

Conflicts of Interest in Maintaining Village Business Enterprises: Evidence from Indonesia

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ARTICLE INFO

Article history

RECEIVED: 04-Jan-21

REVISED: 16-Mar-21

ACCEPTED: 21-May-21

PUBLISHED: 15-Jun-21

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Citation: Siti Nuraini, Mita Widyastuti, Aos Kuswandi & Dila Novita (2021). Conflicts of Interest in Maintaining Village Business Enterprises: Evidence from Indonesia. *Hor. J. Hum. & Soc. Sci. Res.* 3 (1), 123–132. <https://doi.org/10.37534/bp.jhssr.2021.v3.n1.id1089.p123>.

ABSTRACT

The aim of this paper is to explain the relationship between the conflict of interests of the village head and the Village Owned Enterprises (BUMDes) sustainability in the Bekasi Regency, Indonesia. The study was conducted using qualitative methods. Moreover, primary data were obtained through interviews with selected informants who were purposively determined. Other data were sourced from secondary data obtained from written documents on BUMDes. Direct observation of selected objects as reinforcement data from the results of interviews and secondary data has also been used. The study's findings indicate that the village head's position in the BUMDes structure has encouraged the village head to abuse power. This happens because the political cost to occupy the position of the village head is quite substantial. These conditions encourage the Village Head to hold a position within the BUMDes. The findings of this study have practical implications and suggest that BUMDes as an instrument of village development with social and economic functions are prone to be abused by stakeholders. Ordinary people are not yet fully participant in a healthy civil society culture, and society's Bekasi Regency style that has turned into a suburban community, tends to neglect BUMDes. They tend to not want to be involved in activities that seek to build the community's economy.

Keywords: Abuse of power, Sub-urban Communities, Village-Owned Enterprises

Introduction

'The success of its economic development measures the success of a country.' Although this opinion has changed, the economy remains one indicator of development. In other words, economic development is something that is not negotiable (Beeson, 2014). In its journey, economic development driven by large-scale economic actors does not always make a significant contribution (Addey, et al., 2017); instead, it raises vulnerability for macroeconomies. It proves that an economy supported by small economic actors is more resistant to shocks in economic fluctuations (Martin & Sunley, 2015). Therefore, it is not wrong if attention is given to the growth of small economic actors.

A small-scale economy has many advantages in terms of flexibility in facing development and economic shocks, capital, labor, and business sectors (Rothenberg, et al., 2016; Demenet, 2016). Small capital, simple technology, high labor absorption, and low skill requirements make it easier to manage. Nevertheless, behind these advantages, small businesses are vulnerable to rapid technological development (Didonet, et al., 2012). Small entrepreneurs who cannot deal with the onslaught of technological change will face shocks in their companies' development and even go bankrupt (Audretsch, 2007; Christensen, 2013). Traditional management and low fighting power of a small scale businessman become an obstacle in facing higher competition (Rinawati, 2019). Having an entrepreneurial spirit and innovation is the key to the survival of small businesses (Ligthelm, 2013).

The small business's optimistic nature is a challenge for developing countries to encourage them to grow and develop (Naudé, 2010). Governments in developing countries rely on their future economic expectations (Wang, 2012). It proves that they could create stability and economic growth. As was the case with Indonesia in the 1998 economic crisis, large employers responded to the situation by carrying out large-scale layoffs while small entrepreneurs were relatively safe and able to survive without employment termination (Akita, 2002).

Proven small economic flexibility in the urban economy in its development has been tried to induce in rural areas. This means that small businesses in urban areas have begun developing in rural areas (Xue, et al., 2017). This fact is in line with a large number of villages in Indonesia. More than 50% of Indonesia's population lives in villages (Bock, 2016). Rural areas are also synonymous with poverty and underdevelopment (Santos, 2017; Adisa, 2012). Until now, the village is still a significant enclave of poverty in Indonesia (Hamid, 2016; Jonnadi & Aimon, 2012).

Compared to cities, the number of poor people in villages is higher; not only the number of poor people is much more significant, but the poverty rate in rural areas is also worse than in urban areas (Sahn & Stifel, 2003). The village poverty rate is 13.9%, while the urban poverty rate is 7.72%. The value of the Poverty Depth Index and the Poverty Severity Index in rural areas is much higher than in urban areas. Poverty Gap Index-P1 is an average measure of each low population's expenditure gap against the poverty line. The higher the index value, the further the average population expenditure is from the poverty line. Referring to the index in March 2013, urban P1 only reached 1.25, while rural areas reached 2.24. The Poverty Severity Index (P2) is a measure that provides an overview of the distribution of spending among the poor. The higher the index value, the higher the expenditure disparity. The Poverty Severity Index in March 2013 for urban areas was only 0.31, while in rural areas, it reached 0.56 (Suharto, 2016).

Todaro and Smith (2004) explain that the urgency for overall rural and agricultural development is far more critical, than merely supporting overall economic development. Integrated rural development is vital because industrial development will not run smoothly and up to quality standards, and might even create internal inequality. Thus, rural development becomes the core of national development and has been believed by many political parties. Chambers (1987) called it the rear, and the Nawacita Government of Joko Widodo (Indonesian President in 2019-2024) called it the builders from the periphery.

The enactment of Law No. 6 of 2014 concerning villages gives a breath of fresh air to rural development (Islaini, et al., 2019). Some articles contain crucial provisions that can encourage village independence. In article 19, the law explains the expansion of village authority, which includes: authority based on original rights; village-scale local authority; authority assigned by the government, provincial, regional government, or Regency/city-regional government; and other authorities assigned by the government, provincial, regional government or Regency/city government following statutory provisions. Besides, article 72 contains clauses concerning strengthening village capacity through strengthening village finances (income) by adding potential sources of income, which include: (a) original village income; (b) allocation of the state revenue and expenditure budget; (c) a share of the results of regional taxes and Regency/city levies; (d) allocation of village funds which is part of the balance funds received by the Regency/city; (e) financial assistance from the provincial, regional revenue and expenditure budget and Regency/city regional revenue and expenditure budget; (f) non-binding grants and donations from third parties; and (g) other legal village income. Through the village income instrument, it is hoped that the village can design programs that can make the village independent and bring prosperity to the community by utilizing the potential that exists in its territory (Saputra, et al., 2019).

In Indonesia, the potential of village resources is quite large. Of the total 74,958 villages, 61,821 villages have potential in managing the agricultural sector. 20,034 have potential for plantations, 12,827 villages have the potential for fisheries, 1,902 villages have potential for tourism, and 65,587 villages have the potential for new and renewable energy (Antlöv & Dharmawan, 2016). The natural potential is mostly found in rural areas in the form of agricultural land, forests and ecosystems in it, mines and minerals, beaches and various marine life, and other natural landscapes. Besides that, the village also stores cultural wealth, customs, rituals, and other local wisdom (social capital) (Ginting, 2018; Mattessich, 2009). The village cannot be forgotten as a supply of human resources or labor for urban areas. During this time, the potential of existing resources in rural areas has not been developed to the maximum, so it cannot be utilized for the village community's maximum welfare.

One of the efforts to develop the rural economy is forming a Village-Owned Enterprise (BUMDes). In Law Number 6 of 2014 concerning villages, it is stated that BUMDes is a Business Entity whose entire or most of the capital is owned by the village (Winarsi & Moechthar, 2020; Sofyani & Rezki, 2019). Through direct participation from village

assets that are separated to manage assets, services, and other businesses to improve rural communities' welfare. So, it can be understood that the BUMDes as a village business institution becomes a place to accommodate economic activities and the implementation of public service functions managed by the community and village government to strengthen the village economy and aim at increasing the prosperity of the village community (Srirejeki, 2018).

Village-Owned Enterprise (BUMDes) in the Context of Bekasi Regency

Long before the stipulation Law, No. 6 of 2014 concerning villages was established, regulations were governing BUMDes, namely Government Regulation Number 72 of 2005 concerning villages. Several Regency governments in Indonesia have issued local regulations to follow up on these government regulations (Ray & Goodpaster, 2012). Some examples include Malang Regency issuing Regional Regulation Number 20 in the Year 2006 concerning Village-Owned Enterprises so that villages in Malang Regency have initiated BUMDes after enacting the Regional Regulation. Likewise, in Bojonegoro Regency, 419 BUMDes were established in 2006, and the strengthening of BUMDes institutions is carried out by Regional Regulation No. 9 of 2010 concerning villages (Budiono, 2015).

After enacting Law Number 6 of 2014 concerning villages and its derivative regulations, the legal basis for the formation of BUMDes has got stronger and encouraged villages to implement forming BUMDes. Supported by the disbursement of village funds from the state budget, the village can allocate its budget to establish BUMDes and provide start-up capital for undertaking economic activities for the village community through BUMDes. The central government, through accompanying staff deployed in the village and the regional government, encouraged by issuing the Regulations of the Regent provide signs of the implementation of the BUMDes program. West Java, as the province closest to the center of government, is quick to respond to this decision. It is hoped that the growth of BUMDes in villages will quickly improve economic conditions, especially the imbalance between urban and rural areas. Data of BUMDes that have been established in West Java are presented in Table 1.

According to Table 1, several Regencies have villages with low Regional Owned Enterprises (BUMDes) ownership, such as Sukabumi Regency, Subang Regency, Purwakarta Regency, and Bekasi Regency. The four Regencies have BUMDes ownership levels of less than 30%, and on average, these regions have high sub-urban areas. Bekasi Regency, as the buffer zone of the capital, is an area that has the largest industrial estate in Indonesia. Thus, most of the villages are located in industrial estates, so they are far from the rural nature and thicker. Changes

Table 1: The Number of Villages and Village-Owned Enterprises (BUMDes) In The Province of West Java

No.	Regency	Number of Villages	Number of Village-Owned Enterprises	Percentage (%)
1.	Bandung Regency	280	226	80.7
2.	Bandung Barat Regency	185	136	73.5
3.	Bogor Regency	434	245	56.4
4.	Bekasi Regency	187	54	28.9
5.	Cianjur Regency	360	150	41.7
6.	Ciamis Regency	265	189	71.3
7.	Cirebon Regency	424	148	34.9
8.	Garut Regency	442	244	55.2
9.	Indramayu Regency	317	227	71.6
10.	Karawang Regency	309	294	95.1
11.	Kuningan Regency	376	105	27.9
12.	Majalengka Regency	343	238	69.4
13.	Purwakarta Regency	192	23	11.10
14.	Pangandaran Regency	92	52	56.5
15.	Subang Regency	253	15	5.9
16.	Sumedang Regency	277	157	56.7
17.	Sukabumi Regency	386	15	3.9
18.	Tasikmalaya Regency	351	186	52.10

Source: Village Ministry Website, 2018.

in community characteristics affect the sustainability of existing institutions.

The level of village participation in developing BUMDes does not always reflect the success of BUMDes in developing the village economy. Research conducted by Budiono (2015) showed that village institutions' characteristics and the interests of actors in the village influence the formation and sustainability of BUMDes. The level of openness of village management encourages the implementation of BUMDes formation policies, and the interests of actors in the village influence the sustainability of BUMDes. Experience in Bojonegoro Regency shows that at the beginning of the BUMDes policy in 2006, 419 BUMDes were established in each village. However, at the time of 2018 data collection, there were only 21 BUMDes left, with the remaining nameplates.

Besides, the community's ability to assess the potential in the village allows it to formulate many business fields that are not following the potential. Business selection is often only done by duplicating businesses from other villages or just a business commonly done in most rural villages, namely savings and loan businesses. According to the Director of Financial Inclusion Development of the Financial Services Authority, Eko Ariantori, there are several problems that hinder the formation of BUMDes. Limited community knowledge of the importance of BUMDes, the village head knows but is reluctant to initiate because it does not benefit him. Some know but establish BUMDes carelessly (in Liputan 6.com, 9 April 2018).

As a business institution managed by the community and village government, active participation from the community is needed. Besides, good support and cooperation with the village government is the key to the success and sustainability of BUMDes. Unfortunately, the bad experience of centralized development has killed community initiatives and active roles, so it takes time to restore the community's confidence to determine its future. Besides, the change of village government leadership can be a problem for the sustainability of BUMDes; not all BUMDes managers can work together with the village head and vice versa. According to Winarno (2008), the lack of organizational capability is one of the weaknesses that made the failure of rural development in the New Order era. This weakness may still not be overcome.

The diversity of village conditions and the community's readiness to form BUMDes on the one hand and regional targets and the government, on the other hand, encourage BUMDes to be formed prematurely. External

insistence through regulations and target commitment makes for hasty establishment of BUMDes, without going through the proper procedures. The socialization is carried out merely as a formality. Village deliberations are held without a thorough process. The selection of personnel (BUMDes management) is taken from the circle of power without involving representatives of community groups, and the formation of the BUMDes Statutes and bylaws (AD/ART) comply. Without seeing the urgency of the regulation, BUMDes is carried out unprofessionally. Under these circumstances, BUMDes runs, but its survival cannot be expected. As a result, many BUMDes run in place, merely surviving, not thriving, existing in name without activities.

Village-Owned Enterprises are village business institutions managed by the community and village government to strengthen the village economy and are formed based on the village's needs and potential. BUMDes is a pillar of economic activity in the village that functions as a social and commercial institution. BUMDes plays a role as a social institution that takes the community's interests through its contribution to social services provision. Meanwhile, as a commercial institution, it aims to seek profit by offering local resources.

The role of BUMDes as a social institution and an economic institution creates a dilemma in its management. Besides having to provide community services, protecting the interests of the community, and becoming an instrument of stability, BUMDes must also function as an economic institution whose job is to make a profit. Both roles that must be attached to BUMDes require manager skills so that both can be performed in balance. It also requires the participation and critical power of the community to oversee every BUMDes step to provide input when the economic role is more prominent than the social role and vice versa, so that the presence of BUMDes can be felt by the community (Ramadana et al., 2015, Anggraini, 2015).

The village government and the community feel the minimal contribution from the BUMDes. The presence of BUMDes is expected to contribute to the increase in village income, but in reality, many businesses are stagnant and do not produce profits. Even if it makes a profit, the calculation of profit distributed to the village is not transparent, even though it has contributed significantly to the initial capital grant. For the community itself, the benefits of BUMDes are often not felt. This benefit is related to the type of business chosen by BUMDes. If BUMDes is keen to target the businesses needed and provide community services, the presence of BUMDes can benefit. The ability to read the limited potential encourages BUMDes to

choose businesses that are considered capable of being managed by their management only in the business fields that already exist in the village. Many businesses are not directly related to community needs. Capital limitations also constrain business scale; capital limitations make savings and loan funds only revolve around a group of people close to the BUMDes management.

Theory and Modelling

Grindel (1980) explains compiling a policy implementation model by looking at policy content variables and implementation context. Policy content can be seen or reviewed by analyzing the contents of policies related to BUMDes, and the context of implementation can be seen by analyzing the factors that influence implementation in the field.

The policy's content examines the policy's substance by examining every article, paragraph and verse in the policy text. Every article or verse contains ideas/changes that will be made through the policy. The ideas contained in the verse or chapter reflected norms and values to be internalized. Grindel said that the contents of the policy were carried out by looking at: the interests affected by the policy, the types of benefits to be generated, the degree of change desired, the position of policymakers, program implementers, and resources deployed.

The context of implementation is the reality that must be faced by a policy that a policy will be implemented in different environments. National policies will be implemented in villages throughout the country, where each village has different characteristics, and uniqueness and the environmental differences in which the policy is implemented will affect the outcome of the policy. The implementation context includes the power, interests, and strategies of the actors involved, institutions, and authorities' characteristics and compliance and responsiveness.

Method

This study is a qualitative descriptive study using Modelling from Grindel. The research instrument was compiled by lowering implementation indicators from Grindel into questions arranged systematically and adjusted to the cultural context in which the informant was located. Data is collected by interviewing the informants who have been chosen to represent the research sample areas.

The informants consisted of the village head, BUMDes management, and field assistants. The study area was chosen to represent the villages in the north (3 villages), middle (3 villages), and south (3 villages). Besides, the researchers used secondary data from Central Statistics Agency (BPS), Ministry of Village and Transmigration, and Bekasi Regency Government. Data reliability is carried out by triangulation by comparing data obtained through interviews with secondary data from various appropriate sources. Thus, it will avoid data bias. The analysis is carried out on the data obtained by describing and analyzing in-depth to arrive at conclusions.

Results and Discussion

Bekasi Regency is a Regency in which the villages have been generally slow in responding to policies originating from the central government, both at the time of government regulation number 72 of 2005 concerning villages and after being strengthened with Law number 6 in 2014 along with its derivatives. Several reasons cause the low responsiveness of the village government in implementing the formation of BUMDes. Local governments are less able to encourage village heads to initiate BUMDes. The central government and regional governments have conducted socialization, and training and mentoring for village heads to increase village heads' capacity in running the village administration, including how to explore the potential that can be developed through BUMDes. Village heads' level of education in the Bekasi Regency is relatively low compared to other regions. Many village heads are only educated till junior high school level. The low education level dramatically influences a village head's performance to deal with complex governance problems and manage village communities.

In the last few decades, the Bekasi Regency people have experienced a transformation from rural communities to urban communities, although they still live in village administration. This circumstance will undoubtedly lead to its management difficulties because it is not suitable between the context and the content. On the one hand, the community's nature has become urban, but on the other hand, it is managed to utilize the management of rural communities. If management incompatibility with that context is carried out, there will be ineffectiveness in achieving policy objectives.

Until 2019, since Law number 6 of 2014 concerning villages was rolled out, in Bekasi Regency, there have been 54 BUMDes with the details of 44 BUMDes having Village Regulations and 10 BUMDes not having Village

Regulations. Some BUMDes that exist, formed from businesses that already exist in the community/owned by individual businesses that have effective lanterns business, so it is not a pioneering effort of BUMDes management. Some BUMDes open grocery and procurement businesses of office stationery needs for companies around the area, which has similar business fields pioneered before. The business sector run by BUMDes ideally refers to the potential that exists in the village. For example, the Pebayuran Regency area is agricultural. Hence, farmers certainly need various seeds, fertilizers related to agriculture, but the business run there is a mini gas station. This fact shows that BUMDes have not yet thought about the business fields that are the general needs of village communities and their management. According to the statement, one of the Head of the Neighborhood Association in the village said that a group of village government elites established a BUMDes, but it was not transparent how much profit it made and for what. This fact shows that BUMDes are not in line with the expectations implied in the Village Law to manage BUMDes with a family and cooperative spirit and are used for village development purposes.

Although the number of BUMDes does not yet match the number of villages in the Bekasi Regency, which is only 30% with the conditions described, the Bekasi Regency's performance is still better than Purwakarta, Sukabumi, and Subang Regencies. This condition should ideally be a motivation to be improved both in terms of quantity and quality.

The development of the number of BUMDes in Bekasi regency based on the distribution of the number of sub-Regencies is still very low, even unbalanced. A comparison between the number of villages in each sub-Regencies and the number of BUMDes, in detail, BUMDes in Bekasi Regency can be seen in the following Table 2.

According to the data in Table 2, it can be seen that there are sub-Regencies whose villages have a high level of participation in the establishment of BUMDes and several Regencies with low participation rates. It is compared between the number of villages in the Bekasi Regency, which amounted to 180 villages. Meanwhile, the number of BUMDes stands at 54 units. Only 30% of BUMDes have been established in Bekasi Regency. The low number of BUMDes shows that community participation in strengthening the village economy through the establishment of BUMDes is still low. This participation level is related to the village head's leadership. Besides leadership, the village head's capacity to observe potential and observe opportunities that can be done to advance the village through BUMDes is also lacking.

Table 2: Village-Owned Enterprises (BUMDes) List in Bekasi Regency by Sub-Regency in 2019

No.	Sub-Regency	Number of Villages	Number of Village-Owned Enterprises
1.	South Tambun	9	3
2.	North Tambun	8	1
3.	West Cikarang	10	3
4.	Center Cikarang	6	2
5.	South Cikarang	7	7
6.	North Cikarang Utara	11	8
7.	Kedungwaringin	7	7
8.	Pebayuran	12	3
9.	Tarumajaya	8	3
10.	Setu	11	2
11.	Babelan	9	1
12.	Sukawangi	7	1
13.	Sukakarya	7	1
14.	Muaragembong	6	1
15.	Tambelang	7	3
16.	Serang Baru	8	3
17.	Cibarusah	7	3
18.	Bojongmangu	6	1
19.	Cikarang Timur	7	—
20.	Karangbahagia	8	—
21.	Cabangbungin	8	—
22.	Cibitung	6	—
23.	Sukatani	7	—
	Total	180	54

Source: From many sources, 2018.

The policy of establishing BUMDes has a positive intention. Villages that are long in retardation live stagnantly and become pockets of poverty are expected to change and to become more prosperous, especially since the village has much-undeveloped potential. With this policy, it is expected that the village's potential can be developed and cause a multiplier effect for the community. Government policies and regulations on BUMDes are not in the form of obligations but in the form of choices made by the village in increasing the village's original income and growing the village economy and reduce the unemployment rate. As an option, the village head and community may form BUMDes. Therefore, it is not wise if the policy to establish BUMDes becomes something that is compulsorily required and becomes a target burden for the supra village government.

The context of implementation, the BUMDes policy depends very much on the political will of the village head. The village head's position as the sole ruler in the

village determines whether BUMDes is formed. The Village Law states that the village head is an advisor to the BUMDes. In that position, the village head has a strategic position to decide, allocate the village budget for BUMDes capital, and appoint personnel to manage the BUMDes. The dominant position lacks favorable intent for the existence of BUMDes. The existence of BUMDes is highly dependent on the political will of the village head. It will be different when the community has a strong bargaining power to control the village head. However, in reality, the community's bargaining position is so weak that no power can control the village head.

If it is viewed from the affected interests, the village head and the community will be affected by this policy. The problem is that the village head and the community are in an unbalanced position. In general, village communities have been arranged in a layer that has been preserved from generation to generation. Various agrarian areas of community layering in rural areas are based on land ownership. The upper layers consists of landowners, land tenants, and the lower layers consists of farm laborers. The upper layers generally become economic and political rulers. They are the village elite. In this imbalance of power and mismatch in economic and development interests, a policy will have a different effect on the target group. Groups with power have a greater chance of fighting over the resources and benefits than groups that do not have power. If a group has controlled the resource, it will not be easy to distribute to other groups. In every policy, there is always a group that benefits and one that loses with the policy.

In the community empowerment policy, the main target groups are those that do not have power, are marginalized, and do not have channels to express opinions and participate in decision making. They get priority to be involved in community development programs, so there is an alignment in economic access and role in society. Economic access and opening the door for them to get involved can foster potential that has not been actualized, and their involvement makes development more synergistic.

During this stretching, BUMDes in several villages have been initiated long before Law Number 6 of 2014 concerning villages was enacted; in Government Regulation Number 73 of 2005, the provisions of a village business entity based on local communities have been rolled out. According to the Government Regulation, several villages have initiated the establishment of BUMDes. After the law stipulated on villages and the Regulation of the Ministry of Villages, Development of Disadvantaged Regions, and

Transmigration Number 4 of 2015, then concerning the Establishment, Management, and Disbanding of Village-Owned Enterprises. It was determined that the establishment of BUMDes becomes mandatory for villages. Along the journey of BUMDes, many villages have succeeded in building BUMDes and improving village communities' welfare, but there are many stories of BUMDes failures. Some BUMDes are operating in places, capital is shrinking, and business units are not increasing. Seeing the many BUMDes that fail, researchers are interested in assessing the failures and successes of BUMDes.

Paying attention to the establishment and development of BUMDes in the Bekasi Regency shows that growth and development are not as optimal as expected. Many BUMDes established business entities that play a role in rural communities' economies but are ultimately not productive. The position of the village head as part of the elite in the BUMDes, as a commissioner, greatly influences the activities of a BUMDes.

The dominance of the Village Head as the village government power elite who should be able to drive the progress of BUMDes causes the opposite to happen. Conflicts of interest from various parties who see BUMDes as having economic value have instead led to undeveloped BUMDes. The tug-of-war of interest makes BUMDes suspended. Under these conditions, the growth and development of BUMDes in terms of quantity and quality in the Bekasi Regency are not significant. The village head's high level of intervention in the management of BUMDes is one of the causes. Conflicts of interest between village governments and BUMDes stakeholders have made BUMDes undeveloped in Bekasi Regency.

Conclusion

Village-Owned Enterprises (BUMDes) in Bekasi Regency has not developed as expected in quantity and quality. Many BUMDes that were founded became stagnant and even went out of business. This condition is partly due to the conflict of interests of various parties in the village elite. As the village's sole ruler, the village head will determine whether BUMDes is formed or whether BUMDes develops. In the Village Law No. 6 of 2014, it is stated that the village head is an advisor to the BUMDes. The village head's position as an advisor to BUMDes has a strategic position in deciding, allocating the village budget to BUMDes capital, and appointing BUMDes management personnel. The dominant position of the village head is less favorable for BUMDes' development and progress. The development of BUMDes is highly dependent on the

political will of the village head. The dominance of the village head will weaken other parties who want to contribute to the development of BUMDes. On the other hand, the community has a weak bargaining power to control the village head. The community's weak bargaining position results in no power to control the village head in his involvement with the BUMDes.

Competing Interests Statement

All authors have read and approved the manuscript and take full responsibility for its contents. No potential conflict of interest was reported by the author(s).

Acknowledgment

The authors wish to convey their sincere thanks to the reviewers and editors of this scholarly journal for publishing our manuscript.

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