

# Village Economic Development Model Based on Village-Owned Enterprises (BUMDes): A New Insight from North Sumatera-Indonesia

Ade Isyana Hairunnisa<sup>1</sup>, Erlina<sup>2</sup>, Sirojuzilam<sup>3</sup>, Rujiman<sup>4</sup>

<sup>1,2,3,4</sup>University of Sumatera, Indonesia

[Isyana.hairunnisah@gmail.com](mailto:Isyana.hairunnisah@gmail.com)

## Abstract

*This study aims to determine the factors that influence village economic development based on Village-Owned Enterprises (BUMDes) by looking at the relationship between the influence of human resources (HR), capital participation, governance, and rural area planning on the development of the village economy based on BUMDes in the Regency /City of North Sumatera. The research method used is quantitative research conducted by survey, namely research in which the data is collected from a population sample to represent the entire population. The entire population was given a research questionnaire, amounting to 53 BUMDes in the Regency / City of North Sumatera. The number of questionnaires distributed was 512, with nine respondents for each BUMDes and 498 returned questionnaires. After processing the data with SmartPLS, the research results show that human resources, capital participation, governance, and regional planning partially have a significant effect on developing the BUMDes-based village economy.*

## Keywords

village economic development; BUMDes; human resources; equity capital; governance; rural area planning



## I. Introduction

The development of a country can be directed at three things: increasing the availability and distribution of basic needs for the community, improving people living standards, and increasing the communities' ability to access economic activities and social activities (Todaro, 2004). The development of the Indonesian economy from 2013 until 2015 has decreased, although there was an increase that was not significant from 2016 to 2018. The decline occurred again from 2019 to 2020. The development of a country can be directed at three things, namely increasing the availability and distribution of needs essential for the community, increasing the standard of living of the community and increasing the ability of the community to access both economic activities and social activities in their lives (Todaro, 2004). Indonesia's economic development from 2013 to 2015 experienced a decline, although there was a less significant increase in 2016 to 2018. The decline occurred again from 2019 to 2020.

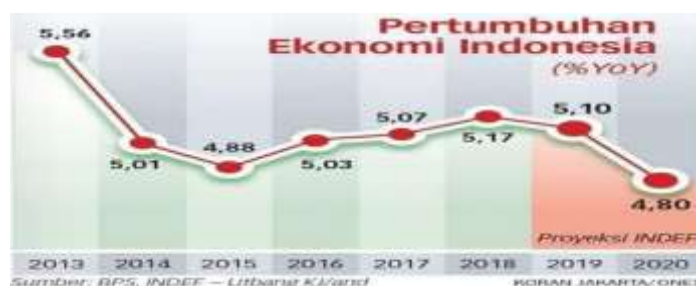


Figure 1. Indonesian Economic Development

The reality of villages so far shows the weakness of economic development, high rates of poverty and unemployment, thus reducing the competitiveness of villages compared to cities. Based on the Central Bureau of Statistics's data, the number of poor people in 2013 was divided into two; the urban poverty rate was 8.52%, while the rural population poverty rate was 14.42%. Responding to these problems, the government's strategy to overcome development inequality is to implement national development that pays great attention to village development.

Village development has a vital and strategic role in the framework of national development and regional development because it contains elements of equitable development, and the results can directly touch the interests of the majority of people who live in rural areas to improve welfare. Villages have much potential not only in terms of population but the availability of natural resources as well. If these two potentials can be managed optimally, it will provide welfare for the villagers.

One of the policies that accompanied the enactment of Law No. 6 of 2014 was Government Regulation No. 60 of 2014 concerning Village Funds. The passage of the Village Law and Government Regulation No. 60/2014 on Village Funds provides new ammunition that gives villages the power to develop themselves. Since then, the government has started to boost and prioritize the use of village funds for the issue of establishing BUMDes (Village-Owned Enterprises) throughout Indonesia as a solid foundation for the welfare of the people and providing a legal umbrella for BUMDes as economic actors who manage village potential collectively to improve the welfare of residents village.

The success of BUMDes is seen from the extent to which BUMDes can utilize village assets and potential as much as possible for the welfare of villagers by opening up the participation of all villagers in the process of achieving it; therefore, villages must start managing village assets owned through BUMDes which were established based on potential village characteristics and needs villagers.

The development of BUMDes in the Regency/City of North Sumatera began with the circulation of village funds in 2015. Based on mapping BUMDes in the Regency/City of North Sumatera in 2018, the number of BUMDes reached 53 units from 159 villages. Communities in the villages of North Sumatera Regency / City rely on their livelihoods from the agricultural sector. Farmers still choose the traditional/manual way of working on rice fields, and they also lack information and knowledge about technological developments, especially in the field of agricultural technology. The village government continues to facilitate so that all community needs and problems can be addressed. Based on the Regulation of the Minister of Villages, Development of Disadvantaged Areas and Transmigration Number 4 of 2015 concerning the Establishment, Management and Management, and Dissolution of Village-Owned Enterprises, the Village Government, and community leaders and representatives from the community, hold deliberations. As a result of the deliberation, "BUMDes" was formed.

## **II. Review of Literatures**

### **2.1 Purchase Decision**

Early planning, especially in the late 19th century and post-World War II, focused on the design aspects of the physical environment and was referred to as the morphological conception of space (Friedman, 1987; Taylor, 1998). In development, planning develops to become a meta-disciplinary science, and the field of planning science is broad, including socio-economic-cultural aspects. This expansion was happening in the '60s that Taylor described as a significant shift towards a sociological conception of space (Taylor, 1998).

The breadth of the study planning is as broad as a regional or city problem (Brooks, 2002). The breadth of the study and its multidimensional nature often make people are confused about the focus of the study of the planning discipline. Friedman (2003) assumes that planning theory is useless in practice due to a lack of understanding of theory planning and its multidimensional aspects.

The question of why a community group or an area is more advanced than another is a central theme in development. One of the explanatory factors for this difference is the availability of capital. Capital is generally known as money capital or money capital goods used in the production process and can be invested with the expectation of profit from its use. Therefore, from the beginning, this concept of capital only recognized two types, namely financial capital and physical capital. Light (2004) sees that the concept of capital can be expanded when capital is defined as a valuable deposit that facilitates action. Bordieu (1986) and Light (2004) explains the addition of three other types of capital; human capital, culture, and social capital. These three types of additional capital stay in line with the investment concept, that type of capital can be created and developed to take advantage of it. When human capital lies in personal knowledge and skills, cultural capital lies in cultural knowledge that provides benefits in the form of excellent socioeconomic status, while social capital is defined as relationships of trust embedded in social networks. Gaag (2005) see that the concept of social capital is a model of economic activity to the formation and maintenance of social relations.

Legitimacy can be considered as equalizing perceptions or assumptions that an entity's actions are desirable, appropriate, or following a socially developed system of norms, values, beliefs, and definitions (Suchman, 1995; Kirana, 2009). Legitimacy is considered necessary for the company because the community's legitimacy to the company is a strategic factor for the company's future development. O'Donovan (2000) argues that organizational legitimacy can be seen as something that society gives to companies and something that companies want or seek. Thus legitimacy has benefits to support the survival of a company.

Institutional theory has emerged to be famous as a reinforcing explanation, both for individual and organizational actions caused by exogenous factors, external factors, social factors, community expectations, and environmental factors. This institutional theory defines that organizations that prioritize legitimacy will tend to try to conform to external expectations or social expectations where the organization is located (Fitrianto, 2015).

The initial capital of BUMDes comes from the Village Budget. BUMDes wealth is village wealth which is separated and not divided into shares. BUMDes capital consists of village capital participation and village community capital participation. Government and local government assistance to BUMDes is channelled through the Village Budget mechanism. In increasing the source of village income, BUMDes can collect savings at the local scale of the village community, among others, through the management of revolving funds and savings and loans.

The acceleration of economic development to lead to independence or sovereignty (sustainable strengthening) of the village economy is crucial and is always up-to-date for further study (Kalla, 2011). However, other experts such as Collier and Santoso (1996), Hill (1996), and Arifin (2001) argue otherwise, namely that any improvement efforts for rural areas or agriculture are difficult to achieve and may even fail. It is mainly due to the very low ownership of capital (land or land) in the traditional sector (rural or agriculture). In rural-urban relations, the essential principle is to utilize village economic resources and prioritize economic activities to the fullest in the village through increasing value-added economic activities. One of the phases that need to be carried out in developing the village is strengthening economic organizations (institutions).

Regional Planning Theory Regional planning is a development planning process intended to make changes towards a better development direction for a community, government, and environment in a particular area by utilizing various existing resources and must have a positive orientation, comprehensive, complete, adhering to the principle of priority (Riyadi & Bratakusumah, 2003). In regional development efforts, the most critical issue that has become a concern for economists and regional planning experts is the process of economic growth and equitable development. The difference between the theory of regional economic growth and the theory of national economic growth lies in openness in the input-output process of goods and services and people. In the regional system, the entry and exit of people or goods and services are relatively more open, while on a national scale, it is more closed (Sirojuzilam, 2007).

The government has long carried out the development of the economic base in rural areas through various programs. However, these efforts have not yielded satisfactory results as desired together. One of the most dominant factors is that government intervention is too large. As a result, it hampers the creativity and innovation of rural communities in managing and running the economic engine in rural areas. Economics institutional systems and mechanisms in rural areas do not work effectively and have implications for dependence on government assistance to kill the spirit of independence. Based on this assumption, the village's existence should get serious attention from the central government with the birth of policies related to economic empowerment carried out by collecting and institutionalizing community economic activities.

BUMDES was born as a new approach to improve the village economy based on the needs and potential of the village. BUMDES management is fully implemented by the village community, namely from the village, by the village, and for the village. The way BUMDES works is by accommodating the community's economic activities in an institutional form or business entity that is managed professionally but still relies on the original potential of the village. This case can make community businesses more productive and effective.

The existence of BUMDES to realize an independent village economy is necessary. Through BUMDES, it is hoped that institutions in the community synergize with each other to maximize the community's welfare. For the village government and rural institutions in Parakan Salam village and Salam Jaya village, immediately establish BUMDES management so that it is immediately more effective in gathering business units from the community and managing village assets so that the goal of BUMDES is to create equitable community welfare. For the central government to continue to implement this BUMDES policy, then provide supervision and training for villages and still refer to the welfare of the village community. Because this kind of policy is more effectively implemented at the village level, an economic business institution that is a legal entity managed entirely by the village community, and the results are for the community itself.

### **III. Research Methods**

This research is quantitative, which emphasizes testing the theory through measuring the variables with numbers and analyzing the data that has been collected using statistical methods. This research is historical research and comparative causal research, which measured from the characteristics of the problem. This research is primary research that aims to develop and evaluate theoretical concepts. This research is also quantitative through measuring research variables with numbers and analyzing with statistical procedures (Rahman & Siregar, 2012). This study uses independent variables consisting of Human Resources, Equity Participation, Governance and Rural Area Planning. Meanwhile, the dependent of this research is Rural Economic Development based on BUMDes. Primary data

sources were obtained from questionnaires distributed to the community and interviews with village heads and government officials related to Bumdes.

The entire population was given a research questionnaire, amounting to 53 BUMDes in the Regency / City of North Sumatera. There were 512 questionnaires distributed with nine respondents for each BUMDes consisting of the Director, Deputy Director, Secretary, Treasurer, Business Unit Manager, and Business Unit Staff. The questionnaires that were returned and filled out completely were 498 respondents.

## IV. Discussion

### 4.1 Validity and Reliability Test Results

**Table 1.** Average Variance Extracted (AVE) Value

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
X1	0.757	0.792	0.845	0.580
X2	0.703	0.701	0.782	0.526
X3	0.874	0.879	0.914	0.726
X4	0.892	0.895	0.921	0.702
Y	0.902	0.905	0.932	0.773

Table 1 shows that all indicator items are declared valid; this can be seen in the loading factor value greater than 0.5, which means the indicator is declared valid so that it is feasible to be used in this study. In addition to the loading factor value, it is necessary to know the Average Variance Extracted (AVE) value to meet the convergent validity. The average Variance Extracted (AVE) value must be greater than 0.5. In addition, based on the table, it can be seen that the value of Cronbach's alpha and composite reliability of each variable is above 0.7, meaning that all latent variables are reliable.

### 4.2 Hypotheses Test

The structural model in PLS is evaluated using the R-square for the dependent variable and the value of the path coefficient for the independent variable, which is then assessed for its significance based on the t-statistic value for each path. The PLS Algorithm Smart PLS program results in assessing the path coefficient and R-square values displayed in the following table.

**Table 2.** Hypothesis Test Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values	Conclusion
X1 -> y	0.147	0.149	0.050	2.917	0.004	Accepted
X2 -> y	0.165	0.170	0.048	3.450	0.001	Accepted
X3 -> y	0.319	0.320	0.055	5.770	0.000	Accepted
X4 -> y	0.153	0.152	0.058	2.647	0.008	Accepted

From this table, a structural equation is formed, which is formed as follows:

$$Y = 0,147 X1 + 0,165 X2 + 0,319 X3 + 0,153 X4$$

Hypothesis testing is done by looking at the t-statistics value generated from the bootstrapping process. The hypothesis is accepted (supported) if the t-statistics value is greater than 1.96 with a significance level of 5% (two-tailed) (Abdillah & Jogiyanto, 2015). The results of the Smart PLS bootstrapping process was presented in the image below.

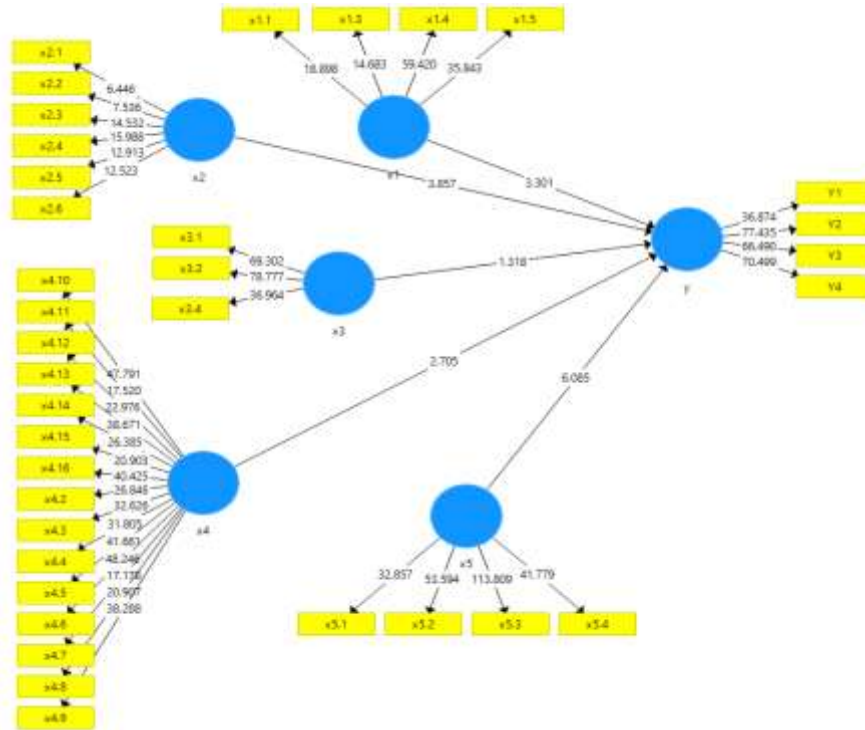


Figure 2. PLS Bootstrapping Calculation Output Display

The research results with a quantitative approach concluded that human resources, capital participation, governance, and rural area planning were variables that significantly affected the development of the BUMDes-based village economy. It can be seen from the results of data analysis that the t-statistic in this study is greater than the t-table, which means that the four variables have a significant effect on the development of the BUMDes-based village economy.

Permendesa No 4 of 2015 article 19 states that business units within BUMDes can utilize local resources and appropriate technology, including a) Village drinking water; b) Village electricity business; c) Food barns; d) Local resources and other appropriate technology. BUMDes, as a business capital economic institution, is built on the initiative of the community and adheres to the principle of being independent. It means that the fulfilment of BUMDes business capital must come from the community. However, BUMDes can apply for capital loans to outside parties, such as from the Village Government or other parties, even though third parties. It follows the legislation (Law No. 32 of 2004 concerning Regional Government Article 213 paragraph 3).

One of the dominant factors influencing the success of BUMDes is capital. Whether it is business capital, human capital (human capital) and social capital, it is very much needed to develop BUMDes. The growth and increase in the success of BUMDes will affect the growth of the village economy. The role of capital participation in village economic growth in several villages on the island of Java deserves to be studied because many BUMDes in some of these villages, including BUMDes continue to grow and cause the village's economic growth to increase.

Regional Planning is a development planning process intended to make changes towards a better development direction for a community, government, and environment in a specific area by utilizing or utilizing various existing resources and must have a comprehensive, complete orientation. , sticking to the priority principle of Riyadi and Bratakusumah (2003).

## V. Conclusion

Based on the results of data analysis and discussion of the BUMDes-based village economic development model by examining the influence of human resource variables, capital participation, governance, and rural area planning on the development of the BUMDes-based village economy, the following conclusions can be drawn:

1. The Human Resources variable partially has a significant effect on the development of the BUMDes-based village economy. It means that if human resources are increasing, the development of the village economy will be higher. Human resource indicators are the level of motivation, comfort, initiator, managerial capacity, and understanding of BUMDes. All indicators have a significant influence on the development of the village economy based on BUMDes.
2. Partially, Equity Participation has a significant effect on the development of BUMDes-based village economies. Village government support in APDes allocation and village government support in village fund allocation are indicators of capital participation. All indicators have a significant influence on the development of the village economy based on BUMDes.
3. The governance variable partially has a significant effect on the development of the village economy based on BUMDes. Governance indicators are a check and balance mechanism, an internal control system, financial accountability, performance appraisal, a reward and punishment system.
4. The regional planning variable partially has a significant effect on developing the BUMDes-based village economy. Indicators of rural area planning are economical aspects, social aspects, and institutional aspects. All indicators have a significant influence on the development of the village economy based on BUMDes.

Based on the results of the discussion analysis, the conclusions that can be drawn and the limitations of this study are: This study still has an Adjusted R<sup>2</sup> value of 49.7%, with the remaining 50.3% variables that have not been estimated to affect the development of the village economy based on BUMDes, besides that The area of the research area should not only cover the Regency/City of North Sumatera but for other areas, for example, Northern Sumatera which includes the Provinces of Aceh and North Sumatera.

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