

Leveraging Innovation in SMEs through Village-Owned Social Enterprise

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Abstract— Many studies of SMEs have been conducted, and most of them focus on barriers to accessing capital, lack of human resource skills and knowledge, and adopting technology. This study aims to look further and review the role of Village-Owned Social Enterprises (VOE or BUMDES) in the SME development of the villages. What breakthroughs can BUMDES do which can lead to innovation? Case studies in two BUMDES, namely BUMDES in Niagara Village Majalaya and BUMDES in Saptosari Village in Gunung Kidul Yogyakarta; both of them in West Java, have been carried out. BUMDES as a social enterprise owned by the village has a significant role. Together with other stakeholders which are village leaders and officials, BUMDES can leverage innovation in village SMEs, making new breakthroughs. The result of this study also recommends executing this plan into action through a model namely a Social Business (VOE) Model Canvas.

Keywords: innovation, social enterprise, social enterprise model canvas, SMEs, village-owned enterprise.

I. INTRODUCTION

Small-medium enterprises (SMEs) are a small business sector that plays a significant role in the regional economy. SMEs are generally resilient and remain optimistic in the midst of a crisis. The number of SMEs in Indonesia reaches around 99% of the total business population and accommodates more than 92% of the total workforce. A survey conducted by the BRI Research Institute (2023) explains that SME business activity in Indonesia in the fourth quarter of 2022 is increasing. This is reflected in the SMEs Business Index which rose from 103.2 to 105.9. The Covid-19 pandemic situation, which is starting to turn into an endemic, has driven an increase in demand for goods and services, which are mostly managed by SMEs [1].

Nonetheless, the development of SMEs in Indonesia is still hampered by a number of problems, including: (i) weaknesses in terms of capital and managerial aspects namely: management, production, marketing, and human resource capabilities, and (ii) problems with the part of SMEs developers/managers such as for example, the solutions provided are not on target, there is no monitoring and programs that overlap between institutions. SMEs are difficult to develop, especially in rural areas, so they need Village-Owned Enterprise (VOE) as a forum that will manage and find solutions to several SME problems such as limited capital, lagging behind technology-innovation, human resource expertise, and marketing systems. VOE is expected to drive the village economy through the development of SMEs [2]. VOE is a social enterprise because it functions to overcome social problems that occur in society, such as (i) social values, (ii) civil society, (iii) social innovation, (iv) economic activity; in addition to having a social mission, profits are returned to the community, involving community empowerment [3].

It is undeniable that SMEs have a strategic role in economic development in Indonesia. Not only playing a role in absorbing labor and poverty alleviation, but SMEs have also proven to be able to survive and carry out their roles well in the midst of a multidimensional crisis. This is quite reasonable considering that the small and medium business sector has higher prospects for development, besides that SMEs also have different characteristics when compared to large types of businesses. This difference lies not only in the scale of the business, the number of workers, and production capacity, but also in the level of business resilience, where SMEs are believed to be more resilient and have more resilience in running their business [3].

Through the 2014 Village Law in the era of President Joko Widodo's second period in Indonesia, a number of village funds began to be allocated for rural development primarily to develop SMEs. The strengthening and development of SMES is carried out through Village-Owned Enterprises (VOE). Therefore, it is necessary for the village to establish an institution called a Village-Owned Enterprise (VOE or BUMDES) with capital from the village's wealth itself. BUMDES is tasked with processing the resources owned by the village in terms of agriculture, plantation, mining, trade, tourism, etc., so that they can be maximally utilized to make a profit.

However, BUMDES also has its own problems namely: the limited capacity of BUMDES managers and the reliability of its officers, the influence of political constellations in the village, low support from the village government, the limitation of capital and assets, and the selection of businesses that were not based on village potential [4] [5] [6]. The other factors are the capacity of human resources that was not optimal in management because of several internal problems that affected the success of BUMDES performance [7], VOE was not focus on the village's local potential, the incompetence of human resource

and lack of capital, and also the lack of team-work, works experience, skills and education [8][9].

VOE can be boosting new job opportunities for human resources in the village. It will be empowering rural communities on their local potential and develop the village [10]. However, VOE was not followed by extensive utilization and it has not provided more opportunities yet for the villager to work [11]. If each village transforms into a new business model like a tourism sector, the village can provide a significant multiplier effect on the economy [12]. Local government policies also take a significant role to increase community participation and improve human resources, especially BUMDES administrators in organizational management and business marketing [13]. The empowerment program compiled by the government has helped the community to develop economic activities in the village through business activities [14].

The effect of BUMDES program on the people, as the target of the policy, has been implemented well but has not been maximum yet [15]. The implementation of VOE is reflected on effective and efficient communication, and resource effectiveness supported with disposition and bureaucratic structure realized by the government as the policy maker and implementer all at once to the target groups [9]. The policy implementer's interest and the village government's role and response affect the implementation of the VOE policy [16]. The factors supporting VOE are leadership and joint commitment, while the inhibiting factor is related to human resources inside VOE [17].

Different from other research, this paper aims to find how Village-Owned Enterprise can leverage some innovation into villagers' SMEs activity day to day.

II. LITERATURE REVIEW

SMEs or Small and Medium Enterprises per definition are productive businesses owned by individuals and/or individual business entities that meet the criteria as regulated in this Law. Small business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or not branches of companies that are owned, controlled, or become part either directly or indirectly of medium-sized businesses or large businesses that meet the criteria of a small business. For assets criteria, SMEs should have a maximum asset of 50 million IDR, and turnover should not exceed 300 million IDR maximum.

Medium Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or become part of either directly or indirectly with Small Businesses or large businesses with a total net worth or annual sales proceeds as regulated in this Law. Medium businesses are categorized as a business with assets of between 50 million - 500 million (IDR), and turnover of 300 million - 2.5 billion (IDR).

Village-Owned Enterprise (VOE)

Law Number 23 of 2014 concerning Government Regions regulates equal status for villages and districts or cities to be more independent. The independence of the village government is further strengthened by Law Number 6 of 2014 concerning villages and Village Funds. To achieve the aspirations of the local government in developing villages, the village officers should build a strategy to maximize its potential for a strong village community. One way to achieve this goal is to establish a Village Owned Enterprise (VOE or BUMDES in Bahasa).

VOE or BUMDES was born as an effort to improve the village economy according to its needs and potential. VOE works by accommodating aspirations from the community and managing it well based on the village's original potential. VOE is a village business founded or established by the village government where the capital is owned and managed by the local community [18].

In general, the establishment of BUMDES is intended to:

- a. Improving services to the community, so that community businesses in the village develop;
- b. Empowering villages as autonomous regions in increasing productive efforts for alleviating poverty, and unemployment and increasing PADES (income for village); and
- c. Increasing the independence and capacity of villages and their communities in strengthening the economy of rural communities.

The establishment of BUMDES or VOE aims to:

1. Improving the Village economy;
2. Optimizing Village assets so that they are useful for the welfare of the Village;
3. Increasing community businesses in managing village economic potential;
4. Develop business cooperation plans between villages and/or with third parties;
5. Creating market opportunities and networks that support the public service needs of citizens;
6. Creating employment opportunities;
7. Improving community welfare through improving public services, growth, and equal distribution of the Village economy;
8. Increasing Village community income and Village Original Income [19].

Research on the importance of VOE in supporting the village economy was conducted by Ridlwan, et. al. with the title "*Urgency of Village Owned Enterprises (BUMDES) in Developing the Village Economy*" in 2014. The article describes the importance of the existence of BUMDES and its management for the benefit of village communities. This article discusses the regulation of VOE in Village Law No. 6 of 2014 as well as guidelines for establishing VOE. It discusses the experiences of the village government and the importance of moving the wheels of the economy, which requires a new approach that is expected to be able to

stimulate rural areas. The stimulation in question is through the establishment of economic institutions which are fully managed by the village community. The most important thing is that VOE management must be carried out professionally and independently. VOE is a pillar of economic activity in the village that functions as a social and commercial institution.

VOE is a social institution with the interests of the community through its contribution to the provision of social services. The purpose of establishing VOE is to increase Village's Original Income [20][21]. Meanwhile, as a commercial institution, it aims to make a profit by offering local resources (goods and services) to the market. In carrying out its business the principles of efficiency and effectiveness must always be emphasized. VOE as a legal entity, is formed based on the applicable laws and regulations, these provisions are general in nature. while the construction is adjusted to the agreement built in the village community. Thus, the form of VOE can vary in every Indonesian village. These various forms are in accordance with local characteristics, potential, and resources owned by each village.

The ultimate goal is BUMDES or VOE as an instrument of social capital which is expected to be a bridge that connects the village with the outside economic sphere so that it becomes an economic booster in the countryside [22]. To achieve these conditions, strategic and tactical steps are needed to integrate potential, market needs, and the preparation of the design of the institution into a plan. Besides that, it is necessary to pay attention to localization potential and policy support (goodwill) from the government above to eliminate the low surplus of village economic activities due to the possibility of the economic sector not developing in rural areas. So that the integration of agricultural systems and structures in a broad sense, integrated trade and service businesses will serve as guidelines in institutional governance.

BUMDES was established with clear objectives. This goal will be realized, among other things, by providing services for the needs of productive businesses, especially for the poor in rural areas, reducing the practice of debt bondage (rent) and the release of money, creating an equal distribution of business opportunities and increasing the income of rural communities.

BUMDES must be able to educate the public in the habit of saving, in this way, it will be able to encourage the economic development of rural communities independently. BUMDES, based on Law Number 6 of 2014 about Village is an enterprise, the entire or most capital of which is owned by the village through direct equity coming from village wealth separated in order to manage assets, services, and other businesses for the villagers' wellbeing as much as possible. BUMDES is a village business institution managed by villagers and the village government in an attempt of strengthening the village economy and established based on

the village's need and potency [15]. There is a large chance to support village empowerment and independence by developing Village-Owned Enterprises [23].

Research on BUMDES as a social enterprise has also been carried out by Setyobakti with the title "*Identification Of Business Enterprises BUMDES Based On Social And Economic Aspect*": Case Study At Bumdes Ijen Lestari Tamansari Village District Of Banyuwangi [24]. The research identifies and analyzes aspects of VOE or BUMDES business feasibility in terms of social and economic aspects. The results show that VOE Ijen Lestari Tamansari Village, Banyuwangi Regency has a positive impact economically and socially on villagers, both directly and indirectly. The main business of the BUMDES Sector which is engaged in tourism management has an impact on residents around the Ijen area, in the form of additional income from tourism effects. The direct impact was felt by BUMDES employees in managing community activities and involvement in the BUMDES business such as local food producers which were filled with BUMDES and community-based homestay managers.

Besides the success of several VOEs, there were also villagers that had several inhibiting factors that make VOE's role less than optimal such as in Wonogiri District. Some of the inhibiting factors are limited human resources, bureaucratic structure, and authority or policies that do not provide enough flexibility to make some decisions. Also, even though Village Funds increase, its not been followed by the increasing in employment sector [25][11][26]. Another research by Tarlani, found that every village in Cipamekar, Cibiru District, East Java, is being transformed into a model tourism village, to produce a significant multiplier effect on the village economy. A crucial factor for the success of BUMDES is also the competency of human resources namely education background, expertise, working experience, and skills [9].

VOE or BUMDES can also contribute to new job opportunities for villagers empowering rural communities may attract the best village human resources to develop the village based on their local potential [10]. In addition, the strong leadership and vision of the village head (or, in some cases, the head of the VOE) will determine how it can develop.

III. DISCUSSION

Case Study of "BUMDES Saptosari"

Wonogiri Regency is one of the areas that have implemented policies about VOE. One of the VOE established earlier in Wonogiri Regency is BUMDES Sumber Artha Makmur Desa Sumberejo of Batuwarno Sub District. The BUMDES has been established since 2012 by the local village government based on Sumberejo Village Regulation Number 03 of 2012 and supported by the Head of Sumberejo Village's Decree Number 09 of 2012 About the Establishment of Village-Owned Enterprise (BUMDES)

Management. Sumberejo Village government, through BUMDES Sumber Artha Makmur has attempted to utilize the village's assets and potency through business programs and units it manages.

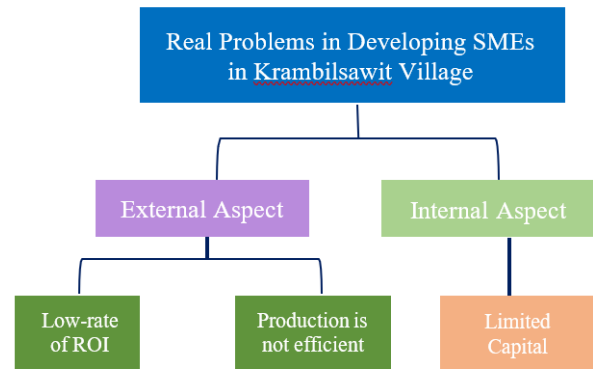
In 2017, based on Regent of Wonogiri's Decree Number 388 of 2017 About the Assignment of the recipients of the Village Innovation Program Award at Wonogiri Regency level in 2017, Sumberejo Village got an award in the category of Innovating Village (Usurer-free Village). Despite the commitment to the establishment of BUMDES, Sumberejo Village Government still finds some problems in utilizing the village's assets and potencies. Those problems are, among others, the village's potency in the economic sector, in which about 48 populations are traders and home industry performers with less optimum management. Additionally, the existing natural and human resources have not been managed maximally, as indicated by the less maximum program plan [27].

The optimization of asset utilization and development and village potency owned is conducted intensely to improve the original village income (VI). If VI can be improved, the village will get management funds and development financing for the village, so that village independence can be achieved [28]. The report on the realization of Sumberejo Village finance shows that the contribution of VOE output to VI has not shown significant income yet and tends to present the fluctuating percentage of VOE output to VI in 2014-2018. Although, in fact, the village actually has varying assets and potency and evidently gets the award for innovating the village.

Considering this, it is interesting to discuss the factors affecting VOE expectedly contributing to the village's advance. This research aimed to identify supporting factors and inhibiting factors affecting the implementation of the VOE policy in Sumberejo Village, Batuwarno Subdistrict, Wonogiri Regency. To answer the problem, a theory should be elaborated first to analyze it. Some previous studies have been conducted on the policy of Village-Owned Enterprise found that the potency of some villages has not been managed optimally, and village government can improve the role of BUMDES as a mediator of government funds and as the facilitator of the rural economy.

Some findings regarding problems occurred in BUMDES Saptosari are as shown in Figure 1.

Figure 1. Problems in Saptosari SMEs Village



(adapted from: [2])

Case Study of "BUMDES Niagara"

Village Owned Enterprises or abbreviated BUMDES are the embodiment of the mandate of Law Number 6 of 2014 concerning Villages. Article 87 states that BUMDES is formed on the basis of a spirit of kinship and mutual cooperation to utilize all economic potential, economic institutions, as well as the potential of natural and human resources in order to improve the welfare of rural communities. So that the existence of BUMDES in the midst of village communities can run businesses in the economic sector and public services which in their activities are not only profit-oriented but are oriented to support improving the welfare of village communities or benefit-oriented.

In 2003, the village began providing equity participation to BUMDES Niagara with an initial capital of 15 million. The capital provided by the village until 2019 has reached 5,315,425,304 rupiahs. BUMDES Niagara always improves and innovates every year to expand its business activities based on local needs and potential. Until 2019 there were 3 business units managed by BUMDES. First, the village market unit has existed since 1999. This village market has now grown to 130 stalls and accommodates 250 traders.

These markets, like traditional markets in general, sell a variety of basic household needs, starting from food such as vegetables, fruits, meat, traditional foods, and snacks. Then the needs for clothing, various clothes, and also household appliances such as brooms, cooking utensils, and so on. Niagara Market is very strategic because it is easily accessible to 4 districts namely Majalaya, Pacet, Idun, and Paseh. So that every day the market is never empty.

Looking at the market activities, Niagara Village BUM took the initiative to create a savings and loan business unit. What is unique about this savings and loan activity was that it began with the savings of market traders kept at the Niagara Village BUMDES since 2000. As for lending activities, it began in 2002.

However, in its development, this savings and loan activity expanded to residents, not just market sellers. Until 2019, it was recorded as having served 4,109 BUMDES Niagara customers, both saving and borrowing money. The development of deposits until 2019 reached IDR 278,447,012

and credit growth reached IDR 1,056,788,400. As for the trading business, BUMDES Niagara Village sees a high demand in the community for electronic goods. So that it opens the ordering of electronic goods with a cash or credit pre-order system. Then also Niagara Village BUM opened an alkaline water business with the name "Niagara Water". This business activity is to meet residents' needs for refilled water, bottled water, hand sanitizers, beauty water, and the provision of *Kangen Water* machines.

The beneficiaries of this alkaline water include VOE consumers, community members, and migrants. VOE also opens opportunities to work with residents to become distributors or resellers who are directly guided by VOE. Still, within the scope of trade, Niagara BUMDES also collaborates with SMEs in sandals and leather shoes. BUMDES provides capital to SMEs of sandal craftsmen so that the sandal crafts are marketed by VOE.

Not only that, seeing the potential of Majalaya District, which is known as a textile city, VOE is also working with LKP (Skills and Training Institute) to recruit residents to be trained in making various kinds of products from leftover fabric from factories. Various products can be made, namely tablecloths, doormats, and sheets, and now BUMDES are making creative breakthroughs by directing them to make wallets. This collaboration is carried out with the VOE providing capital to a group of tailors or craftsmen so that the production results will be marketed by the BUMDES. The profit sharing is based on profit sharing.

In carrying out joint activities with SMEs, the VOE also collaborates with the Department of Trade and the Office of Tourism. Nothing else is done to expand the network, add information and also participate in government programs. Marketing of SME products is currently still struggling in Majalaya District and the Nearest District. From these various business activities, VOE gets profits that are increasing from year to year.

In 2020, the village together with VOE is also trying to take advantage of local potential which has the beauty of the mountains to be arranged into a *Citarum Wangi* educational park. In 2019, at least BUMDES earned a profit of IDR 289,976,132 from the savings and loan business. Meanwhile, from the village market business, because the stall rental is done once every 10 years, profits can be withdrawn when paying for the extension of the kiosk. Then from the alkaline water business, within a month the VOE gets a profit of at least IDR 8,000,000,- per month. Meanwhile, from trading activities, cooperation with MSMEs does not yet have a profit that can be calculated. In 2019, VOE assets reached IDR 13,843,859,554 where the profit earned in that year was IDR 710,629,271.

As much as 57% of this profit is used as additional capital and incentives for BUMDES administrators and supervisors. Meanwhile, 43% goes into Village Original Income (VI) which is used by the village for social, development and empowerment activities, for example, the construction of

uninhabitable houses, social services, incentives for madrasa teachers, and construction of village infrastructure.

IV. ANALYSIS

Here is the analysis of Niagara and Saptosari VOE with SWOT, as shown in Table 1.

Table 1. SWOT Analysis of 2 BUMDES

Strengths of VOE	Weaknesses of VOE
Village-Owned Enterprise has the authority to be protected by Law No. 6 of 2014 and Law No. 11 of 2020 concerning Villages	VOE capital still largely depends on the allocation of Village Funds which highly depends on political maps of village planning
BUMDES or VOE is not only profit-oriented (generate income for village) but more importantly it is paying more attention to the benefit for their community	The regulations become less than optimal due to a lack of human resources to guide, advise, and supervise the VOE
BUMDES has the authority to manage the common pool resources in the village.	BUMDES or VOE Managers sometimes do not have a business or entrepreneurship background so activities did not meet the goals
	BUMDES human resources are still considered unqualified and so making it difficult to innovate.
Opportunities	Threats
Collaboration with financial institutions, local champions, and companies with local government.	Trust crisis from the community
BUMDES can cooperate with other BUMDES to create rural economic power, create bargaining power, and empower the community	Similar activities brought by the company
VOE can submit assistance for capacity building or apply more business capital to local government or company CSR	Changing political VOE policy
BUMDES can be recognized as a Legal entity by the Ministry of Law and Human Rights by registering their institution.	Lagging behind technology trends and human-resources competency.

The analysis of the role of VOE or BUMDES in boosting and leveraging the SMEs innovation is shown in Figure 2.

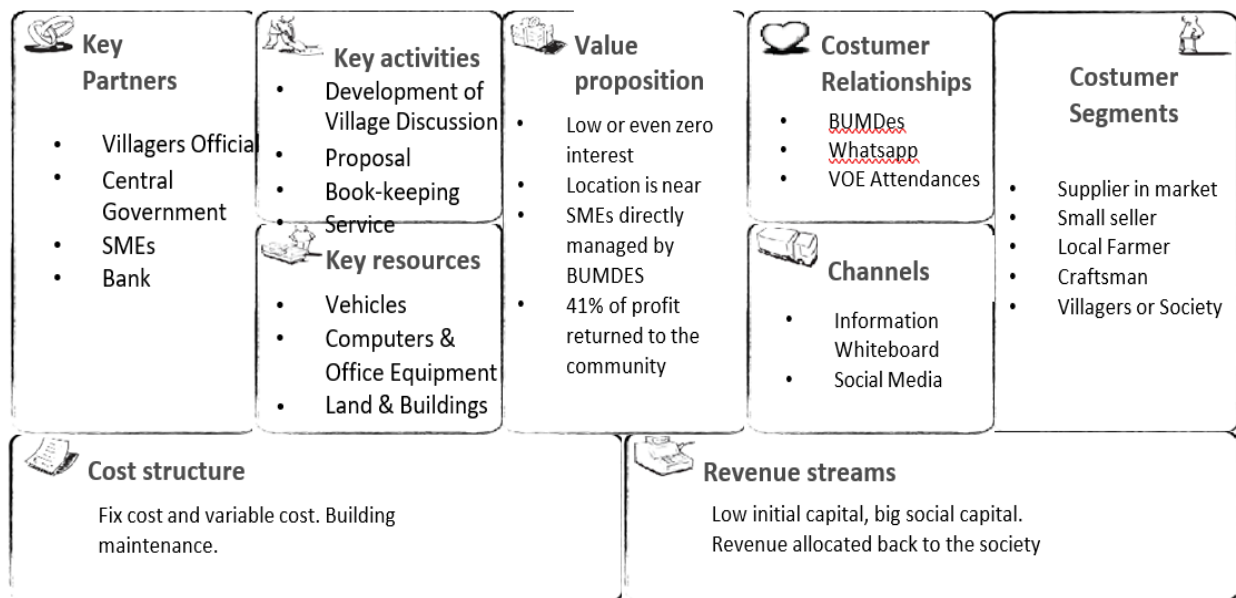


Figure 2. Social Business Model Canvas for BUMDES

V. CONCLUSION

Village-owned enterprises are characterized by their collective ownership and democratic governance structures, which prioritize the well-being of the community over individual profits. VOEs empower the SMEs and villagers to participate actively in decision-making processes and shape the direction of development. Through VOEs, communities gain some economic benefit, breaking free from the traditional top-down approach where external entities dictate development priorities. Instead, they develop their own strategies to tackle social challenges, leveraging their unique knowledge, culture, and resources.

Village-owned enterprises are particularly effective in addressing the specific needs and challenges faced by communities. The community identifies its problems, such as unemployment, poverty, lack of basic services, or environmental degradation, and develops innovative solutions to tackle them. For example, a village may establish a cooperative to address unemployment by creating local job opportunities in many sectors.

Another community might establish a social enterprise focused on renewable energy, promoting environmental sustainability and reducing dependence on fossil fuels. By tailoring their enterprises to local needs, VOEs ensure the long-term viability of their solutions while maximizing social impact.

Income generated by VOEs often stays within the community, fostering local economic resilience and reducing wealth disparities. This income can be reinvested in social programs, infrastructure development, education, healthcare,

and other vital services that directly benefit the community. Village-owned enterprises represent a powerful form of social innovation that empowers local communities, addresses their specific needs, drives inclusive development, and catalyzes broader social change.

Village-owned enterprises offer a transformative approach that brings hope, resilience, and prosperity to communities around the world.

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