



Original Article

Capacity Building of Village-Owned Enterprises (BUMDes) in Encouraging Village Economic Welfare

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Abstract:

This study aims to examine the capacity building of village-owned enterprises (BUMDes) in encouraging village economic welfare based on the organizational capacity theory from Grindle (1997) which has three main indicators, namely strengthening organization and management, providing resources and infrastructure facilities, and network. The research method in this study is qualitative descriptive with the technique of collecting literature study data from various secondary sources such as books, scientific articles, government regulations, theses and other relevant scientific documents. Data analysis is carried out by data reduction, data presentation to drawing conclusions. The results of the study show that based on the Grindle theory (1997), strengthening the capacity of BUMDes can be done by measuring from three indicators, namely 1) strengthening organization and management; 2) provision of resources and infrastructure; 3) Network (cooperation).). The success of strengthening BUMDes capacity based on Grindle's theory greatly influences the sustainability and operation of BUMDes.

Keywords: Capacity of BUMDes; Economic Welfare; Organizational Capacity, Economic Development

Introduction

Economic development is a process that aims to encourage the capacity of a region to create sustainable economic growth, reduce inequality and improve people's welfare. This process utilizes natural resources, humans and technology to achieve a more productive economic structure (Negara, 2021). In the context of developing countries, economic development in Indonesia is a priority agenda in various government policies and programs. As one of the countries with the largest economies in Southeast Asia, Indonesia has recorded fairly stable economic growth in the last ten years (Nurhayati & Juliansyah, 2022; Saragih, 2022; Falah & Syafr, 2023). However, economic development is still a complex issue and challenge, especially in rural areas that often experience limitations in terms of resources, technology and markets. These



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limitations have an impact on the emergence of economic disparities between urban and rural areas ([Priyarsono, Wijaya, & Sigiuro, 2023](#)).

The establishment of a Village-Owned Enterprise (BUMDes) is one of the fundamental strategies in development that is oriented towards local potential by being implemented as an integrated business whose management is directly delegated to the village community. A Village-Owned Enterprise (BUMDes) is an institution or village business entity whose management aims to strengthen the village economy and is formed because of the needs of the village community ([Wojongan, 2022](#)). Regulations regarding BUMDes are attached to Law Number 6 of 2014 concerning Villages and Government Regulation Number 11 of 2021. The definition of BUMDes according to Law Number 6 of 2014 is a business entity whose capital is wholly or mostly owned by the Village through direct participation originating from village assets that are separated to manage assets, service services, and other businesses for the greatest possible welfare of the Village community. The main role of BUMDes is to improve the welfare of the Village community. In addition, BUMDes also has a strategic role as a driving force in economic development in rural areas by utilizing various local potentials, both in the form of natural resources and community skills ([Pradani, 2020](#); [Sofian, 2021](#); [Permatasari & Imaniar, 2022](#)).

The existence of BUMDes is expected to be able to provide economic support for rural communities, especially in relation to opportunities for new businesses, expanding employment opportunities, reducing dependence on external parties, and encouraging the process of independent village economic turnover and creating a sustainable economy ([Hasyim, Rustiana, & Permana, 2021](#)). However, until now, there are still many BUMDes that have not been optimal in carrying out their role in encouraging village welfare. This is related to limited managerial capacity, low knowledge of business management and minimal technological support ([Kurniasih, Setyoko, & Saputra, 2023](#); [Bere, Pala, & Bekun, 2022](#)). To overcome these problems, the capacity of BUMDes needs to be increased so that the managerial capacity in BUMDes is able to encourage the economic welfare of the Village and Village Community.

In general, capacity itself is defined as the ability of an organization in terms of management, business development, innovation and adaptation to various existing challenges. Morgan stated that capacity is an ability, understanding and attitude, values and relationships needed to achieve certain goals. Morgan also emphasized that increasing capacity does not only focus on certain individuals but also includes institutions and society as a whole ([Fajri, 2020](#)). In ensuring that BUMDes becomes a driving force in driving village economic welfare, the village government needs to take steps such as managerial training, technical assistance, providing access to technology and strengthening cooperation networks ([Hawa et al., 2022](#); [Novita et al., 2023](#)). Increasing BUMDes Capacity not only has an impact on organizational performance but also has an impact on village economic welfare.

This study aims to analyze the strategy of increasing the capacity of BUMDes in encouraging village economic welfare, this study is based on the theory of organizational capacity which emphasizes the importance of effective organizational structure and management in encouraging economic welfare and optimizing local potential. Reported from data from the Central Statistics Agency (BPS) in Semester 1 (March) 2024 the percentage of poor people in the city was 7.09 percent, then for semester 2 (September) 6.66 percent. Meanwhile, the percentage of poor people in the

village in semester 1 (March) was 11.79 percent, for semester 2 (September) it was 11.34. Although there has been a decline, the data shows that there is a gap between poverty in cities and villages. To overcome this problem, the capacity of BUMDes needs to be increased so that the managerial capacity in BUMDes is able to encourage the economic welfare of the Village and Village Community. Based on this description, this study aims to analyze effective strategies in increasing the capacity of BUMDes so that it can encourage village economic welfare.

Literature Review

The theory used in this study is Grindle's organizational capacity theory (1997). Capacity is defined as the ability of a person, institution, or system to carry out its roles and responsibilities effectively, efficiently and sustainably. According to Morgan in Millen (2006), capacity is defined as competence, understanding, attitude, values, relationships or conditions that enable each individual, organization/institution or broad network to carry out their roles and achieve predetermined development goals. Meanwhile, according to Grindle (1997), capacity is defined as dimensions, concentrations and categories related to efforts to develop human resources and strengthen organizations to increase the success of their roles and responsibilities. This study uses Grindle's theory, namely the organizational capacity theory. In his theory, Grindle (1997) emphasized that in the public sector, capacity development is very important to increase the effectiveness, efficiency and responsiveness of government performance ([Tjenreng et al., 2019](#)). There are three main indicators in strengthening organizational capacity according to Grindle, namely strengthening the organization and management, second provision of resources and infrastructure, third network or cooperation. This study will analyze the strengthening of BUMDes capacity in encouraging village economic welfare based on 3 indicators of organizational capacity theory from Grindle (1997).

Methods

This study uses a Qualitative Descriptive research method with a literature study data collection technique. This study was chosen because it allows researchers to explore data in more detail from various literature sources that are relevant to the research topic. According to Cresswell (2014), literature studies are an important component in a research process, this is because literature studies provide a clear framework for determining research interests and become a benchmark for comparing research results with previous research results. Literature studies are also referred to as library research. This study uses a descriptive qualitative approach, which aims to analyze efforts to increase BUMDes capacity based on Grindle's organizational capacity theory (1997) by measuring through three indicators, namely strengthening the organization and management, providing resources and infrastructure and networks or cooperation. The data sources used in this study were taken from secondary sources from books, scientific journal articles, government regulations related to BUMDes and other official documents related to BUMDes. Data were collected through documentation techniques by exploring, reading and writing information from various secondary data sources. The data analysis model used in this study is the Miles & Huberman model in (Sugiyono, 2010) which states that data analysis consists of several stages starting with data reduction, data presentation to drawing conclusions.

Result

This study aims to analyze efforts to increase the capacity of BUMDes in encouraging village economic welfare based on the theory of organizational capacity from Grindle (1997) which consists of several indicators, namely first strengthening the management organization, second provision of resources and infrastructure and third network. The results of this study will provide an overview of how these indicators affect the development of BUMDes and its impact on village economic welfare:

1. Strengthening organization and management

Indicators of strengthening the organization and management are the main pillars in efforts to increase the capacity of an organization, institution or agency. Strengthening the capacity of BUMDes is very important considering that the resources owned are limited, so that these resources can be utilized and optimized. As a business entity, increasing the capacity of BUMDes can be done by strengthening the organization in terms of structure, vision and mission, work culture, punishment and reward systems, and how the evaluation system will be carried out. Each organization must have a clear organizational structure so that BUMDes administrators or managers can carry out their respective roles and responsibilities according to their portion without intervention from other parties and create an effective work environment. If the organizational structure is clear, then BUMDes can run well and can become the main market source for the village. So that BUMDes is able to fulfill its role as a driving force for the village economy and produce village economic welfare.

In addition to being related to strengthening the organization, the managerial system must also be given more attention because it is related to the BUMDes management process and is the starting point for BUMDes operations. BUMDes management is closely related to the planning, organizing, directing and controlling processes. All of these processes affect how a BUMDes can operate and determine the future of BUMDes. Therefore, the managerial system in BUMDes must be implemented properly and organized, this will have a good impact and influence on BUMDes and its management. In order to optimize the management's ability in managerial matters, various training is needed on how BUMDes management can achieve its role optimally in relation to creating village economic welfare. If the management has received training related to management, when BUMDes has a specific work plan, the planning process will be well established and involve various parties such as the village government, BUMDes management, and community representatives, all three of which are hereinafter referred to as stakeholders.

In the planning process, it runs well and stakeholders have determined the work plan, then when implementing it, there is a briefing process regarding the agenda. Then, to prevent errors or human mistakes, control will be carried out so that the previously determined plan or agenda continues to run and is not too affected. Not only related to the organizational structure and division of roles and responsibilities of management, organizational capacity is also closely related to transparent and accountable BUMDes financial management. Quite a few BUMDes have succeeded in developing their businesses, this is related to strengthening financial management that allows them to manage it well. If BUMDes has been able to manage its finances well, the income that has been obtained will automatically be able to drive the

economic welfare of the village and support other economic activities. The implementation of transparent and accountable financial management will increase the trust of the community and external parties, such as financial institutions and local governments. So in short, it can be said that strengthening the organization and management can increase the effectiveness and efficiency of BUMDes operations, facilitate the process of managing resources and optimizing local village potential, and create harmonious relationships between BUMDes management and the village community.

2. Provision of resources and infrastructure

When discussing capacity building, it cannot be separated from discussions related to the provision of resources and infrastructure. The factor that most influences the increase in BUMDes capacity is the readiness of resources in the managerial process. The availability of resources is the main thing in strengthening BUMDes capacity because it is the main actor both in management and in the managerial process. If resources are not met, it is impossible for BUMDes to carry out its role, therefore training and socialization related to BUMDes are needed so that village communities have an understanding of an agency that is able to optimize and provide a market for existing local potential. This training must not only be carried out on managers but also on the community that will be involved, the training can be carried out in various fields such as in the fields of entrepreneurship, marketing including techniques and strategies, as well as business management and local potential to increase income and economic welfare of the village and community. The efforts made are efforts to increase and maximize local potential, both human resources and natural resources that can be the driving force of BUMDes operations.

The provision of infrastructure is one of the important influences for the smooth operation of BUMDes, in the cooperation agenda, BUMDes managers must ensure that there is a discussion about the procurement of infrastructure. Facilities include tools, facilities or equipment that can be used immediately for business operations, for example production tools in the form of machines, information technology equipment for marketing and cooperation such as computers, or tablets. Meanwhile, infrastructure means including supporting facilities such as storage warehouses, BUMDes offices, road access and other supporting facilities. Provision of infrastructure such as roads, production tools, warehouses or outlets, digital technology tools to support and optimize BUMDes operational interests, to expand the market reach for the products produced, and shorten production time. In addition, with the availability of resources and infrastructure, it will automatically increase the opportunity for capital availability, access to BUMDes working capital will be easier and more affordable.

The availability of capital can be done through government programs or cooperation with village financial institutions or local governments so that BUMDes can expand the reach of their businesses and increase the productivity of BUMDes and the community. Provision of qualified resources and adequate infrastructure can increase the capacity of BUMDes and production capacity, efficiency in the distribution process and can expand the reach of the BUMDes market, which will directly impact on increasing the capacity of BUMDes and achieving the economic welfare of the village and community. To ensure the provision of resources and infrastructure, BUMDes must be able to utilize and manage finances well, build close

cooperation with local governments, financial institutions, the private sector and the community, BUMDes must also prioritize the principles of efficiency and sustainability through this, the capacity of BUMDes is getting stronger and the economic welfare of the village is achieved. With good management in terms of budget management and operational management, the available infrastructure can be a pillar for BUMDes to increase its participation as a driving force in driving the village economy.

3. Network/cooperation

In addition to the organization and management as well as the provision of resources and infrastructure, in order to expand market reach, a broad BUMDes network or cooperation is needed. The development of cooperation or network will increase the capacity of BUMDes because operational activities will continue to run, the production process will develop, and the distribution process will expand. The first stage in the process of expanding the network or cooperation is to build cooperation with the local government. This is related to BUMDes requiring government support in the form of regulations or rules, assistance and training, and financing programs that will directly develop BUMDes. Collaboration or cooperation between BUMDes and the local government must be well established, so BUMDes also needs to collaborate with other parties, namely from the private sector. BUMDes that have cooperative relationships with the private sector have wider market opportunities than BUMDes that do not cooperate at all. In a cooperative relationship, the private sector will provide technical support in the production process and distribution of village product marketing. In addition to the local government, BUMDes must also build good cooperative relationships with regional financial institutions. This is because regional financial institutions have access to provide assistance in the form of working capital with relatively low interest rates that can support business development.

The cooperative relationship that is carried out will further strengthen the capacity of BUMDes as an organization. After establishing a cooperative relationship with the government, private sector, financial institutions, the main actor that must be involved is the community. Efforts to build cooperation with the community can be implemented through increasing communication to the community and also providing opportunities for the community to be actively involved in the operational process of BUMDes, this will strengthen the sense of ownership of BUMDes together, increase the contribution of the community which was initially passive to active and is related to the sustainability of BUMDes. So the development of cooperation will provide greater opportunities in terms of expanding access to resources, strengthening the position in the market and being able to increase the competitiveness of the resulting business so that this will increase economic welfare for both the village and the village community.

Conclusion

Based on the theory of organizational capacity from Grindle (1997), this study shows that efforts to increase BUMDes capacity through strengthening the organization and management, providing resources and infrastructure, and building networks have a significant impact on driving village economic welfare. The indicators for strengthening the organization and management are carried out by ensuring the effectiveness and efficiency of BUMDes operations. Then, the indicators for providing

resources and infrastructure allow BUMDes to be able to optimize business potential and drive business productivity. Furthermore, in the network or cooperation indicator, building cooperation will expand business and market reach. By determining the right strategy based on these three indicators, BUMDes can carry out its role as a driving force in driving village economic welfare.

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