

## What Makes Village Economic Development Successful? Evidence in Two Villages, Malang Regency Indonesia

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**Abstract:** *Studies of villages in several countries show an increasing trend regarding the success of village economic development. However, developing the rural economy in a developing country like Indonesia needs more insight into its investigations. This article discusses the success factors for economic development at the village level, especially in Indonesia's new era of village development. This study used a qualitative method by interviewing several informants, observing, and collecting secondary data in two villages, Sanankerto and Pujon Kidul, Malang Regency. We found that village transformation in recent years has strengthened villages independence in managing their economies and contributing to the welfare of village communities. The existence of Village Economic Enterprise (BUMDes), in this case, acts as the main driving force that plays a role in the development of the village economy. Some factors contributed to the transformation of the village and the success of the village's economic development, namely strong entrepreneurial leadership, institutional reform, inclusiveness, and community participation. This study has significantly contributed to improving economic governance at the village level.*

**Keywords:** *Village Economy; Leadership; Institutional Reform; Participation; Development*

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## **Introduction**

The notion of village development is always associated with welfare. Scholars have been studying this topic for a long time, believing that development will address the acute problems of rural communities. However, many villages are still trapped by big problems such as poverty and underdevelopment (Chambers, 1987b; Haider et al., 2018). Several contributing factors are the lack of community involvement and decisive intervention from the government (Antlöv & Yuwono, 2002), rampant corruption (Lucas, 2016), governance problems, and weak leadership (Antlöv et al., 2016), which contribute to the failure of village development. These problems are found in both developed and developing countries. In fact, in some recent studies, it has been stated that in developed countries, there is a tendency for rural decline; in contrast, in developing countries such as Asia and Africa, the decline of villages occurs more quickly (Farrell & Westlund, 2018). However, several other studies show the positive contribution of development to the welfare of rural communities (Arifin et al., 2020; Li, Fan, et al., 2019; Phillipson et al., 2019a; Qin et al., 2020). Empirical studies regarding the success factors for village economic development are still limited.

Many factors explain the success of a village's economic development. For instance, Yurui Li et al. said that the success of village economic development is closely related to community and elite participation (Li, Fan, et al., 2019). Other studies said it is related to local capacity and political and economic strength (Bebbington et al., 2006), infrastructure availability (Qin et al., 2020), relations with the external environment (Li, Westlund, et al., 2019), and governance (Nurlinah et al., 2020). The other most common study concludes that democratic changes in

politics and the economy have been the most determining factors for village economic success (Antlov 2003 and 2016; Bebbington). Meanwhile, several other studies have concluded that the success of the village is closely related to the development of a new paradigm of village development that has developed and offers a way out of problems in village development (Ashley & Maxwell, 2001; Haider et al., 2018; Murdoch, 2000; Olfert & Partridge, 2010). All these studies confirm that no single factor can explain the success of village economic development. In addition, existing studies only provide a macroevaluation of village economic development trends. Thus, empirical studies explaining why villages successfully promote their economic development still need to be made available.

Our study is based on Indonesia's recent village development phenomenon under President Joko Widodo. During his reign, development priorities were in rural areas. In other words, economic and social development are currently the focus of the Indonesian government in rural areas (Arifin et al., 2020). Village-Owned Enterprises (BUMDes) are the driving force, so villages are encouraged to improve economic development to create welfare for their people. BPS 2022 data shows that the number of rural poor has decreased annually from 14.21% in 2015 to 12.53% in 2022. This downward trend is in line with the development success at the village level in recent years.

This article explicitly explains village success factors in economic development in two villages, Sanankerto and Pujon Kidul. In Malang Regency, village development shows a significant trend, especially in economic development. Sanankerto Village and Pujon Kidul Village, located in Malang Regency, are two

economically successful villages that have not only increased income for the village government and solved village social problems but have also increased the welfare of the village community. The two villages have become outstanding villages in the field of economic development. The findings from this study reveal that three other essential aspects explain village economic development: strong leadership, institutional reform, and inclusiveness and community participation. In these findings, we emphasize that village economic development positively implicates village institutional transformation, where villages develop to become more independent, innovative, and democratic. The leading elite entrepreneur strongly determined successful economic development and encouraged some innovations at the village level. At the same time, these village institutional reforms have also encouraged community involvement in various village economic activities. In collecting data, this study uses a case study by interviewing some informants, accompanied by observation and secondary data.

After the introduction in this section, the article is organized into some discussion sections. The first part is an introduction that provides the big picture of the village's economic development, while the second part describes village governance and economic development in Indonesia. The third part describes the economic development in Sanankerto village and Pujon Kidul village in the new era of village development. The fourth section explains leadership entrepreneurship at the village level, which is one of the essential factors for a village's economic development. The fifth section describes the transformational village changes that affect economic reforms at the village level. The sixth section explains

inclusiveness and community participation in village economic development. In the last section, we summarize all the findings in a conclusion section.

### **Village Development and Local Economy**

The debate about the village's development and economic welfare has been a concern for many researchers for a long time. In general, development is always associated with society's prosperity or economic well-being. In other words, economic development is one indicator of a development's success. In the 1950s, economic growth-oriented development took place in various parts of the world, which also implicated development at the village level (Rostov, 1959). In the village context, development issues have been studied since the 1950s, where rural issues lead to development debates (Jerve, 2001). In this era, development was associated with economic growth. In contrast, in the 1970s and 1980s, development strongly emphasized rural areas, and since the 1990s, development has been directed at solving poverty problems.

However, according to Cornwall, development has two good sides: as a keyword (*buzzword*) and as a confusing word (*fuzzword*) (Cornwall, 2007). In this case, development does not always refer to welfare but creates dependency and poverty, on the other hand. In developing countries, many villages face development problems such as poverty, inequality, and underdevelopment.

Development problems can be seen from the village's high poverty level (Antlöv & Yuwono, 2002; Chambers, 1987a). According to Chambers, the bias regarding village development is the reason for the failure of researchers to capture the main problems of village development. In addition, in the 21st

century, changes in technology, globalization, and localization have also been implicated in the village's economic decline (Johnson, 2001). In other words, the challenges of village development are currently faced with various changes that demand the ability of villages to adapt.

In developed countries like America, economic decline is caused by the loss of jobs, declining incomes in rural communities, and bias from village development agendas. Villages experience high poverty, inequality, and a decline in food security (Rodríguez-Pose & Hardy, 2015). Developing countries present different challenges, often posing weak local governments and significant risks of clientelism and corruption (Rodríguez-Pose & Hardy, 2015). Even though the trend of village development shows a modern direction of development, poverty, and inequality are still problems in some villages. In Africa, the trend of village development still leaves severe poverty problems compared to other countries. The agricultural sector is still the main hope for poverty alleviation. In Latin America, villages are experiencing a process of urbanization where most of the villages have been trapped in poverty; however, in some coastal areas, they have experienced development due to diversification into manufacturing (Rodríguez-Pose & Hardy, 2015). In the past, rural development relied on the agricultural sector to alleviate poverty. Still, in recent developments, villages have shifted to the tourism and manufacturing sectors and small and medium industries. The change implies the creation of economic diversification. In this context, villages are racing to encourage the formation of business units to support village development and overcome poverty problems.

In the latest developments, many villages show economic progress (Arifin et

al., 2020; Li, Fan, et al., 2019; OECD, 2016; Phillipson et al., 2019b; Qin et al., 2020). In Asia, such as Indonesia, some studies have concluded that the presence of village economic institutions has triggered economic development at the local level. Many villages encourage the presence of village economic institutions as the primary agents for driving the economy and empowering the community. In South Korea, village development is driven by support from the central government through village economic movements. The central government campaigns for and encourages the presence of various programs that stimulate village economic development.

In China, villages are well developed because they are deeply rooted in people's lives, so villages have become the central pillar of economic development. In Europe, such as England, village economic development is better than urban economic development (Phillipson et al., 2019b). According to Phillipson et al., in 2016, more than half a million registered village businesses employed 3.5 million people and contributed at least \$246 billion in gross national value. The WHO report notes that village economic development contributes to the national economy in Latin America and Caribbean countries (Ferranti et al., 2005). Differences in economic development between villages in developed countries are largely determined by *the interplay* between local forces and global forces, which are the dynamics of territory, population dynamics, and the process of globalization (Terluin, 2003).

This article builds on many insights from previous literature and focuses on village economic development in Indonesia, a developing country with thousands of villages spread across many regions. The Indonesian villages were stuck

in poverty and underdevelopment for a long time in the previous era. However, in recent developments, the village has shown significant economic development, and the level of welfare in the community has increased. Our article focuses on the latest developments in villages that have escaped the old trap of poverty and underdevelopment. Although there are some studies on village success, these studies still need to be more comprehensive about the implications of village development. In the next section, we specifically explain village economic development in Indonesia.

### **Village Governance and Economic Development in Indonesia**

Village economic studies in Indonesia have been carried out since the Dutch colonial era and before World War I (Koentjaraningrat, 2007, pp. 21–22). The attention of scientists regarding the village economy focuses on the poverty conditions of the village community. The Dutch economist Julius Herman Boeke conducted the first study on the village economy during the colonial period. According to Boeke, the European economic model could not be applied to the village economic model in Indonesia, which was called economic dualism. According to Sadli, the economic dualism meant by Boeke is an economic interaction that exists in two colliding systems (Sadli, 1971). In other words, every economic system has its own character.

In addition, the economic character of the Indonesian people during the Dutch colonial period was influenced by six factors, namely, lack of mobility in factors of production and between agrarian societies, gaps between urban and rural communities, cash and barter economies; problems of rural economic autonomy and central government intervention, lack of

advanced production, and economic differences between producers and consumers (Books, 1953). The economic activity of the village community was directed toward colonial interests in carrying out colonialism. The village's agricultural sector and trade support most economic activity. After the First World War, village economic development was under population pressure, especially in villages in Java, which implicated village poverty problems (White, 1976). In the Japanese colonial era, the economic development of the villages was not much different from the previous era, where the control of the colonial rulers was robust, and the village economy was directed to support war interests (Kurosawa, 2015).

After Indonesia's independence in 1945, village economic development entered a new phase. During the Old Order Regime, the social and cultural obstacles to Indonesia's economic development were low labor productivity, the parasitic function of local entrepreneurs, and high central government control over intellectual and developmental skills (Van der Kroef, 1956). As a result, the village's economic activity was paralyzed. In the 1950s and 1960s, academics and policymakers were pessimistic about the rural sector because industrialization was supported while the agricultural sector was neglected, and sentiments were anti-colonial or foreign (Kawagoe, 2004). During the New Order era, village development supported national economic development.

However, the development model in Indonesia and Southeast Asia at the beginning of the transition to the New Order considered the village as something traditional, isolated, and underdeveloped, which served the penetration of various collaborations and agribusiness (Hinkson, 1975). During Suharto's reign, village

economic resources were absorbed to benefit the national economy without regard to the level of welfare of the village community. Even though the development of the national economy has improved, rural communities are still in poverty (Antlöv & Yuwono, 2002). The central government directly controls the position of the village. As a result, the village only becomes the object of development agendas from the supra-village government (central government and local government).

In addition, village development is very dependent on resources from the supra-village government, and the village head is responsible to the district head (Bebbington et al., 2006, p. 1962). In this case, the village's role has little to do with the benefit of the community. However, the New Order's development model was a top-down development model in which development was controlled by the central government (Antlöv & Yuwono, 2002; Husken & White, 1989). Intervention in the village economy is very high. Community institutions are co-opted and corrupted so that their credibility is lost. The village's economic condition was stable when the economic crisis occurred at the end of the New Order regime. In other words, the village can adapt economically to an unstable economic situation. There is no doubt that the economic progress of Suharto's development program implicated rural development. However, the development strategy during the New Order era was to open the economy to foreign investment and capitalist development (Antlöv, 2010).

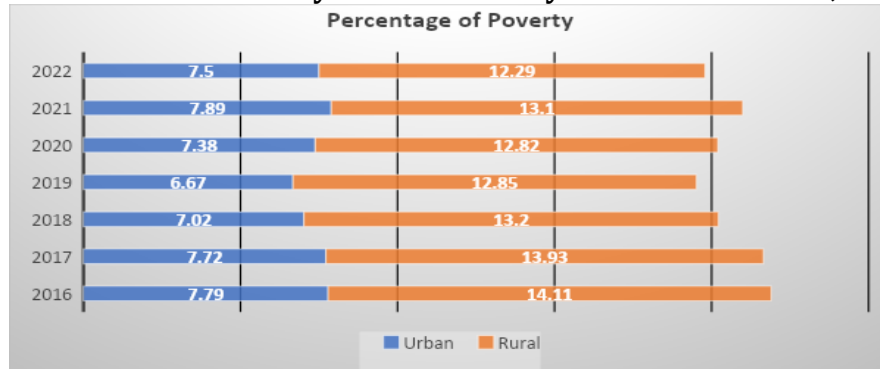
Afterward, village governance reforms began after the fall of the Suharto regime in 1998, in which villages were no longer subordinated to supra-villages and became more democratic. Through Law No. 22 of 1999 and Law No. 25 of 1999, village

development schemes were handed over to provinces and districts (Daly & Fane, 2002). According to Antlov, democratic changes at the beginning of the reformation have opened new opportunities to revise the relationship between state and society, replacing the centralized New Order regime (Antlöv, 2010). In 2014, the village underwent a significant transformation. Village economic governance has developed significantly through Law No. 6 of 2014 concerning villages. This regulation encourages political and economic reform, where village economic development is a priority on the national development agenda. Based on BPS data, the percentage of rural poverty has gradually decreased in the last five years. In addition, the economic dynamics at the village level are demonstrated by the formation of village-owned enterprises (BUMDes) as institutions that drive the village economy. Villages are encouraged to be more independent, both politically and economically. The main agenda is to improve the welfare of the village community.

A longitudinal study in several villages in 1996, 2021, and 2012 conducted by Antlov, Wetterberg, and Dharmawan concluded that associational life has strengthened and the village apparatus is increasingly responsive to the demands of the village community (Antlöv et al., 2016a). Village economic development is also determined by good governance. Good governance is essential for economic growth and the provision of public goods (Zhang et al., 2004, p. 4). Several studies have concluded that Law No. 6 of 2014 concerning Villages marks the transformation of village development, especially in economic development. This new regulation marked the village proclamation (Yustika, 2019), which allowed the village to be economically

independent. The status of village progress and independence has increased annually (Ministry of Health, 2020).

**Figure 1. The trend of Poverty in Indonesia by Urban-Rural Area, 2016-2022**



Source: Welfare Indicators 2022 (BPS, 2019, p. 151)

The Village Ministry claims that village funds have reduced poverty in rural areas (Ministry of Health, 2018). Poverty data from the Ministry of Villages shows that in 2015 there were 1.7 million workers who were contributed from village funds. In 2016 there were 3.9 million workers in the village, and in 2017 there were 5 million workers (M, 2017). In 2020 and 2021, the poverty percentage increased due to the Covid-19 pandemic, but in 2022, it decreased by 0.81 from the previous year. Although rural poverty has decreased, the decline has been slow. As shown above, the decline in village poverty is even slower than in cities.

**Economic Development in Sanankerto and Pujon Kidul Villages**

Sanankerto and Pujon Kidul are two advanced villages in terms of economy. These two villages are located in Malang Regency, East Java, where Sanankerto Village is in the southern part of Malang Regency and Pujon Kidul Village is in the northern part. Geographically, these two villages are in tourism areas and are blessed with fertile agricultural land, so many villagers work as farmers. The

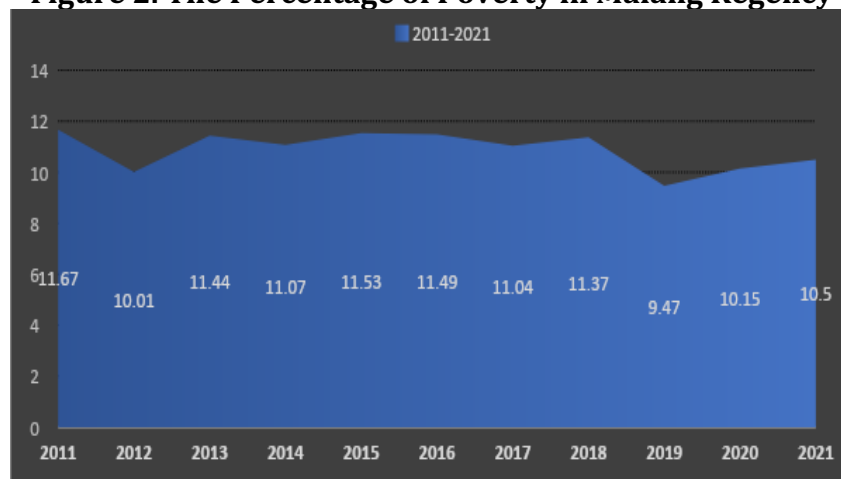
rich natural potential is utilized to open a business in the tourism sector. If previously agriculture was the leading sector for the two villages, the non-agricultural sector, such as tourism, is proliferating. It indicates the formation of economic diversification in which rural communities do not only rely on the agricultural sector. Through the development of the tourism sector, which village funds support, the village has encouraged various village economic business units. The unit provides job opportunities for rural communities, especially the unemployed, and has also increased village income (PAD). The two villages of Pujon Kidul and Sanankerto are developing the tourism sector with different business units.

In Malang Regency, 230 villages are developing quite well. Based on data from the Village Community Empowerment Service, the number of villages that change their status to become independent is increasing annually, as are developed and developing villages. Within the coverage area of East Java, most Malang Regency villages experienced significant development. Sanankerto and Pujon Kidul

are two pilot villages that have received many awards. These two villages became a pilot *project* of economic development where local businesses, through Village Owned Enterprises (BUMDes) significantly impacted the welfare of village communities. BUMDes is the leading actor driving the village economy, a village economic institution intended to independently encourage the economic welfare of village communities. Through BUMDes, the village government optimizes village potential for the welfare of the village community, and village

communities are encouraged to be actively involved in various village economic activities. Village economic development has reduced the poverty rate in Malang Regency. Figure 2 shows the decline in the percentage of poverty in the Malang district in the last ten years. In 2020–2021, the increased percentage was influenced by the COVID-19 pandemic, which implicated the restrictions and closures of village community economic businesses, including in Sanankerto and Pujon Kidul Villages.

**Figure 2. The Percentage of Poverty in Malang Regency**



Source: Poverty Profile in Malang Regency 2022(BPS, 2020, p. 2)

In addition, to support village economic development, the central government has allocated significant village funds that have increased annually. The village fund provides stimulation for various economic activities in the village. Likewise, by establishing Village-Owned Enterprises, the village government allocates village funds to utilize village potential and drive the village's economy. In 2014, Sanankerto village was categorized as underdeveloped (tertinggal); since 2018, it has been changed to developing (berkembang).

Since 2020, Sanankerto village has achieved advanced village (maju) status, while Pujon Kidul had a developing status in 2018; in 2019, the status was advanced; and in 2020, it has achieved independent (mandiri) status.

In Sanankerto village, village economic management is driven by BUMDesa Kerto Raharjo. BUM Desa has been established since 2017. Boon Pring Tourism is a tourism icon in this village. In the village of Pujon Kidul, village economic management is driven by BUMDesa Sumber Raharjo. This BUM Desa has been



established since 2017. Many BUMDes management is run by village youth groups and is based on the principle of cooperation. Pujon Kidul Village relies on

Café Sawah as its village tourism icon. The following is the village's economic income for the two villages.

**Table 1. Income of Village Economic Enterprise (BUMDes)**

No	Year	Sanankerto Income	Pujon Kidul Income
1.	2017	IDR 994,349,500	IDR 1,557,515,000
2.	2018	IDR 2,878,577,500	IDR 2,161,548,400
3.	2019	IDR 4,568,198,500	Rp 17,411,221,397 (turnover )
4.	2020	IDR 3,256,606,100	Rp 9,500,000,000 (turnover )
5.	2021	IDR 2,700,000,000	IDR 1,117,402,000
6.	2022	IDR 2,400,000,000 (August)	IDR 1,779,000,000

Source. compiled by the author from various sources

Several of these village economic business units have successfully provided community jobs. They are opening new jobs with an average wage of 1.5 million per month. In Pujon Kidul village, 130 local people are employed, while in Sanankerto village, 110 employees are involved in village business units. In 2016, the poverty rate in Pujon Kidul village reached 387 people and decreased to 257 people in 2017 (Victoria, 2019). We found that the successful management of the village economy in both Sanankerto and Pujon Kidul is largely determined by aspects of leadership, democratic changes in the economy, and village community activation. In the next sub-chapter, we discuss an overview of each aspect above.

**Strong Entrepreneurial Leadership**

One of the successes in advancing the village economy is largely determined by the leadership factor (Qin et al., 2020). In Pujon Kidul village and Sanankerto village, the leadership factor plays an essential role in encouraging the development of village business units driven through Village Owned Enterprises (BUMDes). The two key actors in the development of the BUMDes are the Village Head and the BUMDes director.

Their essential role in village economic development must be in line with the great authority given to villages through new regulations to develop their village's various potentials independently. In addition, the capacity and style of leadership practiced in the village are essential elements in driving the village economy. Their role can be seen in the successful development of BUMDes, which has won many awards for managing the village economy. Those implicate the welfare of village communities.

Both the villages of Pujon Kidul and Sanankerto were villages that were left behind at first. These villages have transformed from agricultural villages into tourist villages. The village's transformation has implied the village's progress and its people's welfare. Leadership in this context is a crucial element of the success of this transformation. As a tourism village, village leadership is more inclined towards an entrepreneurial style where the village head and Bumdes director have succeeded in recognizing the potential and economic opportunities in the village and developing them through BUMDes. This entrepreneurial leadership also encourages a variety of creativity through

community empowerment (Mehmood et al., 2021). Through BUMDes, the village has succeeded in developing various village businesses, encouraging the development of Small and Medium Enterprises, and empowering the community. In Pujon Kidul village, village business units have reached eight, while in Sanankerto village, there are seven village business units under the management of

BUMDes. These business units are still being developed today. According to Kania et al., BUMDes are proven to encourage rural entrepreneurship with exploration and empowerment dimensions, *capacity building*, and the support and involvement of all stakeholders (Kania et al., 2021). In Pujon Kidul and Sanankerto, this entrepreneurial leadership can be seen in the following activities

**Table.2 Village Entrepreneur Leadership Practices**

Activity Aspect	Village Sanankerto	Village Pujon Kidul
Village Business Unit	Encouraging the development of BUMDes business units such as Boon Pring, Swimming Pool, Reservoir, People's Market, and Bamboo Arboretum that have made Sanankerto a tourist spot for various types of bamboo.	Encouraging the development of BUMDes business units such as Clean Water, Cafés Sawah, Village Shops, Parking, Agriculture, TPST, and Concrete Production.
Community Engagement	Encouraging the community to get involved in village businesses by opening businesses at tourist sites, stalls, and homestay businesses.	Encouraging community involvement in opening businesses in tourist sites, homestay businesses, village MSMEs, agricultural businesses, etc
Resource Development	Encourage training and comparative studies in several villages for village officials and business workers.	Encourage training and comparative studies in several villages for village officials and business workers.
Cooperation	Establish cooperation with agencies, local government, universities, LIPI, private, foreign, and BUMN.	Establish cooperation with various agencies, local government, universities, BUMN, and the private sector.

In terms of tourism development, the leadership of village entrepreneurs can also be seen in tourism promotion activities for the public. The village government conducts branding and promotions regularly through various social media platforms. Apart from that, creativity can be seen in the availability of exciting tourist spots in the two villages, so that visitors are interested in coming and taking selfies. Various essential elements for developing village creativity were born

from experience and the quick response of tourism managers to attract many visitors. At this point, the village head and Bumdes director's role is instrumental in preparing, promoting, and developing tourism in their village.

Specifically, this entrepreneurial leadership factor must be distinct from the capacity and experience possessed by the leader. In the village of Pujon Kidul, Udi Hartako, as the village head, is a key figure in the success of the village's economic

development. Before becoming the village head, Udi had work experience in the hotel world. This experience in the hospitality world is used to develop the village's potential when he becomes the head of the village. Even though Udi has been the village head since 2011, the development of the village could be more significant. Village development began to experience a significant increase in line with changes in village institutions that gave considerable village powers and funds to villages to be independent. With this support, Udi seriously developed various village economic potentials.

For many village youths, Udi Hartako inspires village economic development. To understand the needs of the village community, Udi went directly to ask residents about the community's constraints and problems. As a village head, Udi can mobilize village resources and potential and recognize the problems faced by the community. Amin, a resident of Pujon Kidul Village, comments about Udi's figure as follows (Kick Andy Show, 2019).

*"Personally, Udi Hartako is a religious, creative, passionate, and total person. When it comes to the concept of a tourist village, some people sneer. Gradually, the Pujon Kidul people began to realize, began to open up, and it was proven that the potential in Pujon Kidul Village was good for the tourism sector."*

The hard work and success of the village at this time, in the end, made residents aware of the village's potential. In other words, Udi can explore the village's potential and convince residents of what he is doing. Udi also asked the community to think about village problems and how to solve them. In other words, the involvement of the village

community in thinking about village problems explains that village problems can only be solved together. Together with the Director of BUMDes, Ibadur Rohman, Udi, as the head of the village, has mapped out the maximum potential of the village to open economic opportunities. In addition, they build cooperation with various parties to develop the village's economic potential, whether from academia, the private sector, or the supra-village government, as shown in the table above.

Like the village of Sanankerto, Mohammad Subur, as the Head of the Village of Sanankerto, became a key figure in the village's success. Together with Syamsul Arifin as Director of Bumdes, they transformed the village from being left behind to being more developed and prosperous. One of their outstanding achievements is their ability to conserve potential water sources through bamboo forest conservation to become economically profitable tourist sites. The Boon Pring water source, which used to be only a source of water, was utilized by the local community and is now the main tourist attraction managed by BUMDes. BUMDes Sanankerto business units are also growing, and village communities are empowered in these various business units. In governance, Sanankerto village has even earned the award for good organizational governance in financial management and other activities such as community empowerment, increasing community welfare, and poverty alleviation. This achievement is inseparable from the leadership factor practiced by the Village Head and the Director of Bumdes as key actors driving the village economy. Both can read village potential, seize opportunities, and develop some village business units that contribute to the village's original income and community welfare.

In short, leadership practices in Sanankerto and Pujon Kidul have contributed to the village's economic development. The leadership practices of the two villages demonstrate entrepreneurial, responsive, or responsive village leadership, supported by groups of full-fledged villagers with initiatives with a deliberative tradition (dialogue and deliberation) that have strong roots. Although two figures run the leadership in the two villages, they complement each other: the village head and the BUMDes director. However, in the village of Pujon Kidul, the leadership entrepreneur is very much colored by the village head, and in Sanankerto Village, it is more colored by the Bumdes Director.

### **Institutional Reform: New Authority and Autonomy**

The issuance of Law No. 6 of 2014 concerning Villages became the turning point of village transformation on a large scale. The village became more autonomous and democratic. Village autonomy can be seen in the amount of authority possessed by the village at the local level. This authority includes governance, development, community empowerment, and community development. In contrast to the regional government decentralization model, village authority does not decentralize authority from supra-village. However, authority originates from the village itself, or subsidiarity, so village autonomy is different from the regional government. To support the authority possessed by the village, the central government allocates significant village funds for each village. Villages are required to be more independent in politics, administration, and the economy. According to Adelman et al. (1992), institutional changes have different implications for economic

growth patterns, structural changes in growth rates, and the diffusion of benefits from economic growth between country clusters.

Antlov et al.'s findings suggest that there is potential for the 2014 law on villages to increase government responsiveness through a combination of strong financial management systems. Moreover, new national institutional arrangements and a more empowered population can pressure village governments to work in the community's interests. However, several substantial risks and constraints remain (Antlöv et al., 2016b). In this case, village regulations provide ample space to regulate development planning based on the priority needs of village communities without being burdened by work programs from various government agencies, in the future referred to as 'village autonomy' (Aziz, 2016, p. 196). However, a study by Pattiro in 2017 explained that the latest village law could both open opportunities and hinder village development. Positively, these village regulations can encourage village reform, but on the other hand, they can hinder it because of administrative burdens on villages, such as village fund reports (Salim et al., 2017). Therefore, villages must build good governance with the support of qualified leadership to minimize village administrative problems.

In the economic aspect of the village, these institutional reforms have made it more capable of managing its various economic resources (Afala & Gustomy, 2021). Many studies confirm that institutional reforms implicate village economic development (Kraybill & Weber, 1995; Nee & Sijin, 1990). Berenschot et al. explain that village reforms that have taken place in the past five years have implicated village economic

diversification, giving rise to new village elites (Berenschot et al., 2021). In other words, village economic growth is expanding, and village communities are becoming economically independent. In this economic development, BUMDes plays an essential role as a milestone in reviving the village economy. BUMDes are expected to become the motor of the village economy, which villages can use to maximize village potential economically. Even though, in practice, the village regulation mandates that each village have a BUMDes, not all villages can develop BUMDes properly.

In the villages of Sanankerto and Pujon Kidul, the change in village institutions became the starting point for large-scale village transformation, especially regarding village economic development. Through BUMDes, the village government maximally develops

the potential of its village. BUMDes Kerto Raharjo Sanankerto Village, for example, has succeeded in developing the village's potential to get out of lagging and isolation. The initial capital for the development of BUMDes was 60 million in 2016 and continued to grow, which was taken from village funds. Likewise, BUMDes Sumber Sejahtera Pujon Kidul Village received an initial capital of 30 million in 2015 and continues to grow. The two BUMDes have now generated billions of rupiah in revenue from their business units. In short, by providing great authority and financial support, village regulations have successfully encouraged village businesses' development through BUMDes. The table below shows the annual allocation of village funds to Sanankerto Village and Pujon Kidul Village. Part of the village funds are used as capital for BUMDes development.

**Table. 3 Annual Village Fund Allocation for Sanankerto and Pujon Kidul Villages**

Name of Villages	Village Budget Allocation in a year						
	2016	2017	2018	2019	2020	2021	2022
Sanankerto	629.049.000	801,622,000	943,947,000	920,202,000	800,805,000	837.410.000	837.410.000
Pujon Kidul	652.728.000	831,968,000	847,342,000	1,014,121,000	1,205,839,000	974.357.000	1.059.502.000

From the table of village funds above, the allocation of village funds given to villages is substantial, and there is a tendency for village funds to increase. The amount of village funds are intended to support the village's various powers. Therefore, with great authority and significant village funds, villages in this new era can independently manage various village potentials to the fullest. Of course, this can be done with various supports, including leadership and community participation.

**Village Inclusiveness and Participation**

Another factor that explains the success of village economic development is the inclusiveness and participation of the village community. Although inclusivity is vital to community participation, the two things differ. In this study, inclusiveness refers to practices and an open way of thinking for village economic development. In contrast, inclusive participation refers to the involvement of village communities in various village development processes. In practice, both take various forms at the

village level. Changes in village institutions and leadership models have contributed to village inclusivity and participation.

With the recent changes in village institutions, villages are encouraged to create a democratic order by opening up broad community participation in the village development process. The "developing village" approach in the latest village regulation even departs from the participation of villagers, which is a new direction in rural development design. The principle of inclusion opens opportunities for village community involvement, including marginalized groups, starting from the planning, implementation, and evaluation processes (Mariana, 2018). However, several recent studies have concluded that inclusiveness in community participation in village development has yet to translate into community interests (Damayanti &

Syarifuddin, 2020). In addition, community interests are still represented by village elites connected to the government.

In the context of the economic management of Sanankerto and Pujon Kidul, inclusive and participatory principles have become the main framework for economic development in the two villages. In the villages of Sanankerto and Pujon Kidul, although many people were initially pessimistic and indifferent to several village economic development plans, the village government succeeded in realizing these ideas. The community is involved and invited to think about developing various village economic potentials. The following are inclusive aspects of economic development in Sanankerto and Pujon Kidul.

**Table. 4 Aspects of Village Economic Development Inclusivity**

No	Aspects of Village Inclusivity	Pujon Kidul Village	Sanankerto Village
1.	Community involvement in the physical development of the village	x	x
2.	Community involvement in the decision-making process	x	x
3.	Inclusiveness to new technological developments	x	x
4.	Inclusiveness to other parties through cooperation schemes, both vertical and horizontal	x	x
5.	There is a joint village forum (Musrembangdes)	x	x
6.	Disclosure of village information	x	x
7.	Village community empowerment	x	x
8.	Village community involvement in village units, both as workers and business owners	x	x
9.	Open attitude of village leaders	x	x

Aspects of inclusivity have contributed significantly to village economic development. Village leaders, especially the village head and the Bumdes

director, apply this inclusive principle to various village development processes, both physical and non-physical. The community develops, implements, and

evaluates development in a participation contest. Without community involvement, the government cannot achieve optimal development because it will only produce new products that are less meaningful to the community and do not follow the community's needs (Irvin & Stansbury, 2004). According to Chambers (2013), participation affects power relations, personal interactions, attitudes, and behavior. Many village development failures occur because of a lack of public participation. Antlov stressed that reform and local performance are not the results of state policy but of the people's efforts. Therefore, it is crucial to revitalize union life, empower the community, and develop community capacity as part of the paradigm of a self-governing society introduced by law (Antleöv, 2019).

Specifically, according to Eko (Eko, 2004; Sirabura & Eko, 2022), there are three main principles of participation: (1) voting rights relate to the rights and

actions of community members to convey aspirations, ideas, needs, interests, and demands of their immediate community and government policies; (2) access means opportunity, space, and community capacity to enter the arena of governance, namely influencing and determining policies and being actively involved in managing public goods; and (3) control of citizens over their community environment and political processes related to government. In the villages of Sanankerto and Pujon Kidul, the principles of participation still need to be maximally implemented. Open democratic space involvement Village communities involved in various village activities have developed significantly. The village heads of Sanankerto and Pujon Kidul apply the principles of inclusiveness and transparency in village management. Here is one picture showing the percentage of community involvement in village development.

**Tabel. 5 Inclusivity Community Participation in Sanankerto Village**

<b>Participation and deliberation in Village Development Planning Meetings</b>	
Total attendance of the community at each hamlet/neighborhood and village level deliberation	75,00 %
Community proposals that are approved become Village and Kelurahan Work Plans	80,00 %
Proposals for program work plans and activities from the district/city/provincial and central governments discussed during the Musrenbang and approved for implementation in villages and sub-districts by the community and village social institutions	80,00 %
The number of people involved in the implementation of physical development in villages, according to the results of the Musrenbang	80,00 %

Source: Sanankerto Village Profile

The table above shows the percentage of community involvement in development and village meetings. Community involvement in physical development is very high, reaching 80%. Likewise, community proposals approved as Village Work Plans and implemented reached 80%. In short, inclusiveness and

community participation in village development contribute to village economic development.

**Conclusion**

This article has examined what makes village economic development successful. Although village business units

have contributed to the economic development of villages and cities such as the UK and China, village business units in Indonesia, as a developing country driven through BUMDes, demonstrate a village transformation that is increasingly independent and empowered. The presence of BUMDes in the new era of village development has significantly implicated village communities' economic development. These economic efforts increase the village's original income, open employment opportunities, and empower village communities. Therefore, Village Owned Enterprises (BUMDes) play a central role as important institutions that drive the village economy. The success of BUMDes also indicates the village's economic capacity to increase the village community's welfare level.

The success of economic development in Sanankerto Village and Pujon Kidul Village is largely determined by several factors: solid entrepreneurial leadership, institutional reform at the village level, inclusiveness, and community participation. *First*, entrepreneurial leadership can be seen in the leadership of the village and the Director of Bumdes in utilizing and developing village potential and empowering village communities. Through Bumdes, the main driver of the village economy, the village's potential is managed into business units that trigger community economic innovation and creativity. Although in the village of Pujon Kidul, the Village Head is more dominant in influencing village development, the Director of Bumdes is an essential partner in encouraging village development. In Sanankerto Village, the Bumdes Director is more dominant than the Village Head, but both support one another in advancing the village economy.

*Second*, institutional reforms have strengthened the village's position as an agent of development. Institutional reforms have transformed the village into a more robust, democratic, and independent institution. Through great authority and sizeable financial support, villages are becoming increasingly independent in managing their affairs. In Pujon Kidul and Sanankerto, development ideas were realized after the villages received significant authority and financial support. In addition, institutionally, the village government is getting better and more responsive to the various problems village communities face. *Third*, inclusiveness and community participation in village economic development can be seen from the opportunities provided for the community to be involved in various village economic activities. This institutional reform has also opened great opportunities for community participation in various development processes at the village level and guaranteed political equality and public control at the village level.

In short, village economic development shows that there is a trend toward transforming villages into ones that are increasingly democratic and prosperous, where villages can already be self-sufficient. In addition, village economic development shows a new direction for village management, from agriculture to tourism, especially in developing countries like Indonesia. This study significantly contributes as a consideration for decision-makers to strengthen the village's economic power in the future.

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