

Review Article

Literature Review of BUMDes Business Development Strategy in Increasing Village Original Income

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This article contributes to:



Abstract. This review article provides a comprehensive examination of rural financial management in Indonesia, focusing on the structure and mechanisms of Village Budget (APBDes), Village Fund Allocation (ADD), and the role and development of Village-Owned Enterprises (BUMDes). The objective of this article is to identify challenges, opportunities, and best practices in village financial management and to offer recommendations based on previous research findings to enhance the effectiveness and efficiency of financial management in villages. Additionally, the article explores how BUMDes contribute to village development and community welfare. The review synthesizes existing literature and case studies to provide actionable insights for policymakers and practitioners working in rural development.

Keywords: Village Budget, Village Fund Allocation, Village-Owned Enterprises, Rural Financial Management, Indonesia.

1. Introduction

The village, as the smallest unit within the Indonesian government structure, plays a crucial role in regional management and development. According to Law No. 6 of 2014 on Villages, a village is defined as a legal community unit with a defined territorial boundary and the authority to manage and handle governmental affairs and local community interests. Villages have the autonomy to manage government affairs, community development, and community-based empowerment, as well as recognized customary rights. In this context, the role of the village head as the leader of village governance is vital. The village head, supported by village officials, is responsible for carrying out governmental tasks and serves as a strategic bridge between the government and the community.

To support financial management and development implementation at the village level, an effective budget structure is necessary. The Regional Budget (APBD) is an essential instrument in this regard. APBD, as regulated by the Minister of Home Affairs Regulation No. 13 of 2006, serves as the basis for regional financial management for an annual period, from January 1 to December 31. APBD reflects the regional government's work plan in monetary terms and is oriented towards public welfare objectives. As a strategic tool, APBD includes regional revenue, regional expenditures, and regional financing. Regional revenue includes various sources such as regional taxes, regional retributions, and results from the management of regional assets. This structure ensures that all regional receipts and expenditures are properly recorded for accountability and transparency.

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At the village level, there is the Village Budget (APBDes), which is a financial management tool for villages. APBDes includes revenue projections, expenditure plans, and fund allocations discussed and approved by the village council and village advisory body. APBDes covers various types of revenue, such as Village Original Income (PADes), village fund allocation from the state budget, and revenue from sharing district or municipal taxes. Village expenditure consists of direct and indirect expenses, including the welfare of the village head, subsidies, grants, and unexpected expenditures. Effective management of APBDes is key to delivering public services and village development efficiently. Without adequate budgeting, the village government cannot optimally carry out public service programs and activities.

The Village Fund Allocation (ADD) is a crucial component in village financing. According to Government Regulation No. 72 of 2005 and Minister of Home Affairs Regulation No. 37 of 2007, ADD is part of the financial balancing funds between the central and regional governments that are received by districts/municipalities and allocated to villages. ADD is designed to fund development and community empowerment, with a focus on basic services, education, health, infrastructure, and poverty alleviation. The use of ADD must align with development and community empowerment priorities to ensure optimal benefits.

Village Original Income (PADes) is a source of revenue obtained from various activities conducted by the village government to fund development and community welfare. PADes includes revenue from village enterprises, asset management, community contributions, and village levies. For instance, village enterprises, managed through Village-Owned Enterprises (BUMDes), are set up to optimize local potential and enhance the village economy. This revenue source must be managed well through planning, organizing, collection, recording, and accountability to ensure sufficient funds for village programs.

BUMDes are business entities established by villages to improve the village economy and build social solidarity among the community. BUMDes are managed by both the community and the village government, and they are characterized as legally established business entities. The management principles of BUMDes include cooperative, participatory, emancipatory, transparent, accountable, and sustainable. These principles are crucial to ensuring BUMDes achieve their goals and benefit the village community.

The strategy for developing BUMDes and the village in general requires a planned and systematic approach. The concept of strategy, derived from the Greek word "strategos," refers to the art of optimizing resources. In this context, strategy involves environmental observation, strategy formulation, implementation, as well as evaluation and control. The goal of developing village enterprises is to improve the quality of life by adding value and ensuring business continuity. Anoraga (2007) mentions that business development requires foresight, motivation, and creativity to achieve sustainable growth.

SWOT analysis is a vital tool in formulating development strategies. This analysis helps identify internal and external factors affecting organizational performance. Internal factors include strengths and weaknesses, while external factors encompass opportunities and threats. The strategies derived from SWOT analysis can help organizations leverage strengths and opportunities while addressing weaknesses and threats. Thus, SWOT analysis is a crucial step in planning and implementing effective development strategies.

Previous research provides valuable insights into the development strategies of BUMDes and village financial management. Several studies highlight successes and

challenges in managing BUMDes and their impact on the village economy and income. These studies serve as important references for understanding the context and best practices in developing BUMDes and managing village finances. By understanding previous research findings, we can identify existing opportunities and challenges and formulate more effective strategies to enhance village performance and welfare.

The goal of this review is to provide a comprehensive examination of village financial management in Indonesia, focusing on the structure and mechanisms of Village Budget (APBDes), Village Fund Allocation (ADD), and the role and development of Village-Owned Enterprises (BUMDes).

2. Village

According to Law No. 6 of 2014, a village is a legal community unit that has a defined territorial boundary and is authorized to govern and manage local government affairs, local community interests based on community initiatives, original rights, and/or traditional rights recognized and respected within the Unitary State of the Republic of Indonesia. The authority of the village as explained in Permendesa No. 1 of 2015 includes the authority in the field of village government administration, village development implementation, community development, and community empowerment based on community initiatives, original rights, and village customs. According to Law No. 6 of 2014, the village government consists of the village head or other titles and is assisted by village officials as part of the village government apparatus. As per the explanation of Law No. 6 of 2014, the village head is the head of the village government who leads the administration of village government. The village head or other titles plays a significant role as an extension of the state close to the community and as a community leader (Rusmianto, 2016).

3. Regional Revenue and Expenditure Budget (APBD)

According to Permendagri Number 13 of 2006, "APBD is the basis for regional financial management for a fiscal year starting from January 1 to December 31." Bastian (2006) states that "APBD is the manifestation of the regional government's work plan in the form of monetary units for a one-year period, oriented towards public welfare objectives." Freeman, as cited in Nordiawan (2006), defines a budget as a process conducted by public sector organizations to allocate their resources to various needs. This definition reveals the strategic role of the budget in managing public organization wealth. According to Nordiawan (2006), "The significant role of the budget in the public sector arises from its utility in estimating revenue or billing amounts for services provided." According to Law No. 17 of 2003, Article 1, point 8, concerning State Finances, the Regional Revenue and Expenditure Budget (APBD) is a financial plan for the regional government that has been approved by the Regional People's Representative Council. All receipts that are rights and expenditures that are obligations of the region within the relevant fiscal year must be recorded in the APBD.

The APBD structure, based on Kemendagri Number 13 of 2006, consists of three parts: Regional Revenue, Regional Expenditure, and Regional Financing. Regional Revenue includes all monetary receipts through the regional general cash account, which adds to the equity of funds and is a regional right for one fiscal year that does not need to be repaid by the region. Regional Original Revenue is divided into types of revenue consisting of: (a) Regional Taxes, (b) Regional Retribution, (c) Results of Management of Separated Regional Wealth; and (d) Other Legal Regional Original Revenue.

Types of regional taxes and retribution are detailed according to revenue objects in accordance with the law on regional taxes and retribution, namely Law No. 34 of 2000 on amendments to Law No. 18 of 1997 concerning regional taxes and retribution, in conjunction with Government Regulation No. 65 of 2001 and Minister of Home Affairs Decree No. 35 on regional taxes and Government Regulation No. 66 of 2001 on regional retribution. Types of results from the management of separated regional wealth are detailed according to revenue objects, including: (a) a portion of profits from capital participation in regional-owned enterprises/BUMD; (b) a portion of profits from capital participation in government-owned enterprises; (c) a portion of profits from capital participation in private or community business enterprises. Other Legal Regional Original Revenue is detailed according to revenue objects, including: (a) proceeds from the sale of non-separated regional assets; (b) interest income; (c) interest income; (d) receipts from regional damage claims.

4. Village Revenue and Expenditure Budget (APBDes)

The Village Revenue and Expenditure Budget consists of village income, village expenditures, and funds. The draft village revenue and expenditure budget is discussed during the review of the village development plan. The village head and the village deliberation body determine the APBD each year in accordance with village regulations. The regent/mayor regulations provide guidelines for preparing the APBD, revising the APBD, calculating the APBDes, and implementing the APBD accountability system. The APB includes a one-year village financial plan covering revenue projections, program and operational expenditure plans, and financial plans discussed and approved by the village council and advisory board, and stipulated in village regulations (Nurcholis, 2011). The village government administration, which results in public services, development, and community protection, must be outlined and presented in the APB each year. Thus, village officials are responsible for creating the APBDes because the APBD is determined by village policies articulated through various programs and activities. Therefore, village government activities related to services, community development, and protection for the current year are budgeted to ensure their implementation. It can be concluded that without a village budget, the village government cannot implement public service programs and activities.

According to Minister of Home Affairs Regulation No. 113 of 2014, the APBDes can be modified under certain conditions. Changes are made if there is a need to shift from one type of expenditure to another, so that the remaining budget from the previous year must be used in the current year in cases of emergencies and extraordinary situations. All these processes can only be done once a fiscal year, except in extraordinary cases and special situations. The Village Revenue and Expenditure Budget (APBDesa) includes several types of revenue and expenditure or spending types. Revenue types include: (a) Village Original Revenue (PADesa); (b) Allocation Fund for Village Development from the National Budget; (c) Revenue from local taxes or city revenue-sharing; (d) Revenue from local retribution; (e) Allocation Fund for Village Development (ADD); and (f) Financial aid from the government. Expenditure or spending types include: Direct spending such as: (a) Welfare expenditure for the village head and village officials; (b) Allowances; (c) Subsidies; (d) Grants; (e) Social aid; (f) Financial assistance; and (g) Contingency spending.

In essence, every organization requires revenue sources to operate effectively and achieve its goals. Village government organizations, as part of public organizations, also need revenue sources to finance their programs and activities to improve the welfare of village communities. Village revenue must be well-managed, meaning it is planned,

organized, collected, and accounted for properly to ensure sufficient funds for financing pre-determined programs and activities. Planning village revenue means identifying the sources of village revenue and estimating its potential.

5. Village Allocation Fund (ADD)

According to Government Regulation No. 72 of 2005 concerning Villages, village allocation funds are part of the balance of central and regional financial funds received by districts/cities for villages, amounting to at least 10% (ten percent), with distribution to villages proportionally. Based on Minister of Home Affairs Regulation No. 37 of 2007 concerning Guidelines for Village Financial Management, village allocation funds come from the district/city APBD, sourced from the balance of central and regional financial funds received by the district/city for villages, amounting to at least 10% (ten percent). Village Allocation Funds (ADD) according to Law No. 6 of 2014 concerning Villages are part of the balance of funds received by districts/cities amounting to at least 10% (ten percent) in the regional revenue and expenditure budget after deducting special allocation funds.

Village Allocation Funds have a legal basis in Government Regulation No. 60 of 2014, and Yuliansyah and Rusmianto (2017) add that, in principle, village funds are allocated in the State Budget (APBN) to finance village responsibilities. However, to optimize their use, village funds are prioritized for financing development and community empowerment, including basic service development in education, health, and infrastructure. In the context of poverty alleviation, village funds can also be used to meet basic needs such as food, clothing, and shelter for the community. Use of village funds for non-priority activities can be done as long as development and empowerment activities are maintained.

6. Village Original Revenue (PADes)

In business, revenue refers to the amount of money obtained by an individual or company from activities such as selling goods/services to consumers. For the government, revenue is the receipt from taxes levied on the public. According to PSAK No. 23 Paragraph 7 (2015), revenue is the gross inflow of economic benefits arising from the activities of an entity during a period when the inflow increases equity not resulting from contributions from investments. Nafarin (2006) defines revenue as the inflow of assets from a company's activities of selling goods and services over a period resulting in an increase in capital not derived from investment contributions. It can be concluded that revenue is the inflow of assets from a company resulting from selling goods or services over a specific period.

Village Original Revenue is the income from various activities carried out by the village government to collect funds for the purpose of improving community welfare. Sources of Village Original Revenue according to Permendagri (113/2014) include: a) Business revenue; b) Asset revenue; c) Self-help, participation, and mutual cooperation; d) Village levies. Further details on the sources of Village Original Revenue are provided in Minister of Home Affairs Regulation (Permendagri) No. 20 of 2018, Article 12, paragraphs (2), (3), (4), and (5) which state that Village Original Revenue is the village's right to be received and is managed and utilized by the village government according to its needs.

This revenue includes: a) Results of the village's business activities, b) Village-owned asset management, c) Contributions from individuals, corporations, and other parties, d) Village levies as outlined in regulations and laws. Village Original Revenue must be used

appropriately to support the development and welfare of the village community. It should be managed responsibly and reported transparently to ensure effective utilization of village funds.

7. SWOT Analysis

The SWOT approach is a tool used by a company or organization to study its internal and external environment. This analysis is based on depicting the state of the situation and conditions of the strategies used by aligning internal resources with external conditions. According to Rangkuti (2017), SWOT analysis is a tool for systematically identifying various factors to create company planning.

7.1 Factors in SWOT Analysis

To conduct a deeper SWOT analysis, it is essential to consider its factors: internal and external factors. Internal factors are influenced by Strengths and Weaknesses (S and W), as these factors relate to the conditions within the company. These factors include all functional management aspects: marketing, finance, operations, management information, development, and company culture. External factors are influenced by Opportunities and Threats (O and T), as these factors relate to conditions outside the company. These factors include the environment, economy, politics, law, technology, society, and socio-cultural aspects (Irham Fahmi, 2010).

7.2 Considerations in SWOT Analysis

Identifying issues within the company requires careful analysis to determine appropriate strategies to address problems. Therefore, several considerations are necessary in decision-making, including: (a) Strengths, (b) Weaknesses, (c) Opportunities, and (d) Threats. Strengths are advantages that an organization/company has which its competitors do not. According to Pearce and Robinson (1997), strengths are resources, skills, or other advantages relative to competitors and market needs. Weaknesses are deficiencies that hinder a company's operations. Deficiencies can include resources such as human resources, finances, raw materials, and more. Opportunities are conditions that arise outside the company which can be utilized by the company to grow and compete in the market. Technological changes, good relationships with buyers or suppliers are examples of opportunities. Threats are conditions that arise outside the company which can pose risks to the company's development. The entry of new competitors, slow market growth, changes in technology and regulations are examples of threats to company growth.

The purpose of the analysis is to help companies/organizations understand their internal conditions (strengths and weaknesses) in relation to external situations (opportunities and threats), so that the company can handle what may happen in the future. The S-O strategy involves using strengths to exploit opportunities. In an analysis where existing opportunities show strong internal functions, the sector has a comparative advantage. The S-W strategy involves minimizing weaknesses while utilizing available opportunities. This requires certainty regarding various opportunities to be optimally utilized, thereby reducing existing weaknesses. The S-T strategy involves using strengths to address emerging threats. This strategy shows how external threats can be identified and reduced, with the hope of turning them into opportunities for development. The W-T strategy involves minimizing weaknesses and avoiding threats. This strategy is defensive and aims to minimize existing weaknesses.

8. Previous Research

Previous research serves as a reference for researchers to enrich the theories used in analyzing their research can be seen in **Table 1**.

Table 1 Previous Research

Study	Focus	Findings	Differences	Similarities
Andi Adnan (2021)	Development strategy of BUMDes	Well-managed BUMDes in Pitumpidange Village due to alignment with BUMDes vision and mission.	Focus on development strategy; this study's focus might differ.	How BUMDes enhances community economic development.
Ade Eka Kurniawan (2015)	Role of BUMDes in increasing Village Original Income (PADes)	Good management of BUMDes with improved community outcomes, but minimal increase in PADes by the end of 2015.	Focus solely on increasing Village Original Income; this study might have a broader or different focus.	Both studies aim to improve Village Original Income.
Amalia Solha (2021)	Existence of BUMDes in improving Village Original Income	Positive impact on community income and village revenue; difficulty in accessing BUMDes information due to lack of website.	Output provided by BUMDes to the community of Lanjut Village differs; issues with information access.	Focus on Village Original Income.
Ega Afri Wilandari et al. (2021)	Development strategy of BUMDes using SWOT analysis	Strategies include developing business units, enhancing online promotion, increasing capital, socializing, and innovating.	Application of strategies in different villages; this study may focus on different strategies or contexts.	Use of SWOT as the analytical method.

Based on the analysis of previous research, it can be concluded that these studies provide valuable insights into the development and management of Village-Owned Enterprises (BUMDes) with varying yet complementary focuses. Research by Andi Adnan (2021) demonstrated that the development strategy for BUMDes in Pitumpidange Village was effective due to the alignment between the implemented programs and the vision and mission of BUMDes. On the other hand, Ade Eka Kurniawan's (2015) study highlighted that, although the management of BUMDes in Lanjut Village was good and there were improvements in the outcomes for the community, there was a gap in the increase of Village Original Income (PADes) by the end of 2015. Amalia Solha's (2021) research identified positive impacts of BUMDes on village and community income in Berambang Village but noted challenges in information access due to the absence of a website. Finally, the research by Ega Afri Wilandari et al. (2021) developed strategies for BUMDes Gunung Mulia using SWOT analysis, including the development of business units, online promotion, increased capital through collaboration, community socialization, and business innovation. A key similarity among these studies is the use of SWOT analysis to evaluate and formulate strategies for the development of BUMDes.

9. Conclusion

In the context of village management and development, several key concepts and mechanisms emerge from various regulations and previous research. Law No. 6 of 2014 designates villages as local government entities with the authority to manage internal affairs and community development, as further outlined in Ministerial Regulation No. 1 of 2015. Regional Budget (APBD), according to Ministerial Regulation No. 13 of 2006, serves as the basis for regional financial management for a fiscal year. As an implementation of this budget, the Village Revenue and Expenditure Budget (APBDes)

outlines projections of income and expenditures to support development activities and public services at the village level. Village Fund Allocation (ADD), regulated by Government Regulation No. 72 of 2005 and Ministerial Regulation No. 37 of 2007, is part of the revenue-sharing funds received by districts/cities, allocated to support village development and community empowerment.

PADes which includes various sources such as business results and village assets, plays a crucial role in financing village activities. Additionally, Village-Owned Enterprises (BUMDes) serve as a primary instrument for enhancing village economies, based on cooperative, participatory, and transparent principles. The development of BUMDes is expected to improve the welfare of village communities by utilizing local potential and managing resources effectively. Business development strategies involve SWOT analysis to assess strengths, weaknesses, opportunities, and threats in planning and implementing strategies. Previous research shows that while there has been progress in managing BUMDes and increasing PADes, there are still gaps and challenges in implementation. These studies identify various strategies and recommendations to optimize the role of BUMDes in village economic development, including enhanced promotion, capital, and business innovation. Overall, the effectiveness and success of village management depend on the proper implementation of existing regulations and adaptation to dynamic local conditions.

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11. Declaration

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