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# A new approach to stimulate rural entrepreneurship through village-owned enterprises in Indonesia

BUMDes in  
Garut  
Regency,  
Indonesia

Ikeu Kania

*Faculty of Social and Political Sciences, Garut University,  
Tarogong Garut, Indonesia*

Grisna Anggadwita

*School of Economics and Business, Telkom University, Bandung, Indonesia, and*

Dini Turipanam Alamanda

*Faculty of Economics, Garut University, Tarogong Garut, Indonesia*

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## Abstract

**Purpose** – Village-owned enterprises, in this study called Badan Usaha Milik Desa (BUMDes), are rural communities economic empowerment program developed by the Indonesian Government to encourage the growth of rural entrepreneurship by using the potential of locally owned resources. However, the implementation and effect of the BUMDes program are questionable. Thus, this study aims to investigate the role of BUMDes in encouraging rural entrepreneurship and strengthening rural economic development. In addition, this study also explores challenges in implementing the BUMDes program.

**Design/methodology/approach** – This study uses a qualitative method with a case study approach. Data were obtained through in-depth interviews using purposive sampling techniques to key people in management at five BUMDes in Garut Regency, West Java, Indonesia, which have successfully implemented the BUMDes program.

**Findings** – The findings of this study indicate that BUMDes are proven to encourage rural entrepreneurship with the dimensions of exploration and empowerment, capacity building and the support and involvement of all stakeholders. BUMDes were established in accordance with government policies based on the village discussion process as the culture of the Indonesian people by involving elements of the village government, associations and the community. However, the challenges in implementing BUMDes are still faced by managers including implementation and regulatory mismatches, lack of qualified human resources and lack of synergy between the village government and BUMDes.

**Research limitations/implications** – In this study, the development of a local economic empowerment program as a driver of rural entrepreneurship is carried out in the Indonesian context. In addition, based on the unique nature of case studies, making this study can only be implemented in cases that have similar characteristics. Therefore, in the context of other countries, it can be done by modifying the results obtained based on the conditions and potential of each region.

**Originality/value** – Although recognition of entrepreneurship is one of the main determinants of rural economic development, empirical research in this area is relatively rare. Thus, this study adds a new perspective on the BUMDes program as an effort to grow rural entrepreneurship.

**Keywords** Empowerment, Capacity building, Rural entrepreneurship, BUMDes, Rural economic development, Village-owned enterprise, Rural-owned enterprise, Garut

**Paper type** Research paper



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## 1. Introduction

Regional economic development is a very important contributor in building local economic capacity in developing countries to improve the quality of life of people in the region (Rokhim *et al.*, 2017). Rural entrepreneurship has become one of the main forces in the economic growth of a country, especially in developing countries. The entrepreneurial strategy is considered as a key factor to improve performance in local economic regional development (Rokhim *et al.*, 2017). One strategy in encouraging rural entrepreneurship is to design an entrepreneurial program to develop thinking styles and skills in identifying business opportunities; analytic and problem-solving; creativity; expanding network relations; take a risk; starting a business and management among small business owner/managers (Alarape, 2007). The Government of Indonesia has made various programs to develop the rural economy, such as providing various facilities and infrastructure, as well as creating a National Program for Community Development projects, one of which is by establishing Badan Usaha Milik Desa (BUMDes), which are pillars of rural economic activity, serving as social and commercial institutions.

BUMDes development can support the strengthening of village income to enable them to become more independent (Suriadi *et al.*, 2015). BUMDes have a very important role as a collective economic institution that aims to optimize the welfare of rural communities (Afwā, 2018; Rodiyah, 2019). The results of a study by Du and Izumida (2006) showed that BUMDes in rural China were once an economic engine and an important contributor to the success of China's economic reforms. According to McElwee *et al.* (2018), the fundamental problem of rural development is limited authority. Most rural development methods place villagers only as objects of development and not as subjects who have decisive and strategic authority to manage village assets. In addition, BUMDes still experience various problems, including lack of capital, limited human resource capacity in managing BUMDes and lack of BUMDes socialization activities (Ulumudin *et al.*, 2019).

Research on rural entrepreneurship is relatively scarce, so this study seeks to fill gaps that occur by adding insights into the role of BUMDes in encouraging rural entrepreneurship and challenges in its implementation. This study will help design future development policies and enable the use of more selective and flexible instruments in supporting rural entrepreneurship. The purpose of this study is to investigate the role of BUMDes in encouraging rural entrepreneurship and rural economic development. This study uses a qualitative exploratory approach through in-depth interviews at five BUMDes in Garut Regency. This research shows that village-owned companies are projected to become a new economic force in rural development in developing countries, especially Indonesia. In addition, we identified a critical dimension that influenced the development of BUMDes in encouraging rural entrepreneurship with a broad focus on process, institutional support, challenges and social dynamics. We analyze this data through a place lens (socio-spatial; Cresswell, 2013) and then map the data structure model to propose an integrated framework by observing and analyzing, further enabling the conditions of the rural entrepreneurship context.

This paper is organized as follows: in Section 1, we introduce the concept of rural entrepreneurship and the phenomenon of BUMDes. In Section 2, we try to review and integrate contemporary contributions into all the factors that characterize rural entrepreneurship and the creation of a rural entrepreneurship environment through the BUMDes government program. An overview of the BUMDes condition in Garut Regency, West Java is also presented in that section. Section 3 presents research methods and integrated frameworks for rural entrepreneurship analysis through the BUMDes program. Section 4 presents the finding and discussion of studies covering the implementation of BUMDes, challenges of BUMDes and the role of BUMDes in driving the growth of rural

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entrepreneurship. Finally, the conclusions of the results of this study are presented in Section 6. Implications and recommendations for future practice and research are also presented.

## 2. Literature review

### 2.1 Rural entrepreneurship

Entrepreneurship is a dynamic process that creates additional wealth for those involved in it. The behaviors described during this process include taking initiatives, managing and reorganizing social and economic mechanisms to make the use of resources and situations practical, and being able to accept risks or failures (Hisrich and Ramadani, 2017). Entrepreneurship has been widely recognized as a factor that accelerates economic development (Ramadani *et al.*, 2014, 2013). According to Dana (1995), entrepreneurs are individuals who build and manage businesses by placing profits and business growth as their primary goals.

Nwankwo and Okeke (2017) explained that governments in developing countries have realized that there is no meaningful development, except when the countryside participates in the development. This realization is based on the fact that the rural population is an important component of a country's population. According to Isenberg (2010), the context of entrepreneurship should be understood and shaped in relation to local conditions. Thus, it is necessary to do sustainable development in rural areas. Rural areas include areas with specific physical, social and economic characteristics (Stathopoulou *et al.*, 2004), there is an increase in demand and interest in proposing entrepreneurship as a new form of business and a key element in the process of rural development, especially in areas with slow development (Lafuente *et al.*, 2007). Umebali and Akuibilo (2006) revealed that village development is a strategy designed to improve the economic and social life of the rural poor. However, village development cannot be achieved without a strategy. Rural entrepreneurship is one of the strategies that can be used for local economic development.

In general, rural entrepreneurship can be defined as an organization that creates and introduces a new product, serves or creates new markets or uses new technologies in a rural environment (Wortman, 1990). Other research identifying rural entrepreneurship is the creation of companies in rural areas (Lafuente *et al.*, 2007; Vaillant and Lafuente, 2007) and the development of small companies (Dinis, 2006; Meccheri and Pelloni, 2006). Meanwhile, Covin and Slevin (1991) define rural entrepreneurship as a business entity operating in a rural environment, which is not related to metropolitan/big city sites. Then, Patel and Chavda (2013) and Saxena (2012) revealed that rural entrepreneurship implies development of entrepreneurial activities in rural areas, in other words, the development of an industry, which also implies that village entrepreneurship is identical to village industrialization.

The specific advantages of rural locations are social, cultural and historical elements that have accumulated over time through people who live and work in these places (Williams *et al.*, 2004). These natural, social, cultural and heritage facilities can be used as unique resources in entrepreneurial activities (Müller, 2013; Stathopoulou *et al.*, 2004). In addition, local food products also have the potential to improve territorial and inheritance aspects (Goodman, 2003). The entrepreneurial activity provides a good example of the recombination of rural resources that creates new value for entrepreneurs but further contributes to the origin of these products. Rural entrepreneurship plays a key role in leveraging innovation, nurturing and developing communities, providing employment opportunities and moderating relationships between agriculture, land use, community and economic development (Atterton *et al.*, 2011; Newbery and Bosworth, 2014; Phillipson *et al.*, 2011). Sharma *et al.* (2013) also argue that rural entrepreneurship plays an important role in improving the economy in developing countries. Rural entrepreneurship helps in developing backward/underdeveloped areas to

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reduce poverty levels. The government can create a scheme for the development of village businesses to explore the potential of rural areas, which in turn will help improve economic development.

### *2.2 Village-owned enterprises*

The concept of village-owned enterprises is one of the efforts of the Indonesian Government to encourage local economic growth and develop village potential. The legal basis for establishing village-owned enterprises, in Indonesia called BUMDes, is regulated in Law Number 32 of 2004 concerning the regional government. BUMDes are defined as business entities whose capital is wholly or partly owned by the village and the village participates directly. This comes from separating village assets by managing assets, services and other businesses for the greatest welfare of the village community. The establishment of BUMDes aims to explore and optimize the potential of rural entrepreneurs based on Village Law Number 6 of 2014. BUMDes policy is increasingly supported by Government Regulation Number 47 of 2015, which states that villages have the authority to manage BUMDes.

In China, the concept of village-owned enterprise is known as township and village enterprises (TVEs) that are built and controlled by the city and village government to realize the form of community property, so that, in theory, the property belongs to everyone who lives in local government jurisdiction (Luo *et al.*, 1999). Local governments have the right to control residual income, dispose of assets, appoint and dismiss managers (Byrd *et al.*, 1990). City and village governments in China have greatly assisted TVEs in securing the factors of production, accessing infrastructure, regulating marketing channels and getting higher-level government ratification if needed (Byrd *et al.*, 1990). TVEs and BUMDes have the same goals for the welfare of rural communities and realizing economic independence but have different concepts from the regulations and management processes (Suartini *et al.*, 2019).

Meanwhile, various studies on BUMDes in Indonesia have been carried out. Amri (2019) revealed that BUMDes are village business institutions managed by the community and village government in an effort to strengthen the rural economy and was formed based on the needs and potential of the village. Meanwhile, Larasdiputra *et al.* (2019) stated that BUMDes are a form of village institutions that have economic or business activities to provide benefits to the village community. BUMDes are a pillar of economic activity in the village, which acts as a social and commercial institution, prioritizes community interests through contributions to social activities and seeking profit by offering resources from the village to the market, both in the form of goods and services (Srirejeki, 2018). Meanwhile, Rodiyah (2019) revealed that the BUMDes are business entities determined through village regulations made based on the results of village deliberations. The establishment of BUMDes is expected to be a solution for village economic problems by comprehensive handling, including the construction of infrastructure facilities, development of rural economic potential and optimization of potential for the welfare of rural communities (Kania *et al.*, 2019).

According to Solekhan (2014), BUMDes need to have a good management concept, which includes:

- BUMDes must be openly managed and can be known by the community;
- BUMDes management must be accountable to rural communities in accordance with applicable regulations;
- rural communities must be actively involved in the planning, implementation and supervision processes; and
- the management of BUMDes must provide results and benefits for the village community continuously.

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BUMDes are built in accordance with the potential of the village, where the business is managed and developed independently based on the demands and needs of the community (Suastika, 2017). Agunggunanto *et al.* (2016) explained that BUMDes management is separate from village government management. Amri (2019) added that BUMDes are institution that are separate from the village administration, BUMDes have its own management structure and only need to coordinate with the village administration.

As an institution that also looks for profit, there is a mechanism that must be obeyed by BUMDes managers who work together with other parties. It is necessary to coordinate and cooperate with village governments in using economic resources. Business parties must consult and approve the BUMDes Board of Commissioners. In daily business activities, managers must act based on systems/rules that have been approved and listed in BUMDes regulations, in accordance with BUMDes governance principles.

### *2.3 BUMDes' performance and rural entrepreneurship development*

Village-owned enterprises are a topic that has received a lot of attention from the public agenda in Indonesia because of their ability to provide and encourage sustainable employment opportunities in rural areas (Feher, 2014). BUMDes are a new type of business established by villages to create employment opportunities and develop an entrepreneurial environment that can have a direct impact on increasing economic growth in rural areas (Dhewanto *et al.*, 2020). According to Suastika (2017), BUMDes are rural community business units that involve the full management of rural communities through the process of development and empowerment. BUMDes' performance must prioritize knowledge, learning and skills development (Yadav and Goyal, 2015; Hazarika, 2016), which are needed for entrepreneurial development (Taghibeygi *et al.*, 2015) and innovation in a rural context. Thus, BUMDes can fill wide gaps and differences between rural and urban community incomes (Das, 2014) and have an impact on reducing the migration of people from rural to urban areas in search of work (Munyanyiwa and Mutsau, 2015). The growth of rural entrepreneurship will help reduce the problem of unemployment that in turn will minimize poverty and other problems related to increasing welfare (Deshwal, 2015; Kushalakshi and Raghurama, 2014).

Local economic development refers to the process by which local governments and community-based groups manage their existing resources and enter into new partnership arrangements with the private sector, or with one another, to create new jobs and to stimulate economic activity in the region (Purbasari *et al.*, 2019). Trousdale (2003) assumes that local economic development is a participatory process, in which local people from all sectors work together to stimulate local commercial activities, resulting in a resilient and sustainable economy. According to Sudaryana (2016), BUMDes provide the opportunity to develop various types of businesses that include:

- services;
- distribution of nine basic commodities;
- trade in agricultural products; and
- small and household industries.

Thus, the performance of BUMDes can encourage the development of rural entrepreneurship by increasing the quality of rural resources. The performance of BUMDes development is not only based on the aspect of economic growth targets but also creates conducive economic activities at the village level at least breaking the obstacles to

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developing rural businesses to achieve goals and encouraging increased community income to create community welfare (Sudaryana, 2016).

#### *2.4 Glance of BUMDes in Garut, Indonesia*

Based on data from the [Central Statistics Agency \(2018\)](#), there are 75,436 village-level administrative areas in Indonesia, and as many as 64% of villages have established BUMDes. The Number of BUMDes has increased rapidly every year. In 2014, the Number of BUMDes in Indonesia was 1,022 BUMDes, and in 2018 it was noted that 45,549 BUMDes had been established. There are 1,074,754 workers absorbed in the implementation of BUMDes. In addition, BUMDes' annual turnover reaches IDR 1.16 trillion, with a net profit of IDR 121 billion/year ([desapedia.id, 2019](#)). However, in its development, Jokowi as President of the Republic of Indonesia said that there were 2,188 BUMDes abandoned and 1,670 BUMDes running but not yet optimally contributing to driving the village economy ([Ihsanuddin, 2019](#)).

Garut is one of the regencies in West Java, Indonesia that has a variety of local potential. Garut has 42 subdistrict administrative regions consisting of 421 villages. However, based on data from the Office of Community and Village Empowerment of Garut Regency, there are only 150 BUMDes included in the active category that have been operating in accordance with statutory regulations through asset management and village potential activities and are not only oriented toward institutional profits ([DPMD, 2019](#)). Meanwhile, the remaining 204 BUMDes operate a variety of more profit-oriented businesses and 67 BUMDes are included in the inactive category. The profile indicates that BUMDes in Garut Regency are not ideal.

Garut Regency has a natural beauty and a variety of local potential in each village. This is the power to advance the village economy by exploring potential. BUMDes are one of the institutions that can play a role in managing and exploiting this potential to improve the village economy by encouraging independent rural entrepreneurship. Thus, this study focuses on several BUMDes in the Garut area that are BUMDes pilot projects in Indonesia nationally.

### **3. Research methodology**

The research questions in this study require an elaboration of a comprehensive view of the BUMDes program in encouraging rural entrepreneurship. Qualitative research is considered appropriate in exploratory studies to guide our research – including sample selection, data collection and analysis – because it will facilitate a complete description of representative cases and pattern detection. In addition, the qualitative design provides an opportunity to interact directly with research subjects, thereby avoiding bias when in the interview process ([Dana and Dana, 2005](#); [Dana and Dumez, 2015](#)).

#### *3.1 Research design*

This study uses a qualitative approach. The choice of a qualitative research model is highly dependent on the point of view used by the researcher and the purpose of the study ([Creswell, 2007](#)). This research uses a case study approach, in which the researcher explores in depth a program, event, activity, process and individual ([Creswell and Creswell, 2017](#)). According to [Rihoux and Ragin \(2008\)](#), case selection is based on explicit conceptual criteria to determine the area of homogeneity in which cases become comparable. However, the diversity of each selected case can find a broad spectrum of factors that underlie the functions and critical variables of case studies that have the same characteristics. Several case studies are examined to explore the phenomenon of BUMDes as a government program

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that encourages rural entrepreneurship in Indonesia. BUMDes were formed to strengthen the economy of rural communities but many BUMDes experienced various obstacles so they did not function properly. This study tries to investigate the role of BUMDes in encouraging rural entrepreneurship and exploring the potential of rural communities. In addition, this study also explores challenges in the BUMDes program in Garut Regency.

### *3.2 Sample*

This research is focused on five BUMDes in Garut regency, West Java, Indonesia. The main data sources in this qualitative study are words and actions (Silverman, 2019). Therefore, the main instrument in this study is that researchers directly conduct interviews that are expected to analyze qualitative data obtained from informants. The data source in this study was the result of interviews with five BUMDes heads. Five BUMDes were selected to participate as samples. The sample unit (BUMDes) was chosen based on the success and complexity of the problem in each rural area. They are BUMDes who have implemented rural entrepreneurship; developed BUMDes' products based on the potential of their respective regions and successfully marketed their BUMDes' products. From that point of view, we see that five BUMDes are suitable samples to represent our study. This study used a purposive sampling technique to select research informants. Informants were chosen based on considerations that focus on specific objectives (Arikunto, 2006), so we made several criteria for informants involved in this study. Informants were key actors who have a role in the success of the BUMDes program; they were the heads of BUMDes, assuming they understand the BUMDes management process and have the authority to lead BUMDes business operations. All informants responded to the questions well and understood the problems that occurred in BUMDes management. Table 1 shows the profile of the informants in this study.

### *3.3 Data collection*

This research is based on social context; therefore, data were collected from field observations and in-depth interviews with BUMDes' managers. Semi-structured interviews were conducted face-to-face with each informant. There were a total of five informants who participated in this study. The duration of the interview is around 1–2 h for each informant. Interviews were conducted in Indonesian. Based on permission from the informant, we use notes and recording devices to document the results of the interview. The results of the interview are then transcribed and verified by researchers. Information from these informants allows us to re-examine data and improve consistency and reliability. In addition, to ensure data validity/data credibility, this research uses the triangulation of sources and techniques. Source triangulation is done by comparing information from one respondent with another respondent using the same data collection techniques. Meanwhile, technical triangulation is done by comparing data using several techniques, such as observation, in-depth interviews and documentation.

### *3.4 Data analysis*

Data analysis was carried out to provide a better understanding of each case study by describing the findings of the data collected. This study adopts an inductive approach to categories at the first level, with themes at the second level and related theoretical dimensions at the third level. This allows us to identify themes and patterns that emerge in each case (Gioia *et al.*, 2013). Excerpts from interviews are used as further evidence (Wolcott, 2008). Triangulation is also used to validate data linkages from field research (Saunders and Lewis, 2012). Finally, the interpretation of the data is illustrated in the model implications of the role of BUMDes in encouraging rural entrepreneurship.

No.	Code	Gender	Position of informant	BUMDes description
1	BM1	F	Head of BUMDes Lumbung Pangan	Focusing on two business units: general trading and services. BUMDes Lumbung Pangan is located in the village of Citangtu that has the potential to produce chips, which is called opak elod. Another business unit is waste management by establishing a Waste Bank Mekar Motekar BUMDes is located in Selawi District that has the natural potential of bamboo. The business unit focuses on encouraging bamboo entrepreneurs to produce laminated and construction products. In addition, other products produced include household appliances, crafts and accessories.
2	BM2	M	Head of BUMDes Mekar Motekar	Marketing coverage is the area of West Java. Focusing on IT development includes software, hardware and networking. In addition, it also provides web design services for village governments. The marketing scope has reached 27 villages in West Java
3	BM3	M	Head of BUMDes Kondang Mandiri	BUMDes Waluya is located in the village of Depok Garut, West Java. Focusing on business units which include cloth or screen printing, skewers, village market management and buying and selling of grain
4	BM4	M	Head of BUMDes Waluya	Focusing on farming and livestock business units that include sweet potatoes, onions, cattle farms, processing of cow's milk products (caramel candy, crackers and snacks)
5	BM5	M	Head of BUMDes Sukatani and Head of BUMDes Association, Garut Regency.	

**Table 1.**  
Informant profiles

## 4. Findings

### 4.1 Implementation of BUMDes in Garut, West Java, Indonesia

BUMDes are the government's effort to encourage the productivity of rural communities in fostering independence, one of which is entrepreneurship. Based on Village Law Number 6 of 2014, the establishment of BUMDes aims to explore and optimize the potential of village entrepreneurs. Based on the results of interviews with BUMDes' managers, the selection of BUMDes management is based on the results of village deliberations, as revealed by all informants in this study.

The BUMDes were formed in 2017, beginning with a village meeting attended by several figures and it was agreed that the BUMDes management elected by five people consisted of the chairman, treasurer, secretary and coordinator for two business units (BM1).

BUMDes administrators are chosen based on the results of deliberations, the people involved or made administrators based on their abilities and motivation. The election also involved BPD, LPM and elements of the community (BM2).

Establishment of BUMDes refers to Law No. 4 of 2005; the formation of BUMDes began with deliberations that were legalized based on the decree of the village head (BM3).

[...] Participants in the deliberations included the village head, BPD, LPM, community leaders, youth leaders, business people and the community who participated in making agreements including the purpose of establishing the BUMDes, the name of the BUMDes, the composition of the management and the supervisory board (BM4).

Note: BPD (village's consultative agency), LPM (community empowerment institute)

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Based on the results of interviews shows that the formation of BUMDes in accordance with regulations established by the government that prioritizes consensus to determine the objectives and targets for the formation of BUMDes. In addition, BM4 added that *BUMDes management is carried out based on the deliberation of the work of all levels of management regarding the assessment of business types that prioritize impacts on the village community and can directly improve the economy of the village community.*

Meanwhile, BM5 revealed that the formation of BUMDes consisted of several village deliberations, the first of which was a consultation to seek information from the public about the urgency of establishing BUMDes, the next was deliberation on the formulation of statutes, bylaws and programs to be carried out, and the next deliberation was preparation for making village regulations, the next step is to determine the management. The existence of BUMDes has been socialized to the village community, this was revealed by BM4, it is estimated that around 65% of Depok Village people already know the existence of BUMDes Waluya because some community activities are carried out involving BUMDes Waluya.

#### 4.2 Challenges of BUMDes implementation

The establishment of BUMDes faces various challenges in its implementation; this causes not all BUMDes in Indonesia to run well, some even not. This was revealed by the informants in this study.

Most BUMDes are formed not in accordance with government policy, only as a complement to village institutions, not properly guided. The village government might not understand [...] about BUMDes. [...] BUMDes were formed only to complete the administration of village institutions, so that it did not work as it should (BM1).

Meanwhile, BM2 revealed that challenges in the implementation of BUMDes include the mindset of people who are still traditional, not dynamic and less innovative, causing a lack of human resource qualifications in managing BUMDes.

The challenge we experienced was the lack of human resources, the community still had a standardized mind, more inclined to traditional natural culture (BM2).

Another challenge is collaboration and support from the village government related to the implementation of BUMDes. BM5 revealed that:

Synergy between the BUMDes and the village government is needed. The village government has a lack understanding of BUMDes, still adopting an old pattern that is not progressive with rules (BM5).

Village government support is not significant, there is no supervisory agency, and there is no monitoring evaluation from the village government (BM5).

Meanwhile, BM4 revealed that business actors who are members of BUMDes experienced obstacles, *lack of business capital, access and marketing coverage, and lack of management.* Meanwhile, BM2 stated that *the process of knowledge transfer from BUMDes is not optimal for business actors, for example socialization and training.*

#### 4.3 BUMDes encouraging the development of rural entrepreneurship

In this section, the findings will be presented by highlighting the role of BUMDes in encouraging rural entrepreneurship by analyzing prominent expressions from interviews. [Figure 1](#) provides an overview of the findings. All concepts and themes that emerge from the data are given in the figure below.



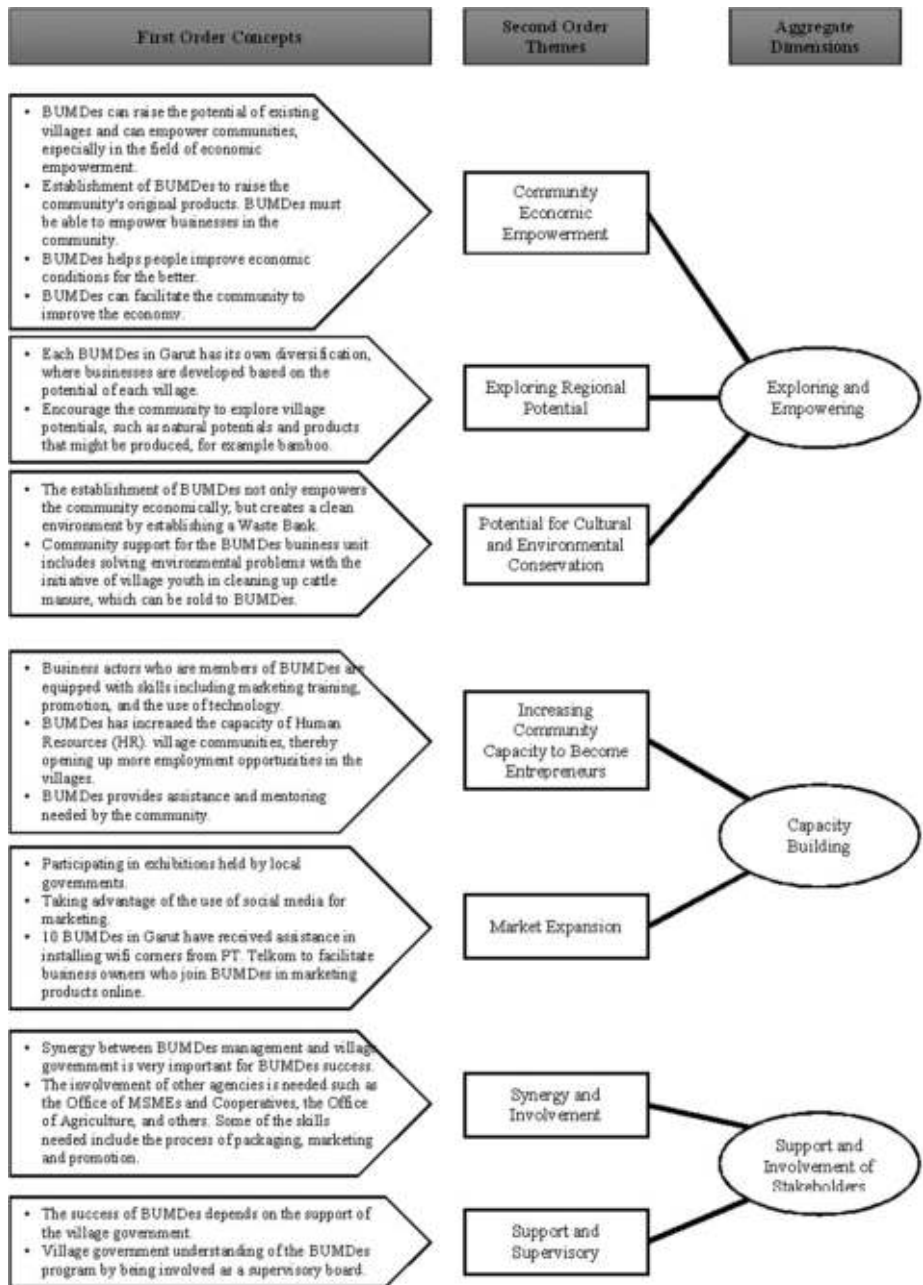


Figure 1. Model of data structure

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*4.3.1 Exploring and empowering.* Based on the results of interviews, it is found that BUMDes proved capable of empowering the community economically by encouraging businesses in the local village community. All informants agreed that the presence of BUMDes can improve the economy of rural communities. As expressed by all informants that BUMDes can facilitate rural youth to engage in business activities, thereby reducing the desire of rural youth to look for work outside the city, as revealed by BM5.

Village youth are more interested in finding work outside the city than looking for business opportunities in their village. BUMDes seek to open employment opportunities by involving young people in BUMDes activities, so that the youth in this village are able to get income (BM5).

Each village in Garut has different characteristics; this diversification is a form of cultural diversity and the potential of an area. In addition, BM3 revealed that economic empowerment was carried out by exploring the potential of each village. The businesses developed are usually home industries that can involve the community, as BM2 revealed that the potential of Selawi District is a bamboo tree so that it becomes an opportunity for the community to use bamboo as a handicraft product. This bamboo processing activity produces the types of crafts that are characteristic of the village area. In addition, the BUMDes program also seeks to empower housewives in the region, as stated by several informants below.

Opak oled is snacks typical of our village, who process it on average, are housewives, so they get additional income (BM1).

Our village is a sweet potato producer, housewives here are empowered by making sweet potato snacks, so they can be sold and provide additional income for housewives here. BUMDes helps to sell these products (BM5).

In addition, the process of exploration and empowerment is also carried out by BUMDes as an effort to encourage rural entrepreneurship by paying attention to environmental aspects. This is a unique way of encouraging and fostering the entrepreneurial spirit of rural youth who care about the environment and benefit from the process. Some informants revealed as follows:

The community can save their rubbish in the Waste Bank which can be exchanged for money; some of the young people in the village here use this rubbish to be used as handicrafts that have added value and selling points (BM1).

[. . .] many people in our village have cow pens, the youths in our village took the initiative to offer assistance to clean the pens, and the cow dung that they had collected turned into fertilizer, the results of which they sold through BUMDes (BM5).

*4.3.2 Capacity building.* The next dimension is capacity building. The BUMDes program encourages rural communities to have the ability to do business as revealed by several informants below.

Businesses under the BUMDes unit are provided with training and entrepreneurial assistance, including training on how to make attractive packaging and using social media to market products (BM2, BM4).

The business unit at BUMDes Kondang Mandiri focuses on IT Development. We try to provide training and skills for the young people here to increase their knowledge in the IT field. Young people can use their abilities to become technicians in collaboration with BUMDes. They do not need to look far to work in the city, because there are many job opportunities that they can take advantage of here (BM3).

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Based on the results of the interview it can be concluded that the BUMDes program not only facilitates rural communities to improve the economy but provides knowledge and skills by conducting training and mentoring. Another capacity building facilitated by BUMDes is market expansion. Several informants revealed that they facilitated business owners to attend business exhibitions held by local governments. In addition, assistance from a state-owned company with the installation of free wifi provides easy access for businesses to market their business via online, so that the scope of business is not limited to the Garut area. BUMDes also acts as an intermediary in marketing community products.

*4.3.3 Support and involvement of all stakeholders.* The third dimension is the support and involvement of all stakeholders. Support from the village government influences the success of BUMDes, although this is a challenge for BUMDes managers because there are still village governments that do not focus on the BUMDes function. The village government can play a role as a supervisory board in the implementation of BUMDes, ensuring that BUMDes have implemented government programs by empowering the community economically to explore the potential of each region.

To encourage the creation of village entrepreneurs, BUMDes cooperate with various parties, as expressed by several respondents as follows:

We get training and mentoring from the university. They held community service, some of which included training materials on how to use social media as a marketing and promotional tool (BM4).

We join associations, so we regularly get entrepreneurial training, such as simple bookkeeping. In addition, by becoming a member of the association, we also gained a lot of knowledge by attending workshops and seminars (BM2).

In addition, BM5 also expressed his hope that the cooperative and MSME services could help BUMDes in increasing capacity because, basically, the establishment of BUMDes is to encourage community businesses to become the SME sector. Thus, business actors who are members of BUMDes must be equipped with adequate skills.

## 5. Discussions

Indonesia is a developing country that seeks to increase local economic growth. According to [Nwankwo and Okeke \(2017\)](#), rural areas play a role in the development of a country. BUMDes are one of the Indonesian Government's strategies in increasing local economic growth to encourage the creation of rural entrepreneurship. Based on the findings of this study indicate that the process of establishing BUMDes has followed government procedures through the results of village deliberations ([Rodiyah, 2019](#)) by involving all elements of the community and village government. The human resources that manage BUMDes are selected based on their qualifications. BUMDes are a separate organization from the village government with a separate organizational structure. According to [Amri \(2019\)](#), coordination between BUMDes and the village government is needed for the success of BUMDes. Although, based on the results of the study it was found that village government support was still insignificant in supporting BUMDes activities. This finding also supports [Solekhan \(2014\)](#) that the role of the community is absolutely necessary for planning, implementation, management and supervision, so that BUMDes can run effectively and sustainably.

Aggregate dimensions based on the role of BUMDes in encouraging rural entrepreneurship show three main dimensions including exploration and empowerment, capacity building and support and involvement of all stakeholders. The results of this study are supported by the findings of [Dhewanto et al. \(2020\)](#), which proposes the collaborative

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engagement of actors to develop rural areas. In addition, [Chatterjee \*et al.\* \(2017\)](#) also argued that the growth of entrepreneurship in rural areas is influenced by human quality, financial and physical capital. Thus, the findings of this study indicate that the quality of human resources is crucial in exploiting the potential of the region, which is the physical capital in improving the economy.

The exploration and empowerment dimension shows that BUMDes are an Indonesian Government program that effectively aims to explore and optimize the potential of village entrepreneurs. This is in accordance with the Village Law Number 6 of 2014. BUMDes in Garut have implemented several community economic empowerment programs by encouraging business actors to explore the local potential of their villages to provide opportunities for the surrounding community to improve their economy without leaving their village. [Amri \(2019\)](#) and [Suastika \(2017\)](#) revealed that BUMDes are an effort to strengthen the rural economy and are formed based on the needs and potential of the village. Thus, local economic development can grow through the creation of entrepreneurship ([Ramadani \*et al.\*, 2014, 2013](#)).

The potential areas in Garut are very diverse so that people must increase their creativity in exploiting this potential by providing added value in their business. BUMDes, which focuses on carrying out their roles in accordance with the objectives of their establishment, have proven successful in improving the economy of the people in the region by facilitating media marketing and training in improving business soft skills. Several BUMDes in this study have successfully explored the potential of their area, the community has been able to see opportunities by using the wealth of their respective regions, for example, Citangtu Village with the potential for bamboo plants that can be used for handicrafts, and Selawi Village, with agriculture potential, namely, potato plants that can be processed into snacks. These products can be characteristic of their respective regions. According to [Williams \*et al.\* \(2004\)](#), social, environment, cultural and historical elements become beneficial potential in rural areas and become a unique resource in encouraging entrepreneurship in rural areas ([Müller, 2013](#); [Stathopoulou \*et al.\*, 2004](#)). The implementation of entrepreneurial activities in the village contributes to economic growth in the village ([Athiyaman \*et al.\*, 2007](#)). Entrepreneurship is a way to improve economic conditions in rural areas ([Chatterjee \*et al.\*, 2017](#)).

The exploration process was also carried out as an effort to explore the region's potential and preserve the local culture and environment. Exploration of the potential of the area also raises environmental awareness, where the community gets economic benefits, whereas maintaining its sustainability. BUMDes facilitate environment-based community businesses such as waste banks, in addition to an economic mission; they also carry out a social and environmental mission. Other business opportunities also arise from this environment-based business, such as the Sukatani BUMDes where the majority of people have a livelihood of raising livestock. The BUMDes manager sees this as a business opportunity by empowering the youth in the village to clean cattle sheds whose livestock manure can be sold to BUMDes for further processing into fertilizer. Thus, young people not only generate income for themselves but also contribute to environmental cleanliness. According to [Kania \*et al.\* \(2019\)](#) that the existence of BUMDes is not only an effort to implement government programs but also can be a solution to the economic problems of a village.

The capacity-building dimension shows that BUMDes facilitate business actors in improving their skills and broadening their insights through training and mentoring activities, thereby creating added value for business actors. In building the capacity of rural communities, BUMDes in Garut also emphasizes the importance of the ability of business

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actors by facilitating and providing training related to marketing and promotion and technology. The existence of BUMDes does not only pursue economic potential but also increases the capacity of business actors. This has an impact on opening up new job opportunities, such as that carried out by BUMDes Kondang Mandiri that provides training on the use of technology to the community, especially youth, so that they can independently use their abilities to open business opportunities and collaborate with BUMDes. BUMDes also provide assistance and mentoring for the community to actively participate in BUMDes' activities, as an effort to increase community capacity in identifying business opportunities in their villages. [Azzahra and Dhewanto \(2015\)](#) suggested training materials for entrepreneurship development programs in rural areas need to foster entrepreneurial motivation and basic entrepreneurship knowledge.

BUMDes also facilitate business actors to expand market coverage, including by participating in exhibition activities held by local governments and introducing the use of social media as a means of marketing products. According to [Wortman \(1990\)](#), rural entrepreneurship can introduce products and create markets by using new technologies in rural areas. This was demonstrated by the participation of one of the state-owned enterprises that contributed to providing free wifi to facilitate village entrepreneurs in improving online marketing through social media. Internet access makes it easy for entrepreneurs in marketing their products. The capacity building of business actors also includes knowledge of making business feasibility studies that contain business models that are appropriate to the type of business ([Tricahyono et al., 2018](#)).

Meanwhile, the dimension of support and involvement of all stakeholders shows that the success of BUMDes is based on the synergy of all stakeholders. The success of BUMDes is highly dependent on the active role and involvement of the village government, so that synergy and cooperation are needed by placing the village government as a supervisory board for the implementation of the BUMDes. This is to ensure that the implementation of BUMDes complies with government regulations and the Statutes and Bylaws that have been determined during the village deliberation process. In accordance with Amri's findings (2019), professional BUMDes need to coordinate with local governments in managing their businesses. [Hoseinzadeh et al. \(2017\)](#) suggest that governments should strengthen their role in entrepreneurship development. In addition, cooperation from other government institutions as an effort to encourage local economic growth is needed, by collaborating with the cooperative and MSMEs departments, the agriculture office and others related to the exploration of village potential.

## **6. Conclusion and recommendation**

This paper aims to generate new insights into the role of BUMDes in encouraging rural entrepreneurship in Indonesia. BUMDes are an Indonesian Government program that seeks to empower rural communities and explore the regional potential. This study takes several case studies of rural areas that implement the BUMDes program. The potential of the local area is often overlooked, even though it can increase local economic growth and encourage the creation of new businesses. Based on the findings of this study, we are of the opinion and point out that the BUMDes program is an effective government program in encouraging rural entrepreneurship. In addition, the establishment of BUMDes is also in accordance with government regulations despite many challenges in its implementation. BUMDes in Garut have taken a new approach in providing stimulus to rural communities for entrepreneurship that includes exploration and empowerment, capacity building of human resources (business community) and the support and involvement of all stakeholders. By using the wealth and potential of the village, BUMDes in Garut seek to empower rural communities to

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improve their welfare by opening business opportunities. In addition, the existence of BUMDes in Garut can change the mindset of rural communities who have a tendency to look for work in cities by increasing economic development and education with entrepreneurial activities.

Each village in this study has unique potential. By investigating the role of BUMDes, this research contributes to the literature by providing dimensions of establishing BUMDes as a government program in encouraging rural entrepreneurship. In addition, this study allows us to make important contributions to research and policy that are interested in how value can be created through entrepreneurship in a rural context (Bosworth and Atterton, 2012; Moyes *et al.*, 2015). By understanding the dimensions of the role of BUMDes, the results of this study are expected to be beneficial to BUMDes governments and practitioners in formulating policies and strategies related to the development of BUMDes programs in Indonesia, as well as providing a road map for further research. This research has certain limitations. The nature of case studies that cannot be generalized enables quantitative research to be carried out to produce more comprehensive results. Future studies can be continued by researching the relationships between the dimensions found in this study. In addition, concentrating on certain regions will increase comparability and validity, so further studies from other regions in Indonesia are needed to be able to complete this research. Studies in other developing countries can be done by replicating this research in determining government programs to improve the local economy.

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### Corresponding author

Ikeu Kania can be contacted at: [ikeukania@fisip.uniga.ac.id](mailto:ikeukania@fisip.uniga.ac.id)

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