

# ESTABLISHING AN AUTONOMOUS VILLAGE THROUGH *BUMDES* (VILLAGE-OWNED ENTERPRISE) TO ENHANCE LOCAL ECONOMIC ACTIVITY

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## ABSTRACT

Rural development has become major focus in Indonesia's development plan. Especially in term of village development which aimed to build self-reliance, to increase socio-economic capacity, and to empower the community. One of the government's missions is to develop rural areas by optimizing the economic potential of a village to increase its productivity and the diversity of existing businesses. Furthermore, to improve the availability of infrastructure and facilities, to support the rural economy institutions, to support the production effectivity and marketing strategy in order to improve the economic growth. This study aims to explore the role of BUMDES in Jongbiru Village, Kediri Regency, East Java Province, Indonesia in order to optimise the local economic potential. This study used a descriptive qualitative approach which conducted in Jongbiru Village, Gampengrejo, Kediri Regency. The data collection used namely in-depth interviews with key informants, documentation, and observations on the research subjects. The key informants included in this research such as the chief of village, BUMDES Manager, and business actors in Jongbiru Village. Moreover, this research used source triangulation to make sure all data collected is valid and reliable. The findings show that intervention is needed to create a BUMDES that plays more effective roles on supporting village development. Moreover, community participation (i.e.: small medium enterprises owner) is crucial to develop the welfare of local. Further, last but not least, measurable and feasible planning are needed to support a village to be resilient and autonomous.

*Keywords: Local Economic Development, Autonomous Village, The Role of BUMDES*

## 1. INTRODUCTION

To establish well-developed and resilient village needs more strict attention and more profound in-depth studies. For instance, since Indonesian government urges the implementation of Law No. 6/2014 about Villages, which focus on providing cash transfer to all village in Indonesia, to create most suitable programs and build most needed infrastructures in order to develop the economic and improve the livelihood. These funds are part of the national income (APBN), provincial income (APBD), and regency/city 's income (APBD). The policy is in the form of fiscal decentralization which has gained great attention from the central government in realizing the welfare of rural communities, which are parts of national development. These funds will later be used to support village development through Village Owned Enterprises (BUMDES) activities that stated on Articles 87-90 on Law Number 6 of 2014, which aims to encourage businesses development (including small-medium enterprises) of rural people to improve their well-being. More specifically, the position of the village is critically strategic in the development of a country, it is representation of the identification of problems that include the needs of the community at the lower level until the planning and realization of state goals appear at the village level. This reality condition needs to be realize as 60% of Indonesia's population lives in villages, and the fact indicates that the level of

socio-economic problems occurs in the villages. Villages are still highly associated with various health problems. Cases such as the increased risk of deaths in childbirth and under-five children malnutrition are still common in villages. The backwardness of the village economy can also trigger an increase in the poverty rates in the country.

People who live in a village is often translated as communities that retain local wisdom. It also means that each village has their own uniqueness and characteristics. Moreover, special efforts that are organized and structured are needed to improve people's standard of living in rural areas. Poverty is one of the obstacles in realizing a more advanced and prosperous society. According to Central Bureau on Statistics in 2015, the poverty rate in Indonesia reached 12.49%, and in 2019 it was 9.82%. Though the poverty rate seems to have decreased, yet the number of underprivileged communities is still relatively high in terms of numbers.

The empowerment of rural communities is an effort to increase the honor and the dignity of community groups who live in underprivileged. There are some efforts which could help them escape from poverty and underdevelopment. For instance by doing empowerment by providing knowledge, opportunities, skills, and resources as a concrete step to improve the ability of villagers to determine changes in their conditions and participation in community life. Moreover, to empower rural communities is a strategic step to build the quality of its people by providing motivation and raising awareness about the economic potential of the village and efforts to develop it. Community empowerment is an essential element that allows a society to survive in changing situations [1]. It is an effort to increase and to create villages which resilient and people who independence and able to exit from poverty. Thus, it will establish a gradual and sustainable improvement in the standard of living and welfare of the village community.

Efforts made by the village apparatus, especially by creating programs to improve the welfare and economy of underprivileged communities, are conducted through the establishment of Village Owned Enterprises (BUMDES). Technically, BUMDES is an institution that contributes to increasing Village Original Income (PADes). Village-Owned Enterprises (BUMDES) are business organizations managed by the community and village government, which were formed to strengthen village economic activities and adapted to the needs and local potential of the village. However, there are several problems in terms of its implementation. There are some significant obstacles from BUMDESA namely: (a) A lack of community participation in BUMDES' management, (b) The role of local government that is not optimal enough to empower BUMDES; and (c) the BUMDES has not worked ideally to obtain their goals [2]. In addition, there is still a lack of adequate human resources (HR) quality in the management of BUMDES, which enables it to function optimally as only one field is still running. Additionally, there is a lack of public awareness in developing other businesses. This leads to the realization that at the time being, its urgent to figure out the best strategy to support village in order to be independence and able to alleviate problems or obstacles while implementing BUMDES through development on the economy of rural communities.

### **1.1 Autonomous Village in Local Wisdom**

A village is the result of a combination of the activities of a group of people and their environment. The result of this combination is a form or appearance on earth caused by physiographic (physical), social, economic, political, and cultural elements that interact with each other and their relationship with other areas. According to Law Number 6 of 2014 concerning Villages, Article 1 paragraph (1) states that Village is a village and a typical village or called by other names. It is mentioned that village is a legal community unit that has territorial boundaries that are authorized to regulate and manage government's affairs, local community importance based on community initiatives, origin rights, and traditional rights that are recognized and respected in the government system of the United States of the Republic of Indonesia. Moreover, the village has been given the authority to regulate and manage its government affairs; hence it is likely that an initiative or pilot activity will arise related to village autonomy and related to patterns of government regulation and management, as well as patterns in village's development. In addition, the village is currently given the authority to improve the standard of living of its people through Village Original Income (PADes). As referred to Law Number 6 of 2014 Article 71 paragraph (2), the village's income is sourced from the original village income that consists of business results, asset results, self-help and participation, cooperation, and other villages' original income.

The village also has a primary function and role from an economic point of view namely as a granary for raw materials and labor (workforce). The village can be an agrarian, manufacturing, industrial, and even a fishing village. The uniqueness of the local wisdom of each village is part of the diversity of potentials in each village that can be used as a part of the support in community empowerment and as a way of preserving the traditional culture of the village itself. Moreover,

local wisdom is also referred to as all forms of knowledge, belief, understanding, or ethics that guide human behavior in life in ecological communities [3]. With the existence of local wisdom in the life of the village community, it will create a balance of life in the village itself. According to Wibowo [4] the function and meaning of local wisdom, among others, are: (a) functions for the conservation and preservation of natural resources; (b) function for human resource development; (c) function for the development of culture and science; and (d) function as advice, belief, literature, and taboos. From all the functions of the local wisdom, it can mean social, socio-economic, ethical, moral, and political meaning, and the local wisdom can be the main capital in empowering rural communities. Thus, the traditional village is also included in the structure of a traditional village which has the right to administer and regulate village government, as well as empower the village community following the norms, values, and knowledge that are reflected in local wisdom as the basis for living in the village. Thus, it can be concluded that the village is a united community with territorial boundaries and is authorized to regulate government affairs. It upholds traditional values, norms, laws, and culture as part of the diversity of local wisdom of the village community. Village government is an extension of the central government that has a strategic role in regulating village communities and the success of state development [5]. This is because the village government has a significant role in managing social processes in the community. The main tasks that the village government carries out are how to create a democratic life, provide good social services so that it can bring its citizens to a prosperous, peaceful, and equitable. In order to realize this task, the village government is required to carry out "Out of the Box" activities, both in terms of leadership and bureaucratic performance-oriented to public services, so that it leads to the practice of good governance. Cooperation between villages and villages with third parties, in order to improve the welfare of the community, and prevent inequality between villages oriented to the interests and aspirations that grow in the community according to needs, in an effort to improve the welfare of the community [6].

### **1.2 Role of BUMDES in Local Economic Activity**

The efflorescence of rural areas requires a strategy and the involvement of the local village community. One of the efflorescence's and empowerment in rural areas is the existence of village-owned enterprises (BUMDES). Furthermore, BUMDES was established and managed with the principles of togetherness and cooperation, followed by a spirit of kinship. This is in accordance with article 89 of Law Number 6 of 2014 concerning Villages which states that the functions of the establishment of BUMDES are (a) business development; and (b) village development, village community empowerment, and providing assistance to the poor through grants, social assistance, and revolving fund activities as stipulated in the Village Revenue and Expenditure Budget. So, many villages that establish BUMDES are oriented to get benefits in order to increase village's income. The establishment of BUMDES should focus on village empowerment by looking at the village's potential under the topography, demography, and culture of the village community itself. By looking at the village's potential as the basis for the establishment of a BUMDES, it is hoped that the empowerment of rural communities can bring up a variety of high quality village products and village tourism destinations based on local wisdom. This is because BUMDES is an economic institution which support the implementation of village governance, as it does not only affect village communities but also supports the national economy.

In a society and social life, the change occurs quickly and effectively and goes according to plans. Besides, the competence of each individual continues to go hand in hand over time, resulting in changes in social patterns that seem to continue to be competitive in achieving their respective goals [7]. Global changes and the dynamics of human life have made humans have to adapt to the changes that occur. If we cannot adapt to the change itself, then we will experience setbacks and do not even make progress. Then, innovation is a tool to replace the old one with something new. Meanwhile, innovation is the ability to create something new and different from the previous situation, and of course, according to existing ideas, facts, and information. Innovation products generally show new, qualified, and profitable properties. So that innovation is essentially new and qualitative.

According to Rogers [8] states the application of innovation to change a situation is based on thoughts, as follows: The relative advantages of innovation will be adopted if the benefits are profitable based on their individual needs: economic value, social prestige, or excellence. The more profitable it has, the more likely it is to be adopted by the adopter. Then, compatibility is the level of speed in adopting an innovation because it follows previous norms or values that were held. The closer to the values, the greater the speed received. If it contradicts the believed values, the slower an innovation is adopted. After that, complexity is the level of difficulty in understanding an innovation by the adopter—the more complex or complicated, the more difficult it is to spread to

be accepted. The simpler and easier to understand, the faster it will be accepted or adopted; Trialability is essential in collecting an innovation. Innovation cannot run immediately and cannot be carried out by the adopter without testing it first. Innovations that can be tested on a smaller scale to find out the process, benefits, results, and impacts will be easily accepted because doubts, especially failures, will be able to be reduced, and their impact will be predictable in advance, especially if the benefits have already been seen [4]; Observability means that the result of the benefits of an innovation which can be observed will be more quickly accepted compared to an innovation that is difficult to be observed. Thus, innovation is not biased, but it is an idea from humans to facilitate their activities, solve problems, and even be creative destruction. In reality, the equipment of reason, creativity, and innovations in humans are often misused and tend to be negative. However, innovation is still needed to solve various problems and stay on the right track.

## 2. METHODOLOGY

This research employed qualitative method approach. Meanwhile the method of analysis used is descriptive. According to Denzin and Lincoln [9], qualitative research adopts a natural setting to interpret a phenomenon that occurs and is carried out by involving various existing methods. This qualitative research is conducted based on the phenomena that exist in the real world (practice) and theoretical and research gaps. the research's object is in Jongbiru Village, East Java Province, Indonesia. Further, this method aimed to describe and explain the development of regional area through community participation to achieve 'the autonomous village.' The type of data used is primary data (main data) sourced from research key informants through in-depth interviews, observations, and documentation and secondary data obtained through intermediary media from literature, records, or historical reports from Jongbiru Village officials. Moreover, we conducted observation, documentation, and interviews with research informants and community leaders were part of the data collection. Data was collected for a month (August 2021). Key informants are : chief of village, BUMDES Manager, business actors, community leaders, and youth organizations. Moreover, this research used source triangulation to make sure all data collected is valid and reliable. The stages of data analysis carried out were data reduction, data presentation, and developing conclusions/verification.

## 3. RESULTS AND DISCUSSION

### 3.1 The Condition of Jongbiru Village

Jongbiru Village is in the Gampengrejo sub-district, Kediri Regency, and the area is approximately 108.40 hectares (see Figure 1). The village area consists of 94.14 hectares of dry land, while for public facilities, it is 11.82 hectares and 2.45 hectares designated for rice fields. There are 4,379 people in the village, consisting of 2,220 men and 2,159 women with 1,463 families. Jongbiru village has a population density of 86.39 per kilometer. Regarding education, almost 40% of the population graduated high school, while 35% are still students. This is the condition of the village because most of the indigenous people there choose to migrate and look for work in other areas. For jobs, many villagers are engaged in the agricultural and service sectors. Some residents own small businesses with a limited production capacity. Jongbiru Village has a Government Institution whose task is to carry out public service and administrative functions consisting of 54 personnel led by the Head of the Village, Mr. Nuraikan. The village's social facilities and infrastructures, such as worship, sports, health, and education infrastructure, sanitation facilities, and electrical energy, are also available and adequate.

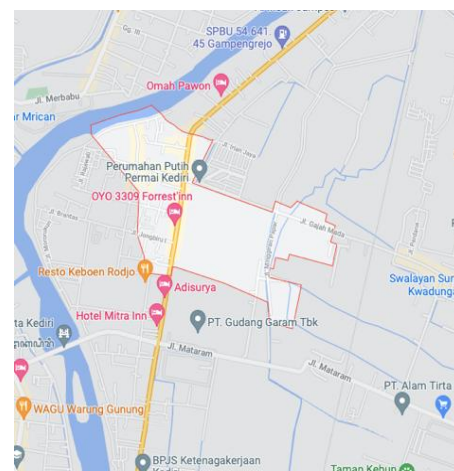


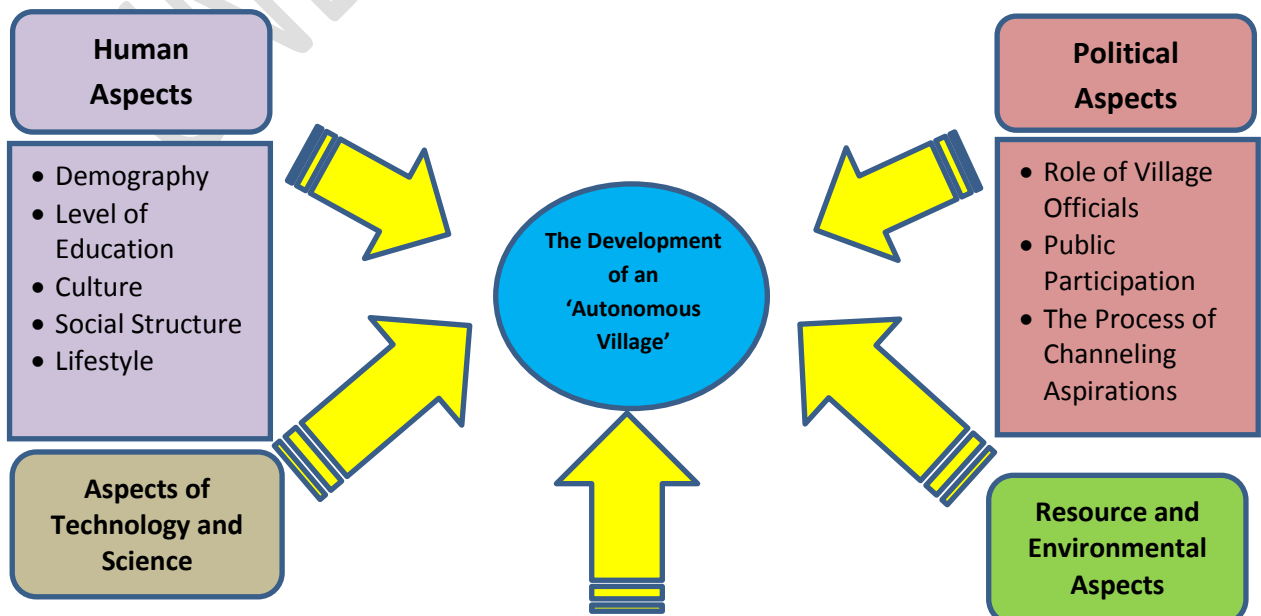
Figure 1. Location of Jongbiru Village, Kediri Regency based on Google maps, - 7.786593414978433, 112.01250033860259  
 Source: Google maps, 2020

### 3.2 Development Strategy of the Village

Village development is an effort to improve the standard of living and the welfare of rural communities. In order to see improvements, a strategy is needed to achieve the goal and ensure that it is sustainable. Each village certainly has different Natural Resources (SDA) potentials, which is in line with the topography and contours of a rural area. Natural resources are often one of the main supporting factors in village development. One of the indicators is that most people who work in rural areas are farmers and farm laborers. The agricultural sector seems to be the foundation of people's lives in rural areas. However, industrial progress also reduces the number of farmers and farm laborers because many have changed professions. The problem lies in how the potential of the village, which is dominated by the potential of natural resources, oriented to the agricultural sector, seems no longer relevant to the progress of the times and seems not adaptive. Thus arises a traditional village area that is still static in terms of the development and progress of the village, or known as an underdeveloped village; therefore, a particular strategy is needed in turning an underdeveloped village into a progressive autonomous village. According to Zhu [10] extracting land economic rents created by urbanisation, village cooperatives generate environmental and social equality problems. High-density low-income countries, especially in Asia, are facing a great challenge as fierce competition for limited urban land resources without effective governance often results in an unfavourable form of urbanisation. Sustainable compact urbanisation needs to strike a balance between local autonomy and urban integrity.

The village development strategy can be done by optimizing the economic potential and human resources (HR). Having economic potential without the support of human resources will not lead to improving welfare. This is in line with research conducted by Elsa [11], which states that the right strategy in cultivating an underdeveloped village is to increase natural resources through agricultural intensification. Agricultural intensification is carried out in a narrow area so that the land can be utilized optimally by using superior seeds, suitable processing methods, regular irrigation or fertilization, fertilization, and marketing (marketing).

Furthermore, improving human resources through counseling and training in agriculture. The public needs to receive an education so that they can become knowledgeable. With the potential of the village and the excellent quality of human resources, synergy can be established (see Figure 2). It is a matter of quantity and quality that will determine the progress of a rural area. Thus, it is expected from the villagers to work together toward their goals in creating an autonomous villages [12]. The adaptive capacity of a rural area will impact the progress of a village autonomously. Another way to improve the economy of the village is by optimizing the role of business institutions such as Village Owned Enterprises (BUMDES).



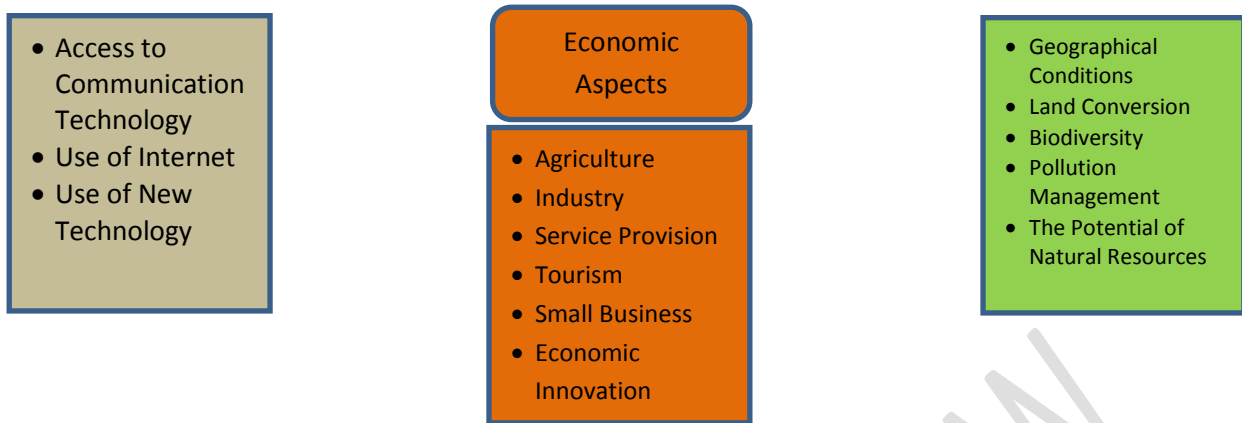


Figure 2. Elements of the Development in an Autonomous Village  
Source: Author's analysis (2021)

### 3.3 The Village's Potentials

Jongbiru Village has several promising economic potentials to be developed further in supporting activities to improve people's living standards. This potential is spread out in several locations in the village, with most of them being small businesses owned by individuals or groups. From the data collection results, there are several types of business activities such as village-owned businesses, culinary businesses, handicraft businesses, transportation service businesses, trade, lodging services, and financial services businesses. The quantity of the community-owned businesses and services is shown in the following table:

Table 1. Types of Businesses in Jongbiru Village

No	Types of Businesses	Amount
1	Savings and Loans & Cooperative Business (Owned by the Village)	3 Units
2	Home Appliance Industry	4 Units
3	Building Materials Industry	5 Units
4	Craft Industry	2 Units
5	Wood Processing Industry	1 Unit
6	Owner of Transportation Services	9 People
7	Owner of Freight Forwarding Companies	33 People
8	Commerce and Culinary Services	46 Units
9	Housing Service	110 Units
10	Legal and Consulting Services	2 Units

Source: Author's analysis (2021)

The waste problem is also an issue arising in Jongbiru village; therefore, there are ways to reduce the issue; it is through guidance and assistance from the local government, the village is currently starting to develop an Integrated Waste Processing Site (TPS-T) which is fully managed by the village through BUMDES with active participation from the surrounding community. The TPS-T will become one of the commercial business units carried out by processing and sorting waste for recycling. The greater the amount of waste that can be managed, the more income the business unit will contribute to PADes. In addition to the economic potential of TPS-T in Jongbiru village, there is also the use of village-owned land for productive businesses. The area there had a shophouse which was then rented out to the residents as a place of business.

### 3.4 BUMDES' Role in the Optimization of the Community

Economic developments in Indonesia are challenging to predict, and demands for welfare at all levels of society are still on the agenda in solving these problems [13]. To achieve national development goals, villages are government agents that can reach target groups of "grassroots" communities who want to be prosperous. One of them is by forming a business entity, namely the Village Owned Enterprise (BUMDES). BUMDES' principle aims to improve the welfare of rural communities and develop villages into autonomous villages. Nevertheless, along the way, there

are various problems in the management of BUMDES. This is stated by Susilo and Purnamasari [14]:

- a) Communication
- b) Empowerment of the Local Communities
- c) Managerial Capacity
- d) BUMDES Infrastructure
- e) Transparency and Accountability of the Reports

Based on this, the problems that occur in the management of BUMDES are centered on administrative, community participation, infrastructure, and managerial issues. However, in its function, BUMDES still contributes to the development of a village. There are several things related to the contribution of BUMDES in improving the welfare of people in rural areas, as expressed by Ramadana et al.[15], including the following: a. Sources of funds for increasing village income; b. Meeting community needs; and c. Autonomous village development. Thus, apart from problems in the management of BUMDES, there are also BUMDES contributions that must be maintained according to their functions. In addition, the progress and development of the times have become a challenge for the existence of a BUMDES in carrying out its role as a business institution in the village.

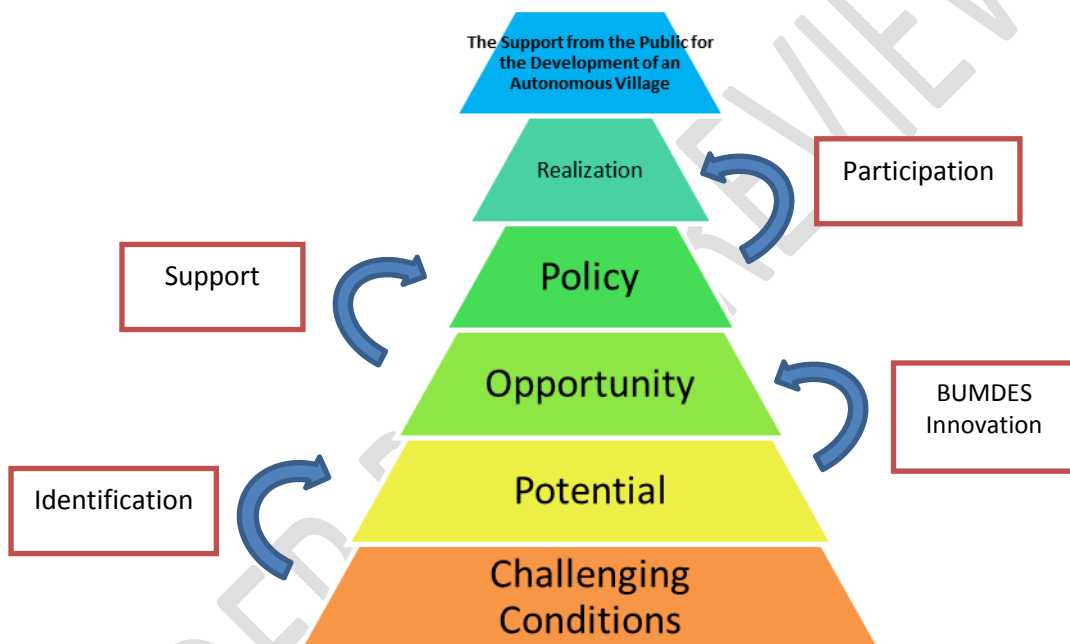


Figure 3. Scheme for the Embodiment of an Autonomous Village Through the Role of BUMDES  
Source: Author's analysis (2021)

#### 4. CONCLUSION

An autonomous village is defined as a village that can meet the needs of the community. the development of jongbiru village towards gaining its independence includes establishing participatory, transparent, accountable, and detailed activities. the strategy that can be applied to achieve an autonomous village is by implementing innovation in every activity to expand the existing economic potential, such as the development of msme, the formation of production center communities, and the involvement of bumdes. it is necessary to optimize every asset and potential of the village to improve the community's welfare. some sectors focus on establishing an autonomous village: local economic potential, existing socio-cultural potential, and demographic potential as human resources. the potential of the local economy as the most crucial part in efforts to improve the community's standard of living requires business innovation in the management of bumdes. one of them can apply information and communication technology in business development efforts carried out by bumdes. the existing socio-cultural potential as a capital in forming rural communities with skills and competencies in several sectors so that bumdes can carry out bumdes and community empowerment to create new jobs. demographic potential as human resources is a supporting factor in the management of bumdes in a more professional direction so that bumdes can become a productive, innovative, adaptive, and credible business

institution.the autonomous jongbiru village will be established, with the community's help in flourishing and advancing their village. bumdes will be the driving force and catalyst for constructing productive rural community groups, such as agriculture and the environment and economy. hence, the real foundation in altering a village into an autonomous village lies in the participation of the community. if more people participate in the establishment of the village, the development of the village will take less time.

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