

Investigating The Governance Practices of Village-Owned Enterprises in Indonesia

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Abstract. This study aim to investigate the practice of implementing governance of village-owned enterprises in Indonesia. In recent years, village-owned enterprises in Indonesia have experienced significant growth in terms of numbers. However, this significant growth was not accompanied by growth in assets and profits managed by the village-owned enterprises. This study was an interpretive qualitative study conducted at the village-owned enterprise Sumber Sejahtera in Malang regency, East Java and village-owned enterprise Zigiran Mandiri in Lima Puluh Kota regency, West Sumatra. Retrieval of data through in-depth interviews, observations and documentations. This study found several factors that influence the success of village-owned enterprise governance in indonesia namely ; the village owned enterprise ability to discover the potential and local wisdom of the village ; village head leadership, and ; the youth involvement

Keyword: Village-owned enterprises, governance, local wisdom

Introduction

The presence of Law No. 6 of 2014 concerning villages and the issuance of village ministerial regulation (Permendes) No. 4 of 2015 concerning the establishment, management and dissolution of village-owned enterprises is expected to provide encouragement to villages in Indonesia especially to accelerate the development of the village economy through the establishment of Village-Owned Enterprises (Bumdes). Its existence is important so that in the future the village has its own "cash cow" or income generating unit that can strengthen the independence of villages in Indonesia.

Some regions in Indonesia moved quickly along with the issuance of these regulations. One of them is the province of West Sumatra. From BPS data in 2017 it can be seen that there are 345 villages who have established village-owned enterprises. (Bumnag in west sumatera is similar with bumdes in Java). Some district and city governments are also no less fast in preparing regional regulations that are able to encourage the growth of bumntag in their respective regions. One example is Tanah Datar regency with the issuance of the Tanah Datar regent regulation (Perbup) No. 5 of 2016 concerning Guidelines for Establishment, management and dissolution of bumntag. There are a hope is that this regulation can become a legal aspect for bumntag to create a transparent, accountable, informative and meets the principle of fairness in accordance with the principles of Good Governance while still being rooted in local wisdom.

The significant number of bumntag established in each village or nagari certainly shows the magnitude of the desire of the government and the nagari community in West Sumatra to have a nagari-owned business entity that can develop in a modern and professional manner. But in reality after four years had passed, from 345 bumtnags in West Sumatra, none of them were considered successful so they could be used as role models for other bumtnags. Most of these bumntag are still struggling with the problem of poor ideas and business creativity, lack of knowledge about the use and accountability of village funds and an inability to read the local potential that can be developed.

On the other hand, in another provinces in Indonesia some bumdes have been able to leave these problems and develop its institution into large bumdes and managed professionally. One of the bumdes that is considered the most successful in exploiting the potential of its local wisdom is the Bumdes Sumber Sejahtera, Pujon Kidul Village, Malang, East Java. Bumdes Sumber Sejahtera currently has eight integrated business units, starting from the paddy café which has become the icon of its business, to the integrated waste processing unit that has just begun to run.

This bumdes was able to increase the village's original income from 20 million to 1.3 billion rupiah in just one or two years.

Base on discussion above, it is certainly interesting to examine what factors are becoming obstacles to the development of bumrag in West Sumatra and vice versa what factors are key to the success of bumdes in Java, especially in Bumdes Sumber Sejahtera in Pujon Kidul Malang East Java

Literature review

According to the Council of Microfinance Equity Funds (2012) governance is a system that can keep the organization in the main corridor, which has the function of 1) setting goals, organizational mission and implementation, 2) determining the strategic direction of the organization, 3) maintaining organizational health and minimizing risk, 4) ensuring organizational accountability, 5) ensuring the organization has sufficient resources for the organization to run. While [1] mentions governance is effective decision making, built on the basis of organizational culture, values, systems, various processes, policies and organizational structure, aims to achieve profitable, efficient and effective business in managing risk and being responsible for stakeholder.

Based on this understanding, in essence, governance includes culture, values, concepts, systems, processes and a set of regulations that govern the pattern of relationships between all parties involved in a company both internal and external parties. From a broad perspective, the parties involved in organizational governance according to the Forum for Corporate Governance in Indonesia (FCGI, 2001) include the government, creditors, customers, the public, employees, managers, shareholders' general meeting, board of commissioners and board of directors.

According on Law Number 32 of 2009 concerning Environmental protection and management, local wisdom is defined as the noble values that apply in the way of life of the community. While [2] argues that local wisdom is the values that apply in a society, which is believed to be the truth and become a reference in behavior. A similar sentiment was expressed by [3] who interpreted local wisdom as a way of life, knowledge and life strategy in the form of activities carried out by the community in meeting their needs.

Based on this definition, local wisdom is used as a basis in encouraging the emergence of creative ideas in developing the economy in the current era of regional autonomy. Local wisdom is seen as a source of energy, uniqueness and excellence that will provide added value to the rise of the economy in the region in competing to face the challenges of globalization. So according to [4], future economic development is inseparable from the local wisdom adopted by a community.

Previous research related to good governance practices has actually been done a lot. However, the scope is mostly done in the commercial area, especially in profit-oriented business companies. While research on village-owned enterprise governance based on local wisdom is still very limited. This is related to the issue of managing village funds and developing bumdes that have only been developing in recent years.

Research on bumdes governance in Garut Regency was conducted by [5] who took a case study on Bumdes Danar. The Bumdes management analysis variable uses the concept of Good Corporate Governance which consists of transparency, accountability, responsibility, independence and equality. The results showed that in general the Bumdes Danar governance had run quite well and was able to meet almost all indicator variables used. So that the existence of bumdes is able to provide benefits to the community. But one of the drawbacks is that the establishment of bumdes is not based on community participation, but is the result of third party encouragement. Thus it can be concluded that a third party can be used as an initiator in the establishment and management of Bumdes, if community participation is considered to be lacking. [6] has also conducted research on bumdes governance in Bantaeng Regency, South Sulawesi. He found that good bumdes governance can encourage and develop the economic potential of the village and overcome the economic problems of coastal communities in Bantaeng Regency. Another study by [7] in Jepara regency found that the problems still faced in managing bumdes were limited types of business, limited human resource management and low community participation due to their lack of knowledge.

Related to bumrag in West Sumatra, [8] conducted research on the management of agricultural-based Bumrag in Sungai Talang, Limapuluh Kota Regency. Base on the stagnation of bumrag after more than a year, researchers used a sociological juridical approach to uncover why the problem arose. The results of the study revealed that bumrag management which was not yet optimal was suspected to be related to the legal status that had not been officially legalized because the farm business unit was still running the West Sumatra government program. The implication is that bumrag has difficulty in obtaining operational funds, because the general allocation fund from Nagari is not yet available. Although this research did not touch the governance aspects specifically, the results of the study became important information for the nagari who would establish bumrag, that the clarity of the juridical aspects was important in establishing bumrag governance in West Sumatra. Research related to the opportunity to use the philosophy of *Adat Basandi Syarak Syarak Basandi Kitabullah* (ABS_SBK) in the

development of bumrag in Tanah Datar regency has also been carried out by [9] They found that Tanah Datar regency has great potential to use shariah principles by utilizing the ABS-SBK local wisdom for the development of bumrag in the future.

Methodology

This research is a field research using a qualitative approach. The informants of this study came from the manager of Bumdes Sumber Sejahtera in Malang Regency and several informants who were the managers of Bumrag in West Sumatra. Data collection in this study was done through in-depth interviews, observations and documentations. Data analysis using the model of Miles and Huberman which consists of data reduction, data display and conclusion.

Results and Discussion

The Village-owned business (Bumdes) Sumber Sejahtera Pujon Kidul village in Malang Regency was first established in 2015, in line with the issuance of Law No. 6 of 2014 concerning villages by the central government. The establishment of the bumdes departed from the concern of the Village Chief of Pujon Kidul on the number of village youths who became unemployed. After conducting village deliberations, it was decided that the clean water business unit would be the first business managed by the Bumdes Sumber Sejahtera. At the time of the initial formation it was agreed that the bumdes were established with the main objective to explore all the potentials of the village in order to improve the welfare of the people of Pujon Kidul. Bumdes vision was set at that time to realize village-owned enterprises to build a more efficient and competitive village community economy. This vision was then realized through a mission that was formulated as follows: 1) Improving the village economy 2) Managing the potential of the village in accordance with community needs 3) Helping community economic services 4) Increasing the original income of the village.

Only 3 years since the establishment of Bumdes Sumber Sejahtera has been able to increase the village's original income from 30 million, up to 162 million in 2017 and to 1.8 billion by the end of 2018. The increase in the village's original income was fully supported by the success of Bumdes Sumber Sejahtera. At present the bumdes have eight business units ranging from the clean water business, paddy café, integrated waste management, smart behavior units (in cooperation with government bank BNI), parking units, agricultural units, live in units (tour guide services staying in the village), and infrastructure and building units. Indeed, not all of the existing units provide benefits to bumdes, most of which are donated by the rice field café unit, live-in and parking units

The development of paddy café units and live in units departs from the ability of the village head and youth of Pujon kidul village to investigate the potential and local wisdom and convince the villagers of their village. Initially people were skeptical whether their daily lives in the village could be sold to become tourist destinations. This is illustrated from the results of the interview with the chief director of Bumdes Sumber Sejahtera Mr. Ibadur rohman below.

"Many people were skeptical at the beginning, in their minds the name of travel was artificial tourism. They worry about being evicted; the closest example is Batu regency, where the original inhabitants have been displaced by investors. When what we sell is their daily life they are confused. They graze (look for grass) as tourism, they dairy cows become tourism, they are confused whether it can be used as tourism. Here we convince them, we provide tour experience, sir"

At present, although not one hundred percent of the people are involved in businesses managed by the village owned-enterprise, but at least the impact felt by the villagers is already being felt. Starting from the increase in village original income which rose dramatically in the last two years, the number of workers absorbed by the bumdes business units. Until the presence of tourists with a number of 35-40 thousand people in one month which of course caused a multilyer effect the growth of other businesses owned by the community that are managed independently by the Pujon Kidul village community. Currently, in addition to eight business units that are managed directly by bumdes, there are 52 lands that are managed independently by the community with a workforce absorption of up to 250 people.

"The workforce of all units is currently 145 people and 100 percent are residents of Pujon Kidul. There are also data on traders outside our unit, around 52 booths and employment of more than 250 people. While our population data is 4250 people "

(excerpt from the interview with the director of the SS Community Service)

One of the other officials interviewed also said the same thing, the success of the bumdes in a short time was caused by several things

"The key is the ability of the village head to discover the potential of the village, the ability of the village head to convince the village community so that the existing potentials can be developed. The local wisdom of our

community is managed maximally, the daily lives we sell, especially through the rice field café and live in units. through the rice field café our traditional dishes are displayed, through the rice field café our guests provide a comfortable place in the form of a café in the middle of the rice fields with beautiful views of the village, a beautiful atmosphere, that we sell. Through the live-in unit our guests provide packages to stay in the village, feel like a farmer, we invite farming, we take it to the tourist attractions of the village. For these guests it's interesting because most of them are city people who may already be fed up with lifestyle in the city ”
(interview excerpt Mardiyanto, parking unit manager)

From the interview results above it can be seen that the village head's ability to discover the potential and local wisdom of their village, while convincing villagers that the potential of their village is worthy of being a tourist destination is the key to the success of Bumdes Sumber Sejahtera. In addition, the ability to mobilize youth is another key to the success of the success of this prosperous source bumdes. This is as stated below

"The strength of the youth, in addition to the village head's ability to optimize the potential of the village, the ability to mobilize young people is one of the keys to the success of the bumdes. the majority of us who work here are young men, ages 16-35 years. They are young people who have energy, but all this time they are confused about where they want to go, well, the existence of these bumdes is a place for them to channel their ideas, thoughts and energy "

(excerpt from the interview with Mr. Mardiyanto)

From the discussion above, it can be concluded that the key to the success of this Bumdes Sumber Sejahtera lies in three things, a) the ability to maximize the potential of the village in harmony with local wisdom b) strong leadership from the village head and c) the involvement of young people as the driving force of the bumdes

On the other hand the opposite condition occurs in West Sumatra. None of the nagari-owned businesses or bumrag that were established in West Sumatra have yet to be considered successful. The Zigiran Mandiri Bumrag in lima puluh kota regency, for example. This bumrag is considered as one of the advanced bumdes in West Sumatra, apparently still does not have a business that can be considered as successful as Bumdes Sumber Sejahtera in Malang Regency above. Founded in 2016 with a capital of 170 million rupiah, the new bumrag currently has a corn farming business unit, dragon fruit cultivation, services and telecommunications and building material sales for village projects. From these business units, there is no visible business that can be used as an icon for the development of future departments. Efforts to discover the potential of local wisdom-based communities have been carried out as revealed from the results of interviews with the following Chairman of the Bumrag Zigiran Mandiri

"We are trying to develop the cultivation of dragon fruit plants sir, we have planted a number of gardens, but the results have not been as good as we hoped. The village head also has a plan to build 1000 levels on the hill in our village, to be a tourist attraction. This hill we have a nice view, there are pine trees and others, we are thinking this hill are good for tourists

(excerpt from the interview with the chairman of the Mrs. Liza)

The absence of a business that can be a good income generating unit for these graduates has an impact on the lack of income earned by these graduates, recorded revenues during 2018 of only 22 million rupiah, compared with the Bumdes Sumber Sejahtera in the same year which already has revenues reaching number 8 billion rupiah. From this it can be seen that when a village owned enterprise has not been able to identify the potential of its local wisdom appropriately, the potential for developing it is also not yet maximized. Of course it takes effort, hard work and cooperation from all parties, from the managers of the private sector, the village head and the independent Zigiran community so that the community can develop along with their local potential and wisdom.

The findings above are in line with several studies on community service that have been conducted, such as research conducted by [10] and [1] find the local economic potential based on local wisdom is one of the keys to the success of community service in the village of Ponggok Klaten Central Java. In addition, other research conducted by [11] also found that youth participation was accompanied by community involvement being one of the keys to the success of Bumdes Tirta Mandiri in Umbul ponggok. This certainly strengthens the beliefs of the factors that influence the success of bumdes / bumrag in Indonesia.

Conclusion

Efforts to make the bumdes and bumrag in Indonesia success are currently experiencing diverse conditions. Most of the bumdes or bumrag are still in the stage of building and discovering the potential of their respective villages. From several studies that have been carried out, one of the keys to the success of a bumdes or bumrag is the ability to find and maximize the local wisdom they have, in addition to several other factors such as the village head's leadership and the involvement of young people in developing their village-owned enterprises.

In the end, in order for all of these efforts to deliver maximum results, collaboration and support of all stakeholders involved in the governance of the village administration is needed. You can't just rely on the manager

or the village government. This is important especially so that later when the bumdes or bumngag succeed, the people who will enjoy the results will also have a lot of people in the village.

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