

VILLAGE INSTITUTIONS, GOVERNANCE, AND BUMDES: DRIVERS OF RURAL ECONOMIC DEVELOPMENT

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Abstract

This study addresses the persistent challenges of rural economic development in Pejengkolan Village, Padureso District, Kebumen Regency, particularly the limited effectiveness of village institutions, participatory governance, and Village-Owned Enterprises (BUMDes) in improving community welfare and local economic productivity. The study aims to analyze the influence of village institutions, village governance, and the role of BUMDes on rural economic development. The research employed a quantitative explanatory approach using Structural Equation Modeling-Partial Least Squares (SEM-PLS). Data were collected from 194 respondents consisting of village officials, BUMDes administrators, MSME actors, community leaders, and local residents selected through purposive sampling. The findings indicate that village institutions, village governance, and the role of BUMDes positively and significantly affect rural economic development. Village governance emerged as the most dominant variable influencing local economic development. The study contributes to the development of institutional economics and participatory governance perspectives in rural economic development by emphasizing the importance of institutional capacity, local governance quality, and community-based economic institutions in promoting sustainable rural transformation.

Keywords: village institutions, village governance, Village-Owned Enterprises (BUMDes), rural economic development, participatory governance

INTRODUCTION

Rural economic development has become one of the priority agendas in Indonesia's national development, particularly since the enactment of Village Law No. 6 of 2014. This policy grants greater authority to villages to manage their resources and local economic development independently. However, various villages in Indonesia still face significant challenges in rural economic development, including low economic productivity, high rural poverty rates, weak institutional capacity, and underutilized local economic potential.

According to data from the Central Bureau of Statistics of Kebumen Regency (2025), Kebumen Regency still faces substantial economic challenges characterized by high rural poverty rates, limited productive employment opportunities, and slow local economic transformation. The regional economic structure is still heavily dominated by traditional agriculture and home-scale micro-enterprises with relatively low productivity levels. Pejengkolan Village, Padureso District, Kebumen Regency, is a village that possesses notable economic potential based on agriculture, MSMEs, and local community businesses. However, its utilization has not been fully optimized due to institutional constraints and village economic management limitations.

The economic development problems in Pejengkolan Village are reflected in the sub-optimal increase in community income, the limited growth of productive MSMEs, low diversification of community economic activities, and the insufficient contribution of village economic institutions toward community welfare. The novelty of this research lies in its empirical integration of village institutional capacity, participatory governance, and the role of BUMDes in analyzing community-

based rural economic development at the village level. This study is crucial to provide both theoretical and practical contributions to the advancement of institutional-based rural economic development.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

From an institutional economics perspective, North (2018) explains that strong institutions can significantly enhance economic efficiency by regulating social and economic interactions within society. Good governance is also a critical factor in enhancing the effectiveness of rural economic development through transparency, accountability, and active community participation (OECD, 2020).

Prior empirical studies indicate that village institutions and local governance exert a significant influence on local economic development. A study by Putra and Wijaya (2021) demonstrates that transparent village governance effectively enhances community participation in economic development. Research by Rahmawati et al. (2022) reveals that village institutions positively affect the effectiveness of community economic development. Furthermore, Prasetyo et al. (2023) find that village governance and BUMDes innovation directly contribute to the improvement of rural community economies.

Based on these theoretical foundations and logical arguments, the research hypotheses are formulated as follows:

H1: Village institutions have a positive and significant effect on rural economic development.

H2: Village governance has a positive and significant effect on rural economic development.

H3: The role of BUMDes has a positive and significant effect on rural economic development.

RESEARCH METHODS

This study employs a quantitative approach with an explanatory research design. The research was conducted in Pejengkolan Village, Padureso District, Kebumen Regency. The population consists of Pejengkolan Village residents involved in village development and economic activities. Sampling was carried out using a purposive sampling technique, resulting in a sample size of 194 respondents (comprising village officials, BUMDes managers, MSME actors, and community leaders).

The research instrument utilizes a 1–5 Likert scale. Data analysis techniques were performed using Structural Equation Modeling-Partial Least Square (SEM-PLS) assisted by SmartPLS 4 software. The operationalization of variables is summarized in the following table:

Variable	Dimension	Indicators	Scale	Sources
Village Institutions	Institutional capacity	Organizational structure, institutional coordination, apparatus capacity, institutional effectiveness	Likert 1–5	North (2018); Acemoglu & Robinson (2020)
Village Governance	Participatory governance	Transparency, participation, accountability, consensus building, access to information	Likert 1–5	OECD (2020); UNDP (2019)
Role of BUMDes	Local economic institution	institution Job creation, MSME support, income generation, business innovation	Likert 1–5	Ministry of Villages (2021); Prasetyo et al. (2023)
Rural Economic Development	Local economic development	Community income, employment opportunities, growth of economic enterprises, economic infrastructure	Likert 1–5	Todaro & Smith (2021)

RESULTS AND DISCUSSION

Respondent characteristics indicate that MSME actors (26.8%) and the general public (30.9%) dominate involvement in local economic development activities. Descriptive statistical analysis shows that the highest mean score is found in the Village Governance variable (4.13), followed by Village Institutions (4.08), while the Role of BUMDes obtained the lowest mean score (3.87).

The evaluation of the outer model demonstrates that the convergent validity values for the retained indicators meet the requirement, with an AVE above 0.561 and Composite Reliability values exceeding 0.893 for all constructs, as detailed in the table below:

Variable	AVE	Composite Reliability	Cronbach's Alpha
Village Institutions	0.561	0.893	0.854
Village Governance	0.789	0.963	0.948
Role of BUMDes	0.838	0.973	0.956
Rural Economic Development	0.623	0.934	0.910

The structural model evaluation (inner model) shows an R-Square value of 0.742, implying that village institutions, village governance, and the role of BUMDes simultaneously explain 74.2% of the variance in rural economic development. Hypothesis testing via bootstrapping is summarized in the following table:

Inter-Variable Relationship	Original Sample (β)	T-Statistics	P-Values	Decision
Village Institutions → Rural Economic Development	0.318	3.442	0.001	Significant / Accepted
Village Governance → Rural Economic Development	0.451	5.873	0.000	Significant / Accepted
Role of BUMDes → Rural Economic Development	0.241	2.918	0.004	Significant / Accepted

The discussion of results reveals that Village Governance ($\beta = 0.451$) exerts the most dominant effect in accelerating local economic development in Pejengkolan Village. This proves that transparency and accountability minimize transaction costs and foster active community participation. Conversely, the role of BUMDes, which has the lowest coefficient, indicates the urgent need for managerial improvement, capital enhancement, and business innovation diversification so that its tangible direct economic impacts can be broader and more effectively felt by the village residents.

CONCLUSION

This study concludes that strengthening village institutions, improving the quality of participatory governance, and optimizing the capacity of Village-Owned Enterprises (BUMDes) both simultaneously and partially exert a positive and significant effect on rural economic development in Pejengkolan Village, Kebumen Regency. Village governance serves as the most dominant determinant. It is highly recommended that the village government implement public service digitalization, sustain transparency in village fund management, and reinforce partnership integration between BUMDes businesses and local MSMEs to foster an inclusive and resilient rural economy.

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