential of the village and as an effort to improve the welfare of the community.

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<sup>7</sup>Internal Affair Minister. 2010. *Internal Affair Minister Regulation Number 39/2010 about Village Owned Enterprise (BUMDes)*.

<sup>8</sup>Nevertheless, it is possible for village owned enterprise to gain loan from outside parties, such as from the village government or other parties, even though a third party. This is in accordance with the regulations by laws and regulations (Act 32 of 2004 on Local Government Article 213, paragraph 3). This explanation is very important to prepare the establishment village owned enterprise, because the implications would be in contact with the setting in Regulation (Regulation) and Village Regulation (Perdes).

Enterprise (BUMDEs) served villagers in general. Besides that, Village Owned Enterprise (BUMDEs) also given the responsibility to report its activity open to public. Villagers as well as other village community can access the performance report. This condition support villagers as the shareholders and stakeholders to control Village Owned Enterprise (BUMDEs) activities and also as form of transparency and accountability of Village Owned Enterprise (BUMDEs).

Based on Law No. 32 of 2004 on Local Government Article 213 paragraph 3 stated that the establishment and management of village-owned enterprises (BUMDEs) is the embodiment of the village productive economic management based on cooperative, participative, emancipative, transparence, accountable, and sustainable<sup>9</sup>. In addition, the Law also stated that village-owned enterprises (BUMDEs) can be established in accordance with the needs and potential of the village. The needs and potentials of the village are vary differ from one village to another. Village-owned enterprises can fulfil the main needs of the villagers like providing the cheap rice or other basic needs. They can also in the form of education institutions to provide free education to the villagers specially those who have low income level. They can also be the marketers of farm or village products to promote the local product outside the village. Therefore, village owned enterprise can run various businesses, ranging from services, microfinance, trade, and other economic development.

Village owned enterprise as business enterprise needs to be profitable, while still maintaining its social aims. Sometimes, the forces of profit and social aims will pull in opposite directions, causing tension and in the worst cases, failure. Based on discussions with the village government and officers of village owned enterprise, several barriers faced by village owned enterprise that hampers its effective activity include accessibility and lack of innovation.

Many village owned enterprise officers lack of network. This is due to the fact that village owned enterprise usually driven by one or two people. These officers could not meet the needs to build a network with other parties outside the village. They rely on the allocation budget from village budget and hard to find sponsors from third parties. It is problematic because these small officers have to engage over a large geographical area. They also find difficulty to promote village owned enterprise to its own community, only several villagers who concern about the development of it, since they think it does not belong to them. Since community

involvement is relatively small, these problems leave village owned enterprise with little capital and therefore hard to innovate.

To overcome those problems, we need cooperation from village government as well as community empowerment. The management of village owned enterprise within village officers often rest with a handful of small individual. The energy and perseverance of these people is of immense value, but is rarely underpinned by corporately owned strategy or policy. Leadership that promotes a common understanding and policy towards village owned enterprise is now essential. In doing so, leader, in this context is Village Leader (Kepala Desa), should avoid the impression that village owned enterprise is seen as formality institution and instead convey realistic expectations and emphasise the need for it as part of public-community institution. The action plans incorporated actions on leadership could be putting on workshop for village owned enterprise officers, joining village consultation attended by village representatives, ensuring officers take responsibility for communicating vision and set target for growth.

The growth and sustainability of village owned enterprise is also dependent on the opportunity and capacity of collaboration. Therefore, support from community as well as improved links with other sector (third parties or even private sector) were on the list of priorities. Village owned enterprise require support to develop the technical skills, such as legal structures and non technical skills, like relationship building, required to build and work with more parties.

Conducting business with the private sector is also another part of collaboration that should be considered. Sustainability in the village owned enterprise requires access to markets beyond the public sector, either through business to business products or services, or through sub-contracting. The development of formal network can be the catalyst for collaboration with the private sector. Developing these networks requires support from local authorities, particularly around administration and logistics. Real actions to support this idea can start by supporting village owned enterprise officers to develop skills they need for deeper collaborative working, encouraging private companies to fulfil corporate social responsibility by providing business support services to village owned enterprises and reinvigorating a network of village owned enterprises through the provision of administrative and logistical support.

Collaboration among village owned enterprises from various villages could also be strategy to be considered. More ideas and innovations happen when there is a resource combination. Each village owned enterprise could contribute in experience, finances and even infrastructure. Sharing and leveraging those resources put village owned

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<sup>9</sup>Law No 32 of 2004 about Local Governance.

enterprise into different level. There could be an opportunity for new markets and even new networks. This strategy enable village owned enterprise as catalyst for the cooperatives among villages.

One more important thing on strengthening the role of village owned enterprise is enhancing participation from society. Successful village owned enterprises are often rooted in a particular locality, with operations built upon a deep understanding of local need and strong local wisdom. Enhancing villagers community through village forum could be a way to promote sense of belonging from villagers to the village owned enterprise. Village forum could be a media to share thought, ideas and informations. Village forum designed to bring together villagers from different backgrounds to discuss real and relevant issue that they deal in their communities. It gives villagers a platform for safe, open discussion to reflect and express what they face in their every day lives. Beside that, village forum could be a media to control over the government budget allocated in village owned enterprise. Village forum keeping the villagers informed on the state of the use of funds of village owned enterprise. Through these insight, village owned enterprises are well placed to deliver efficient and innovative solutions that address local needs. It is important that local authorities help communities to identify needs, opportunities and entrepreneurs and ensure assets are available for new village owned enterprise. Actions developed included develop a local ideas and clearly promote ways that local people can support local village owned enterprise. Where markets exist, village owned enterprises can help communities relying less on the private sector for services and creating surpluses which can be reinvested into the community.

## **METHODS**

The method used relies on qualitative analysis method. Moreover, in order to answer the research objectives, multiple methods were applied. Multiple means more than one methods. In this sense, method corresponds with the type of data that used in the research. There are two methods used, the first is discourse analysis, the second is focus group discussion (FGD).

The first method is discourse analysis. This method is preferable to answer questions that need data that are mostly based on the text. At first, discourse analysis has been used widely in the field of linguistic and psychology. But recently, it is also used by other social fields such as sociology, politics, anthropology, communication studies and management and organization studies (Tonkiss, 2001). Literally, discourse analysis rest upon text and document but then develops further to social context as what Tonkiss argues that it is not only

interesting about language that seems to be understood in more transparent and in a direct interpretation, but also relevant to understood on how social reality is constructed and reproduced. Thus, it is useful using discourse analysis to understand how the role of village owned enterprises so far and to know what the local government's perception is toward village owned enterprise in particular. By understanding how the problem of village owned enterprise is constructed and reproduced, propositions on how to strengthen the role of village owned enterprise is made. In doing discourse analysis, the types of data vary, from books, articles, journals, research papers and institutional websites. All the information and data collected were critically examined and described in order to answer the research objectives.

The second method is focus group discussion (FGD). The FGD is more or less about perceptions of particular group on issues or events. In this method, people are encouraged to share their beliefs, norms and value informally (Parker and Tritter, 2006). The FGD is used in this research to cover information about village owned enterprise from different perspectives. The FGD was exploring information on village owned enterprise implementation among bureacrats and villagers.

## **CONCLUSION**

It seems that the role of village owned enterprises has not been optimally explored so far. But the new Village Law No. 6 of 2014 could be a turning point to revive the role of village owned enterprise, especially in village development. It could be an important stimulus for the development of the village owned enterprise. Realizing its potentials for rural development, then strategy to strengthen the role of village owned enterprise is really important. The research show that the problem to the efficiency and effectiveness of village owned enterprise is the lack of network and participation from villagers. To this extent, suggestions to solve the problem vary from leadership style of village leader to promote the existance of village owned enterprise, doing collaborative actions with the third parties, such as company, or other village owned enterprises which shared the same spirit. Another important issue that should not be neglected is how to improve villagers participation. Enhancing villagers community through village forum could be a way to promote sense of belonging from villagers to the village owned enterprise. Village forum could be a media to share thought, ideas and informations.

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