

# An Empowerment of a Village Economy: (BUMDES) in Indonesia

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A Village of Enterprise (BUMDes) is a micro-scale community business entity in a village jointly managed by the community and the local village government. The management of BUMDes is separated from village government management but supports village income. This article discusses issues on the institutional form of BUMDes that is said to be adjustable with the economic, social, and cultural conditions of rural communities in Indonesia, as well as efforts that BUMDes can take in raising funds as village assets. This article presents the results of normative and qualitative research. Results show that the institutional form of BUMDes can be adjusted with the economic, social, and cultural conditions of rural communities. In addition, BUMDes is a non-profit legal entity with a management that is based on the principles of family and mutual cooperation, similar to Cooperative Enterprises. Efforts that can be made by BUMDes in raising funds as village assets can be conducted through the establishment of group business companies (holding).

**Key words:** *Enterprise, village owned enterprise, village economy.*

## Introduction

As a mandate from the 1945 Constitution of the Republic of Indonesia, the State is responsible to create welfare for the people. In the concept of a welfare state, the government plays an important role to improve and protect the economic and social welfare of its citizens. The state is effectively responsible for the welfare of its citizens. This role is based on the principles of equal opportunity, equitable distribution of wealth, and public responsibility for those who are unable to meet the minimum standard for living (Alvin P. Ang, 2018)

The concept of a welfare state is generally accepted as a broader definition of the role of the state in the field of social and economic policy. This includes more than just the provision of social services, (Titmuss' <sup>1964</sup>) one of the services is carried out by the government by

establishing business units such as state-owned, regional-owned, and village-owned enterprises.

One new approach that is expected to be able to stimulate and drive the rural economy is the establishment of economic institutions that are fully managed by village communities that are based on the local potentials that, if managed properly, will generate demands in the market. The institutional form as mentioned above can be in the form of a Village of Enterprise (Indonesian: *Badan Usaha Milik Desa* hereinafter abbreviated as BUMDes).

BUMDes is a micro-scale community economy in the village and managed jointly by the community and the local village government. The BUMDes management is separated from village government management but supports village income. BUMDes is also a unity of a village economic institutions that are continuously maintained by the local community. This enterprise is a village business institution managed by the community and village government in an effort to strengthen the village economy and is based on the needs and potential of the village.

The establishment of BUMDes is intended to accommodate a variety of economic activities in a village, both activities that develop according to the customs and culture of the local community as well as activities submitted to the community in the form of programs and projects by the central and regional governments. The basic principles in establishing BUMDes are empowerment, diversity, participation, and democracy. The BUMDes can be established based on the initiative of the village government and/or community based on the deliberations of villagers by considering the economic potential of the community, the existence of a business activity unit, as well as possibilities of village assets that is handed over to be managed as part of the village business.

BUMDes can be established if there is capital participation from both the community and village government that is separated from village government management. There are community-managed microfinance institutions that are willing to be part of the BUMDes business unit. The type of BUMDes business can be in the form of financial business units, market units, and other service units. The scope of this type of business, if properly implemented, is sufficient to make the BUMDes a reliable and resilient community economic institution. In reality, however, many rural communities do not have BUMDes. In general, the fields that can be distributed to BUMDes are:

1. sector of industry, mining and energy, tourism, transportation and public works (village infrastructure development). In the industrial sector, BUMDes is authorised to the 1) management of marketing of industrial products, 2) development of industrial products and 3) management of village markets as well as fish auction places;

2. sector of mining and energy, BUMDes is authorised only to the management of class C mining materials below one hectare without using heavy equipment. In the tourism sector, there are 3 items of authority, namely management of tourism objects in the village outside the tourism master plan, management of campsites within the village, as well as management of recreational areas and public entertainment in the village; and
3. sector of transportation. BUMDes has 4 items of authority, namely 1) management of parking/vehicle base in the traditional/modern market areas, tourist attractions and other locations in the village, 2) construction and maintenance of village roads, 3) development of village transportation terminals, 4) cross-river transportation management. In the Public Housing sector, there are 5 items of BUMDes authorities, namely: 1) routine maintenance of district roads in the village consisting of bush and drainage cleaning, 2) village irrigation including construction, supervision and maintenance, 3) management and utilization of clean water, 4) management and maintenance of pumping, irrigation networks in the village, 5) all maintenance.

The role of the village government is to build relationships with the community to realize the fulfilment of minimum service standards, as part of efforts to develop a more empowered village community. Overall economic potential in rural areas, if managed, utilised and developed properly, will be able to benefit the local community and contribute to the local government revenue. BUMDes will create jobs for the community that will ultimately increase the level of welfare of the community in the village area.

In general, village areas in Indonesia are facing the issues of underdevelopment or even not having an institution that specifically manages the micro-scale community economy in the village that is managed jointly by the community and with the local village government whose management is separate from the daily management of village government but supports the village income such as BUMDes. This enterprise is a village business institution that is jointly managed by the community and village government in an effort to strengthen the village economy and is based on the needs and potentials of the village.

If the BUMDes is formed and supported by adequate policies, it is not impossible that economic growth and equitable distribution of assets to the local village community at large will be able to overcome various economic problems in rural areas in Indonesia. This, of course, must be the primary concern of the relevant parties, especially local governments in various regions in Indonesia. The government concern with this type of business, if can be implemented properly, is enough to make BUMDes one of the reliable and resilient community economic institutions.

This article will discuss further on the question of how the institutional form of BUMDes is that can be in accordance with the economic, social, cultural conditions of the village community, as well as how is the BUMDes effort to raise funds as village assets.

## Discussion

### *BUMDes as a Form of Business Entity in a Village Area*

Specifically, in the context of developing the village economy, the Village-Owned Enterprises (BUMDes) are village enterprises managed by the village government and have legal status. The village government can establish a Village-Owned Enterprise in accordance with the needs and potential of the village. The establishment of a Village-Owned Enterprises is stipulated by village regulations. The management of Village-Owned Enterprises consists of the Village Government and the local village community.

The capital of a Village-Owned Enterprise can come from the Village Government, community savings, Government assistance, Provincial Government and Regency/City Government, loans, or other parties' equity participation or profit-sharing cooperation on the basis of mutual benefit. Village-Owned Enterprises can make loans that can be done after obtaining the Village Consultative Assembly (BPD) approval. Village Fund Allocation is funds allocated by the Regency/City Government to villages that are sourced from the central and regional financial balance funds received by the Regency/City. The Village Revenue and Expenditure Budget is the annual village government Financial Plan that is discussed and agreed upon by the Village Government and the BPD that is stipulated by a Village Regulation.

BUMDes development activities are intended as an effort to encourage the growth and development of village economic institutions into BUMDes to accommodate the economic activities of the community, both those that develop according to local customs/culture, as well as economic activities that are submitted to be managed by the community through government/regional government programs/projects. The objectives include:

- a. Receive profits to strengthen village original income.
- b. Promote and develop the village economy.
- c. Collect venture capital from various sources
- d. Provide services to the needs of the community.

While the BUMDes development functions are as follows:

- a. Establish new businesses that are rooted in existing resources and the optimization of the existing village community economic activities.
- a. Improve the welfare of village communities.
- b. Increase business opportunities in order to strengthen village autonomy and reduce unemployment.
- c. Assist the Village Government in reducing poverty and improving the welfare of the local community, especially the poor in their villages.
- b. Provide social services (for example education and health) to village communities.

The Law No. 32 of 2004 on Regional Government regulates that the village government is responsible to organize a government that has the rights, authority, and obligations to regulate and manage their own government affairs and community interests.

In accordance with the mandate of Article 213 of Law No. 32 of 2004 on Regional Government, villages can establish Village-Owned Enterprises (BUMDes) to facilitate the economic activities of the village communities. BUMDes is thus an umbrella for all economic activities in the village. This means that BUMDes can accommodate all the economic activities of the village, without having to make other economic business fields.

In order to increase the village revenue for the welfare of the village community by accommodating all economic activities based on the needs and potential of the village, Government Regulation No. 72 of 2005 on Village, Chapter VII of the Fifth Section on BUMDes states that this institution is a legal entity. Article 78 to Article 81 states that in increasing the revenue of the community and the village, the village government can establish a Village-Owned Enterprise in accordance with the needs and potential of the village. The establishment of BUMDes is determined by village regulations based on statutory regulations (Article 78).

Village-Owned Enterprises are village businesses managed by the village government. The capital can come from the village government, community savings, government assistance, provincial government and district/city government, loans and/or other parties' equity participation or profit-sharing cooperation on the basis of mutual benefit. The management of BUMDes consists of village government and local community (Article 79).

Village-Owned Enterprises can make loans in accordance with the statutory regulations after obtaining written approval from the Village Consultative Assembly (BPD) after a special meeting is held (Article 80). Further provisions regarding the procedures for the formation and management of BUMDes are regulated by Local Government/Regency regulations that contain the form of a legal entity, management, rights and obligations, capital, profit sharing, cooperation with third parties, management mechanisms and accountability (Article 81).

As a technical regulation that further outlines the BUMDes as regulated in the two laws and regulations, the Regulation of the Minister of Home Affairs No. 39 of 2010 on Village-Owned Enterprises for the establishment of BUMDes is the existence of an Article of Association.

### ***Establishment of the Enterprise's Business Units***

Group companies or better known in practice as conglomerate business groups, from the perspective of its variations can be categorised as follows:

1. Vertical Business Group

Vertical business groups are group companies whose subsidiaries operate in one type of industry and create a production chain from upstream to downstream, even to marketing or export.

2. Horizontal business group

Horizontal business groups are business groups whose business subsidiaries have nothing to do with each other. Horizontal business group classification is found in the business world in Indonesia and is better known (popularly) as a conglomerate.

3. Combination Business Group

The combined business group is a group company whose subsidiary business covers various business fields (vertical) and moves from upstream to downstream industries. Similar to horizontal business groups, the classification of combination business groups is also common in the Indonesian business world.

In group companies, there are terms such as Parent Company or Holding Company with a Subsidiary Company. In group companies, there is a leader of companies known more popularly as holding company or parent company. A holding company is a large company that often takes the form of a corporation, owns most of the shares of several other companies. While a parent company is still as it was, only regulated and carried out according to the discretion of the holding company.

**a. Relationships Among the Companies in Group Companies**

Companies that are incorporated in a group company, even though they join a group, legally the companies are independent, their close ties are only economically related. The relation that occurs among the companies in group companies can occur because of the ownership of shares or an agreement.

**1) Engagement based on Share Ownership**

The ties that are based on the existence of the same share ownership (equity participation of the same shareholder) in group companies is the form most often found in group companies. Ties based on the existence of the same shareholding can arrange the construction of various legal relationships, from the simplest to cross-ownership of shares. Later, this article presents the scheme that illustrates various examples of variations (construction) of group companies based on ownership (Simanjuntak, 2009).

**2) Engagement based on Contractual Agreement**

Group companies that are based on contractual agreements can occur for various reasons, such as voting rights obtained based on agreements with other shareholders. The agreement can lead to shareholders who are not actually the majority of shareholders can control a company as if the majority shareholder in the company because it makes agreements with other shareholders.

Interrelationships within the company can also occur based on facts, for example, the existence of a dual position in the organs of the company, for example being a director of a holding company, while being a commissioner in the subsidiary company.

### ***Institutional Forms of BUMDes that Fit the Economic, Social and Cultural Conditions of the Village Communities***

Village development can be carried out by the Village Head by **firstly** taking the initiative and consolidating direction of the village movement to develop the economy; **secondly**, the village government, together with the community, takes a collective action to build the local economy; **thirdly**, the collective action utilises and optimizes the potential of local assets that are available and certainly worth selling; and **fourthly**, a larger village fund can be allocated as an investment resource for the village to build the local economy.

The village-based local economy can be driven either by local bourgeois or the villages through Village-Owned Enterprises (BUMDes). According to the Village Law, a Village-Owned Enterprise is a Business Entity that, the entire or most of the capital, is owned by the village through direct participation from village assets that are allocated to manage assets, services, and other businesses for the maximum welfare of the village community.

In accordance with the Regulation of the Minister of Villages, Disadvantaged Regions, and Transmigration of the Republic of Indonesia No. 4 of 2015, BUMDes has several characteristics, **firstly** the formation of BUMDes is conditional, namely requires a number of prerequisites that are the basis for the establishment of BUMDes; **secondly**, BUMDe is a village business characterised by collective ownership not only owned by the village government, not only owned by the community, not also owned by individuals, but belongs to the village government and the community. Unlike cooperatives that are owned and utilised only for their members, BUMDes is owned and beneficial both by the village government and the community as a whole. The three mechanisms for establishing BUMDes are inclusive, deliberative and participatory. This means that the BUMDes is not sufficiently formed by the village government but is formed through village deliberations involving various village components. Organisationally, village meetings are also institutionalised as the highest institution in BUMDes similar to a meeting of members in cooperatives enterprises; and **fourthly**, BUMDes management is democratic and technocratic.

BUMDes is a form of business whose establishment is intended to:

- a. utilise all economic potentials, economic institutions and the potential of natural resources and human resources in order to improve the welfare of the village community;
- b. assist the implementation of village governance;
- c. meet the needs of the village community;
- d. develop business units in utilizing the economic potential.

The purpose of establishing BUMDes is aimed at maximally the welfare of the village community. As a business entity that has certain aims and objectives, BUMDes must have an institutional form that can support the achievement of the goals and objectives as mandated in the Village Law. The regulation of BUMDes in the Village Law and its derivatives has not been detailed as other forms of business such as BUMN (State-Owned Enterprises) and BUMD (Local Government-Owned Enterprises). Therefore, there are a number of regulatory loopholes that BUMDes can choose to achieve the aims and objectives of their founding. From the perspective of the legal status, a business entity is divided into 2 (two), namely:

- a. Legal entity
- b. Non-legal entity.

Based on the laws and regulations that govern the BUMDes, there is no explicit mention that it is a legal entity, hence, the position of BUMDes whether as a legal entity or non-legal entity is unclear.

The establishment of BUMDes stipulated by Village Regulation does not automatically make BUMDes have a legal entity status. To be able to have status as a legal entity, BUMDes must meet both the material and formal requirements of a legal entity. There are 4 conditions/elements (material requirements) to determine the position as a legal entity, namely: (Sastrawidjaja, 2005).

- a. there are separate assets;
- b. has a certain purpose;
- c. has its own interests; and
- d. a well-regulated organisation.

From the material requirements of the legal entity, BUMDes fulfils all four requirements. BUMDes has separate assets, i.e. village assets that are separated to become BUMDes assets or capital. BUMDes has a specific purpose, namely for the greatest prosperity of the village community. BUMDes has its own interests that are separate from other interests as stipulated from the Article of Associations. Also, BUMDes has a regular organisation, consisting of Advisors, Operational Executor and Supervisors, each role has different authority in managing the BUMDes.

In addition to meeting material requirements, if the BUMDes is to be categorised as a legal entity, it must also fulfil the formal requirements of a legal entity. The formal requirements of a legal entity are:

- a. established with an authentic deed;

- b. authorised by the Ministry of Law and Human Rights;
- c. enclosed in Supplement of the State Gazette; and
- d. announced in the State Gazette.

In practice, there is a lack of uniformity in the establishment of BUMDes. There are BUMDes that are formed with Village Regulations only and there are also BUMDes that are formed by Village Regulations and then the deed of establishment is also made in the form of a notarial deed. After the deed of establishment is in the form of a notarial deed, an application for the status of the legal entity is submitted to the Ministry of Law and Human Rights.

Legal entities can be divided into public legal entities and civil legal entities. To determine whether a legal entity is included as a public or civil legal entity, the followings are the criteria. ( Sastrawidjaja, 2005).

- a. Based on the occurrence or establishment. If the legal entity is established and, in the establishment, public law is in effect or is established by public authority, the legal entity is a public legal entity. However, if the legal entity is established by an individual so that civil law provisions apply, the legal entity is a civil legal entity.
- b. The employment is from the legal entity. If the employment is for the benefit of individuals or specific groups of people, it is a civil legal entity.

Related to the division of legal entities, viewed from the way of its establishment, the BUMDes whose establishment is based on Village Regulations are classified as public legal entities. However, from the employment, it can be concluded that BUMDes is included in the civil legal entity because the employment is specifically private, not public.

With the uncertainty regarding the form of the BUMDes business entity, whether a legal entity or not, and whether including a public legal entity or a civil legal entity, the position and status of BUMDes as a business entity is unclear. This can also cause confusion for its management and/or third parties that have legal relations with BUMDes.

Based on the author's research, in practice, a BUMDes that has an establishment deed in the form of a notarial deed and received approval as a legal entity from the Ministry of Law and Human Rights is categorised as a legal entity in the form of an Association. That, the author believes, is wrong, because BUMDes and an Association are different forms of legal entities. An Association does not aim to make a profit and does not run a company and has non-economic goals. A BUMDes is a business entity established for the maximum prosperity of the village community. Hence, BUMDes cannot be equated with an Association form of legal entity.

Legal entity status has an important role for BUMDes in carrying out its business activities. This is related, among others, to the issue of responsibility of the BUMDes management or known as the operational management. If a BUMDes has a legal entity status, then at the time there is a claim/lawsuit from a third party against BUMDes, that can be sued is only limited to BUMDes assets, and it will not touch the personal assets of the operational management, except in the case of operational implementers acting ultra vires.

Another important example is the status of a legal entity for BUMDes in terms of receiving loan funds from third parties, especially banking institutions. Banks, in practice, will find it easier to provide funds for BUMDes in the context of developing their business or adding capital if the BUMDes has the status of a legal entity. With the status of a legal entity, if the BUMDes is in default, the bank can file a confiscation of BUMDes assets that are separate from the Village assets.

In accordance with the purpose of establishing BUMDes in line with Article 2 of Regulation of the Minister of Villages, Disadvantaged Regions, and Transmigration of the Republic of Indonesia No. 4 of 2015, the establishment of Village-Owned Enterprises is intended as an effort to accommodate all activities in the economic sector and/or public services managed by the Village and/or inter-village cooperation. According to Article 3 of the Regulation of the Minister of Villages, Disadvantaged Regions, and Transmigration of the Republic of Indonesia, the establishment of Village-Owned Enterprises aims to: a) improve the village economy; b) optimize village assets to be beneficial for village welfare; c) increase community efforts in managing the economic potential of the Village; d) develop business cooperation plans between villages and/or with third parties; e) create market opportunities and networks that support citizens' general service needs; f) open employment opportunities; g) improve the welfare of the community through improving public services, growth and economic equality in the village; and h) increase the income of the village community and the village's revenue. Based on the aforementioned objectives and aims, it is necessary to establish a clear institutional form such as BUMDes whether it is profit-oriented or non-profit oriented.

BUMDes, as a business entity in implementing the provisions of Articles 2 and 3 of the Regulation of the Minister of Villages, Disadvantaged Regions, and Transmigration of the Republic of Indonesia need to obtain profit, but the profits are used in accordance with the intent and purpose of establishing the BUMDes. The profit-sharing must be explicitly stated in the BUMDes Articles of Association so that there is no potential for misuse of the profits obtained by BUMDes. Likewise, in carrying out its business activities, BUMDes needs to be stipulated PSO (Public Service Obligation) in the form of government/regional government assistance through the Village Revenue Budget. Hence, BUMDes as a non-profit business entity, in this case the profits obtained by BUMDes are used in accordance with the intent and purpose of establishing BUMDes. However, so that the BUMDes can manage their activities

optimally in line with the aims and objectives of BUMDes, then economically, the BUMDes establishment also pays attention to the economic aspects of the needs and potential of the local community where BUMDes can provide maximum benefit value in order to achieve the objectives of establishing BUMDes in the region or the area of the village where the BUMDes was established.

As a business entity managed jointly by the village government and village community, BUMDes must also pay attention to the social and cultural aspects of the local community. In this case, basically, village communities in Indonesia uphold the values of kinship and mutual cooperation, and local wisdom, thus, BUMDes also need to uphold the values of kinship, mutual cooperation and local wisdom of the community where BUMDes was founded.

To support the management of BUMDes so that the benefits of its existence can be prioritized in accordance with its founding goals, because BUMDes in the framework of carrying out its purposes and objectives as referred to in Article 2 and 3 of the Regulation of the Minister of Villages, Disadvantaged Regions, and Transmigration of the Republic of Indonesia, the BUMDes management needs to be conducted professionally by taking into account the basic principles of organisational and business entity management in general and the principles of corporate financial management in accordance with corporate financial management standards. Besides, professional management of BUMDes also involves aspects of accountability and transparency in order to achieve the objectives of establishing the BUMDes, it needs to be a basic principle in managing BUMDes, in addition to other principles contained in the management of business entities and must observe various aspects including services, democratisation and participation, and the most importantly, is to enhance the economic potential of the village. The improvement of the village economy should begin by providing the right legality so that the BUMDes truly proves its role as an effort to increase Village Original Income and grow the village economy thoroughly and as a whole. (Amelia, 2014)

### ***BUMDes Efforts in Collecting Funds as Village Assets***

According to Article 17 Paragraph (1) of the Regulation of the Minister of Villages, Disadvantaged Regions, and Transmigration of the Republic of Indonesia No. 4 of 2015, the initial capital of the Village-Owned Enterprises is sourced from the Village Expenditure and Budget (Budget Plan). Paragraph (2) of the said Article states that Village-Owned Enterprises Capital consists of a. Village capital participation; and b. Village community investment.

Village capital investment as referred to in Article 17 Paragraph (2) Letter a consists of: a. grants from the private sector, social and economic institutions and/or donor agencies that are channeled through the Village Budget Plan mechanism; b. assistance from the Government, Provincial Governments, and Regency/City Governments distributed through the Village

Budget Plan mechanism; c. business cooperation from private parties, social and economic institutions and/or donor agencies that are ensured as village collective wealth and channeled through the Village Budget Plan mechanism; d. Village assets submitted to the village Budget Plan in accordance with the provisions of the legislation regarding Village Assets. In addition to being sourced from the inclusion of village capital, BUMDes capital can come from the community and assistance from the government.

BUMDes capital is wholly or mostly owned by the village. Therefore, if a BUMDes gets a profit, then all or most of the profit will be the asset of the village because the village is the owner of capital from the BUMDes that is entitled to dividends or the profits derived by BUMDes. Based on the Village Law and its implementing regulations, the scope of business activities of the BUMDes includes:

- a. perform asset management;
- b. provide services;
- c. conduct trading;
- d. collect savings at the local scale of the village community, among others through the management of revolving funds and savings and loans; and
- e. conduct other business.

In running its business, BUMDes must be based on its Articles of Association. The business fields to be run by a BUMDes must be included in its Articles of Association. The management of a BUMDes must be based on the principle of kinship and mutual cooperation. This is in line with the principles in managing cooperatives enterprises that prioritize the interests of their members. In this case, BUMDes must prioritize the interests of the village community.

In order to achieve the tasks mandated to BUMDes, there needs to be an active role that can be carried out by both the government and regional governments. The active role is in the form of:

- a. providing grants and/or access to capital;
- b. conducting technical assistance and market access, and
- c. prioritizing BUMDes in the management of natural resources in the village.

BUMDes is expected to be able to benefit from the active role of the government and the regional government so that businesses run by the BUMDes can obtain revenues that will also benefit the villagers. The management structure of the organisation of a BUMDes consists of:

- a. Advisor;
- b. Operational Executor; and

c. Supervisor.

Each of the aforementioned organs has different duties, obligations and authorities in the management of the BUMDes. The ex-officio advisor is held by the relevant Village Head. The advisor has the following obligations:

- a. provide advice to the Operational Executors in carrying out BUMDes management;
- b. provide suggestions and opinions on issues deemed important for BUMDes management;
- c. controlling the implementation of BUMDes management activities.

The advisor is authorised to the followings.

- a. Request an explanation from the Operational Executors regarding issues relating to the management of village businesses;
- b. Protect village businesses against things that can reduce BUMDes performance.

Operational Executors are responsible to manage the BUMDes in accordance with the Articles of Association. The Operational Executors' obligations are to:

- a. Implement and develop the BUMDes to become institutions that serve the economic needs and/or public services of the Village community;
- b. Explore and utilise the potential of village economic efforts to increase the Village Revenue;
- c. Cooperating with other village economic institutions.

Operational Executors are authorised to:

- a. Make a monthly financial report for all BUMDes business units;
- b. Make a monthly report on the progress of BUMDes business units; and
- c. Provide a report on the development of BUMDes business units to the village community through the Village Conference at least 2 (two) times in 1 (one) year.

Supervisors are BUMDes organs that represent the interests of the community. The supervisors are obliged to hold a general meeting to discuss BUMDes performance at least once a year. The Supervisor has the authority to hold a General Meeting of Supervisors to:

- a. Elect and appoint the management;
- b. Stipulate the policies for developing business activities of BUMDes;
- c. Monitor and evaluate the performance of Operational Executors.

Related to the different duties, obligations and authorities of each of these organs, there need to be further technical arrangements in the Article of Association of each BUMDes. Each BUMDes organ must carry out its duties, obligations and authority in accordance with the laws and regulations as well as the Article of Association of the BUMDes.

An important matter that must be regulated in the BUMDes Articles of Association is regarding the arrangements on various management. In a business entity, the management is usually divided into:

- a. *daden van beheren* (daily maintenance actions)
- b. *daden van beschikking* or *van eigendom* (act of ownership)

With regard to *daden van beheren*, the BUMDes chairperson as the chief technical executor can act both inside and outside the court of representing or on behalf of the BUMDes. Meanwhile, for *daden van beschikking* or *daden van eigendom*, the Chairperson of BUMDes cannot necessarily act on behalf of the BUMDes but must require approval from other BUMDes organs whether the advisor or supervisor.

Examples of the importance of arrangements regarding *daden van beschikking* or *daden van eigendom*, among others, are when BUMDes borrow certain amounts of funds. In this case the need for approval from other organs as a form of control over the BUMDes management so as not to pose risks and/or losses in the future for BUMDes.

In carrying out its business activities, BUMDes can establish business units in accordance with the potential of the village and the needs of the local village community where the BUMDes is established. Therefore, BUMDes does not establish a new business entity but rather establishes a business unit that is unity with BUMDes. For this reason, in the context of the legal relationship between BUMDes and its business units, in the framework of managing BUMDes business units, it is necessary to regulate the legal relationship through the stipulated BUMDes Articles of Association.

As for other forms besides establishing business units, BUMDes can also establish new business entities in the form of legal entities or business entities that are not incorporated. A BUMDes can establish a group company with BUMDes as the holding company with several subsidiary companies. In the legal relationship between the parent and subsidiary company, however, BUMDes act as the parent company and its Subsidiary constitute an economic unit, but legally separated.



## Summary

An institutional form BUMDes that can be in accordance with the economic, social and cultural conditions of the village communities is the one that has the status of a non-profit legal entity with management that is based on the principles of kinship and mutual cooperation, as cooperatives enterprises, upholds local wisdom and is professionally managed.

Efforts that can be made by BUMDes in raising funds as village wealth can be taken through the establishment of a holding company, thus, the subsidiary companies can be in the form of a legal entity and a non-legal entity, and BUMDesa as an independent legal entity having business units can utilise all economic potentials, economic institutions and the potential of natural resources and human resources. Arrangements regarding the management of BUMDes business units must be made in detail in the BUMDes Article of Association.



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