

A Study of Supply Chain Management Aspects of Village Owned Enterprises in Indonesia

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Abstract. Supply chains depend on community resources such as entrepreneurs, natural resources, and facilities in value creation and successful operation, while communities need development opportunities from supply chains to build and maintain prosperity. The mutual influence between supply chains and communities offers opportunities to integrate sustainability initiatives into the chain. Village Owned Enterprises is the village financial institutions has been regulated by the government since the colonial era to the present. It gives an opportunity for villages to prepare themselves in an effort to establish Village Owned Enterprise accordance with local potential both human and natural resources owned by the village. The Village Law provides an opportunity for villages so that Village Owned Enterprise can be one of the tools of the struggle for economic improvement and welfare though the sustainable supply chain. The challenges of the establishment and business development of Village-Owned Enterprise are increasingly complex. This is because not all villages in Indonesia are ready with adequate human resources in making village regulations, looking for business opportunities, being administrators, making reports and implementing Village-Owned Enterprise supply chain management. The interactions among the supply chains and communities provide significant insights into how to create sustainability for both.

Keywords— Supply Chain Strategy, Community Development, Sustainability Capabilities Village Owned Enterprises (BUMD)

1. Introduction

Supply-chain management (SCM), techniques with the aim of coordinating all parts of SC from supplying raw materials to delivering and/or resumption of products, tries to minimize total costs with respect to existing conflicts among the chain partners [1-3]. An example of these conflicts is the interrelation between the sale department

desiring to have higher inventory levels to fulfill demands and the warehouse for which lower inventories are desired to reduce holding costs. The regulation and existence of Village-Owned Enterprises (BUMD) as village financial institutions, have experienced dynamics from colonial times to the present [4, 5]. BUMD was established to fulfill functions and answer the needs and challenges of the times. BUMD arrangement from time to time is always changed and perfected in accordance with the strategy and function carried out by BUMD. The establishing BUMD aims to improve the welfare of the community and the village both physically and mentally. Welfare was born in the form of increased income of the community and village government. The inner welfare in the form of community and village satisfaction that includes fulfillment of BUMD social functions in the form of a family spirit and mutual cooperation. In realizing these objectives, the existence of BUMD has a dual function in carrying out its business activities. The first function was the establishment of BUMD, namely on the one hand as a village institution engaged in the economy with the principle of profit oriented. The second function, namely as a village institution engaged in the social field with the principle of nonprofit oriented.

On the one hand, in carrying out its function as an economic institution with profit oriented principles, BUMD is commercial in the sense that various business activities carried out must obtain maximum profit. The existence of BUMD which is commercial in nature since the beginning of the establishment of business activities, operational business activities, supervision and guidance of business activities is in line with the principles of economic law. The function of BUMD in the

economy is expected to be able to improve the status of BUMD towards professional and commercial BUMD (profit oriented). For this reason, it is necessary to have capable and willing human resources that are strong and reliable in managing and managing these types of business activities and have a strong legal foundation (substance) supported by adequate institutional arrangements and a high work ethic/ culture.

On the other hand, in carrying out its function as a social institution with the principle of social service (nonprofit oriented), BUMD in carrying out various business activities must realize the objective of establishing BUMD to improve the inner/ spiritual welfare of residents and village government in the form of increasing the spirit of kinship and mutual cooperation. In accordance with BUMD non-profit oriented social functions, the existence and development of various types of BUMD business activities must be in accordance with the principles of kinship and mutual cooperation in the community. Thus the BUMD social function can be increased in accordance with the expectations of the community which is to ease the burden on the community and village government. In this context required human resources/ volunteers who have a strong commitment and social care to manage and manage this type of business activity and supported by a strong legal foundation (substance) supported by adequate institutional aspects (structure) and work ethic/culture (culture) which is high towards BUMD which is non-profit oriented village.

The main problem in establishing BUMD is the potential and condition of human resources, natural resources and economic, socio-cultural conditions in the village which are heterogeneous. On the one hand, there are villages that are quick to respond to these challenges so that they succeed in establishing BUMD. On the other hand, there are villages that are not/ not ready because they only have the conditions and potential of natural resources and mediocre human resources so that they are less innovative and give up quickly.

The Village Law is the legal umbrella for BUMD at the national level in all regions of the country of Indonesia. The new law regulates BUMD in general so it requires implementing regulations. Meanwhile, the implementation of the BUM Village Government Act issued Government Regulation (PP) Number 43 of 2014 and perfected by Government Regulation Number 47 of 2015. Article 142 PP Number 47 of 2015 confirms that:

Further provisions regarding procedures for establishment, arrangement and management, as well as the dissolution of the BUMD (two villages form one BUMD) regulated by ministerial regulations that organize government affairs in the field of village development, rural area development, and empowerment of rural communities in coordination with the minister who organizes government affairs in the field of domestic governance. The Ministry of Rural Development and Disadvantaged Villages (Ministry of the PDPT) issued Ministerial Regulation No. 4 of 2015. Based on the description, the writer is interested in conducting a study of Village Owned Enterprises (BUMD) from the supply chain aspects of the establishment of BUMD, with problems regarding: (1) the development of the regulation of village owned Enterprises (BUMD) in Indonesia: (2) philosophical meaning that villages can establish Village-Owned Enterprises (BUMD): (3) challenges faced by village governments if the will establish and develop BUMD.

2. Methodology

Village Owned Enterprises (BUMD) and Supply Chain Strategy

BUMD defined as a business entities whose entire or most of their capital is owned by the Village through direct participation from village assets that are separated to manage assets, services, and other businesses for the maximum welfare of rural communities. In other hand, the supply chain from supplier to customer can be done in BUMD for improving the efficiency. The same understanding can also be seen in the provisions of Article 1 number 2 of the PDPT Permendes number 4 of 2015 that BUMD is a business entity that is wholly or most of its capital owned by the Village through direct participation from village assets that are separated to manage assets, services, and other efforts for the maximum welfare of the village community. Establishment and development of BUMD activities requires a common perception from the central government to the village government as well as BUM Village managers. Government policy as outlined in the form of laws, Government Regulations and Ministerial Regulations must be synchronous and not contradictory. Even more important is that the policies of the central government must be implemented by local and village governments.

The village is the spearhead of the state in the implementation of development.

The village is the closest institution to the community because it is directly related to and in contact with the object of development in the community. The development carried out by the government together with the community in the village is expected to increase power to develop political, social, cultural and economic systems. The number of villages in Indonesia at present there are approximately 74 thousand villages, of which more than 32 thousand villages fall into the category of underdeveloped villages. This condition is very worrying because, the village should be the axis or central state power in various fields, both economic and social cultural forces that support and expand the welfare of the community.

Business Activities of BUMD

BUMD in carrying out its business activities is not merely carrying out economic functions but also social functions. It means that the BUMD in carrying out business activities is not only oriented to financial, but also to serve the various needs of the community by implementing a family spirit, and mutual cooperation. The results of BUMD business activities in carrying out its business activities are also used for business development and village development, empowering village communities, and providing assistance to the poor through grants, social assistance, and revolving fund activities. The consequence for villages that do not establish Village Owned Enterprises is more to the economic impact of the village itself. The village can establish a village-owned enterprise if it is able and able, if it cannot and cannot, there is no obligation for the village to form a village-owned business entity as stated in Article 87 paragraph (1) of the Village Law [6].

Establishment of BUMD is not an obligation either for administrative villages or traditional villages, but can be used as a medium for villages to develop and advance as superior villages. The existence of a fiscal decentralization policy to the villages shows that there is a progressive public policy with the priority of increasing village development in community services for the realization of people's welfare. The funds can be used as capital for village development through BUMD as stipulated in the Village Law with the aim of encouraging the increase in the economies of scale of productive efforts of rural communities [7-10]. The issuance of

Law Number 6 of 2014 and the issuance of Government Regulation Number 47 of 2015 requires an independent and autonomous village in the management of its resources where BUMD are expected to play a role in improving the rural economy [11, 12]. On the other hand, villages have limitations. In this case, village social capital is greater than economic capital. Social capital in question is social ties, social bridges, and social networks. This social capital is parochial (limited) to be the shallowest social capital and unable to facilitate economic development [13-16]. More specifically based on the theory of resource-based view, the village must have these resources must be valuable, rare, unsubstituted, and not imitated [17]. Stakeholder theory emphasizes who holds power, legitimacy, and has an interest (urgency) in the organization [18-20]. In the context of this research, it refers to who holds power and legitimacy, has special interests and roles in village dynamics, possesses knowledge and resources, and has an interest in village economic development.

The presence of BUMD has brought significant changes in the economic and social fields. Shifting social values and also changes in patterns of interaction between citizens will occur. BUMD provides an increase in village original income, but this income cannot be felt directly by the community. This causes residents to argue that the presence of BUMD does not bring significant benefits for improving the welfare of citizens. BUMD and the Village Government have close relations, because the Village Government is the supervisor of the BUMD activities. In making decisions, BUMD uses a deliberation mechanism and the Village Government is the main stakeholder involved in the deliberations. The thing that becomes a challenge for BUMD and the Village Government is to maintain a balanced relationship, where the dominance of one party over the other party should be avoided. Communication and outreach are important things that must be done by BUMD. Lack of communication and outreach has led to distrust of residents in the ability of managers in managing BUMD. This lack of communication and outreach has led to demands for transparency and accountability in the management of BUMD. Professionalism is a demand for BUMD managers. The demand also came from the community. BUMD managers need to improve the quality of service and also the ability to manage the

organization. Problems arise where most BUMD managers are part-time employees who have other jobs besides BUMD. It plays as a village economic institution aims to improve the welfare of village communities and the village income has historically experienced regulatory developments over time from the colonial era to the present:

The name BUMD is a village financial institution used by Law No. 6 of 2014 concerning Villages. As a village financial institution or as another name used various laws and regulations from the year before 2014 experienced a change of name in accordance with the economic regime that developed at that time. The name of the village financial institution used by the Law (Law Number 10 of 1998) is the Village Credit Institution (LPD). Article 58 of Law No. 10 of 1998 regulates that the Village Bank, Lumbung Desa, Market Bank, Pithi Nagari Lumbung Employee Bank (LPN) Village Credit Institutions, Village Credit Agencies, District Credit Agencies (BKK) Small Business Loans (KUK), District Credit Institutions (LPK), Village Production Work Entity (BKPD) and or other similar institutions, hereby granted the status of Rural Credit Bank (BPR) by fulfilling the procedure requirements determined by Government Regulation.

In 2004 the Government of Indonesia enacted Law Number 32 of 2004 concerning Regional Government as a replacement of Law number 22 of 1999. Law number 32 of 2004 was implemented with Government Regulation Number 72 of 2006 concerning Villages. In 2008 with the enactment of Law Number 20 of 2008 concerning Business Micro, Small and Medium Enterprises (MSMEs). According to the provisions of article 6 paragraph (1) of the MSME Micro Business Act, is a business that has a net worth of at most 50 million rupiahs excluding land and buildings where it operates: or has an annual sales proceeds at most 300 million rupiahs. Institutionally, Microfinance is classified as banking and non-banking institutions. Micro financial institutions can be grouped into three groups, namely banks, government and civil society. The forms of microfinance institutions are divided into 3, namely (a) banks, (b) cooperatives and (c) non-bank microfinance institutions and not a Cooperative (LKM B3K). Examples of B3 MFIs formed by the government are Village Credit Institutions (LPD), Subdistrict Credit Agencies (BKK), Village Credit Agencies (BKD), Pithi Nagari Lumbung (LPN), Rural Credit Institutions

(LKP), Community Based Savings and Loans Institutions (LSPBM), Business Enterprises Economy of Pijam Save Village (UED-SP). Meanwhile the example of LKM formed by the community is Baitul Maal Wat Tamwil (BMT). In 2013 the government promulgated Law No. 1 of 2013 concerning Microfinance Institutions (MFIs). The name of the village financial/ economic institution at that time was the Village Owned Enterprises [21-28]. It is one place for business activities in running village businesses. The understanding of village businesses that include various types of community service businesses include: (1). Financial services business, land and water transportation services, village electricity, and other similar businesses; (2). Distribution of nine basic economic village items; (3) Trade of agricultural products includes food crops, plantations, livestock, fisheries, and agribusiness; (4). Manufacture and crafts of the people. BUMD is one place for business activities in running village businesses.

There are various complex problems faced by villages when establishing BUMD so that until now BUMD in Indonesia has not grown as expected. The heterogeneous level of education and experience of village officials suggests there are various interpretations of article 87 of the Village Law. The first interpretation is that the village administrator interpreted Article 87 of the Village Law as a village obligation because it was regulated in the Law, so it must be implemented by the village so that each village must have a BUMD. As an obligation that BUMD is a village institution that must exist in the village so that each village in a short time establishes BUMD without regard to the local potential and natural resources capabilities of the existing human funds. The important thing is that the village already has a BUMD in order to absorb the village funds poured from the central government. The second interpretation, there are villages that do not immediately establish BUMD because the potential of the village both natural resources and human resources have not supported the establishment of BUMD and village needs for the establishment of BUMD are also not yet urgent. BUMD is a business entity formed by the village government together with the community, in accordance with the agreement and capabilities of the village community. The forms and businesses of BUMD villages in each village are adjusted to the local characteristics, potential, and resources of

each village so that each village has a different form and business unit. The government's commitment to develop BUMD is outlined in the laws and regulations, especially those that regulate villages. With the promulgation of Law No. 6/2014 concerning Villages, on January 15, 2014, the arrangements for the establishment, development and dissolution of BUMD changed. The legislation governing the procedures for the establishment, management and development of BUMD is Law No. 6 of 2014 concerning Villages. BUMD is managed with the spirit of kinship and mutual cooperation. BUMD can run businesses in the economy and/ or public services in accordance with statutory provisions. In Article 90 of the Village Law it has also been explained that the Government, Provincial Governments, and Regency/ City Governments are tasked with encouraging the development of Village BUMs through a) giving grants and/ or access to capital, b) providing technical assistance, and c) prioritizing BUMD to manage natural resources in the village.

3. Results

The Policy of Supply chain strategy for Establishment a Village Owned Enterprise (BUMD)

The rationale for establishing BUMD cannot be separated from the background aspects of community needs. The background of establishing BUMD in a village is the background of the needs and potential of the village who want it. The needs here are interpreted as the basic needs of rural communities both economically and socially. Village potentials in establishing BUMD include village potential in the form of natural resources and human resource potential. Each village has the potential for natural and human resources to be utilized optimally. Therefore, when a village has natural and human resources, the village can immediately establish a BUMD as an economic driving force for the village community. Establishment and development of BUMD business units need to be supported by individual community economic activities. In other words, BUMD was established in accordance with the needs and potential of the village, so BUMD was established not to be a predator or competitor of existing types of business activities, both individual and group businesses. It is in this context that BUMD in carrying out business activities must be clever in choosing and sorting out village potentials

that can be developed rather than shutting down existing businesses.

The policy of using SCM in establishing BUMD in the village both residents and village government is aimed at improving the welfare of the community and village income including physical and mental welfare. In realizing this policy, BUMD has a dual function in carrying out its business activities, namely on the one hand as a village institution engaged in economics with profit-oriented principles, while on the other hand BUMD also carries the function as a village institution engaged in social affairs with the principle of nonprofit oriented. On the one hand, in carrying out its function as an economic institution with profit-oriented principles, BUMD must be commercial in the sense of the various business activities carried out by BUMD that must obtain maximum profit. In this context, inevitably BUMD must run its activities economically professionally. This is in accordance with aspects of the policy of the formation and development of BUMD to increase the outward welfare of villagers and village government in the form of maximally increasing the income of villagers and village government. Various ways and strategies that must be taken by BUMD managers to carry out business activities as profit-oriented economic institutions ranging from managing the tourism potential of the village to the management that supports rural tourism such as lodging, food stalls and so on.

The existence and development of various BUMD business activities that are commercial in nature since the beginning of the formation of business activities, operational business activities, supervision and development of business activities must be in accordance with the principles of economic law so that the function of BUMD in the economic field can be increased namely towards professional and commercial BUMD (profit oriented). For this reason, strong and reliable human resources are needed in managing and managing these types of business activities and have a strong legal foundation (substance) supported by adequate institutional arrangements and a high work ethic/ culture.

On the other hand, in carrying out its function as a social institution with the principle of social service (nonprofit oriented), BUMD in carrying out various business activities must embody the policy of using SCM in establishing BUMD to improve the inner/ spiritual welfare of residents and village

government in the form of increasing the spirit of kinship and mutual cooperation. . In accordance with BUMD social function which is nonprofit oriented, the existence and development of various types of BUMD business activities must be in accordance with the principles of kinship and mutual cooperation in the community. Thus the BUMD social function can be increased in accordance with the expectations of the community which is to ease the burden on the community and village government. In this context human resources / volunteers who are reliable and resilient are needed to manage and manage this type of business activity.

Managing Challenges in Establishing and Developing the Village-Owned Enterprises (BUMD)

BUMD type of business on the one hand experienced positive developments in various rural areas of Indonesia, on the other hand there were villages that wanted to establish BUMD but were unable to because they were not supported by the village's potential either in the form of natural or human resources. In 2015 the government through the village minister, PDPT issued PDPT Permendes number 4 of 2015 regulating this matter in more detail from the BUMD Business Classification Classes from Articles 19 to 24. According to the contents of Article 19 paragraph (1) of the PDPT Permendes, BUMD can run social businesses (simple) social business that provides general services (serving) to the community. Article 19 of the PDPT Permendes confirms that BUMD can run village drinking water businesses, village electricity businesses, food barns, and local resources and other appropriate technologies. Article 20 paragraph (1) and paragraph (2) of the PDPT Permendes number 4 of 2015 regulates that BUMD can run a business of leasing goods to serve the needs of the village community and is intended to obtain Village Original Income (PAD) by running business units: transportation, party equipment, conference hall, shop house, land and other rental goods.

The Ministry of Villages, Disadvantaged Regions and Transmigration in July 2018 stated that the number of Village-Owned Enterprises (BUMD) throughout Indonesia reached 35 thousand from 74,910 villages in Indonesia. Unfortunately, not all BUMD have optimal business activities in terms of economic and social aspects, because not all village

heads have the same understanding and perception about BUMD. This is understandable due to the fact that each village has limited human resource quality and natural resource potential. Another obstacle faced by the village in establishing BUMD is because the village only has a small population but the area is vast.

Whether we realize it or not, the fact is that on one hand, villages are the spearhead of the state in implementing development in villages for various fields. On the other hand, the village is the closest institution to the community because it is directly related to and touch with the object of development in the community. The development carried out by the government together with the community in the village is expected to increase power to develop political, social, cultural and economic systems. In Indonesia there are approximately 74 thousand villages, of which more than 32 thousand villages fall into the category of underdeveloped villages. This condition is very worrying because, the village should be the axis or central state power in various fields, both economic and social cultural forces that support and expand the welfare of the community. Establishment of BUMD faces another challenge in the form of deliberation as a tool towards village democratization that has not been able to be implemented optimally. In carrying out village deliberations, the community prefers to use the voting model rather than deliberation to reach consensus. The process of deliberation is considered impractical and takes a long time, but voting is felt to be more practical and faster. The process of establishing / forming BUMD as far as possible avoids government driven that easily makes BUMD but has no activities or is said to be living reluctantly but dies unwillingly so that only BUMD boards a name without any activities. Another challenge for the managers of BUMD today is in transforming BUMD as a village financial institution into an empirical / practical level in life in the community. The Village Credit Bank is facing the problem of transformation from the form of a Rural Credit Bank (BPR) to a Micro Finance Institution (LKM) which has the opportunity to become a legal BUMD Business Unit.

The challenge of village A in establishing and developing BUMD to carry out the dual functions of BUMD is its economic function and social function, namely preparing, searching for, and finding successors to BUMD managers in the form

of good and reliable human resources so that they can carry out their duties as administrators of BUMD as carrying out aspects economic and social empowerment to village communities. Social objectives i tend to keep BUMD not merely pursuing profit solely, but also able to have a real impact that is immediately felt by the community. In addition it must be realized that, BUMD is present in rural areas which have strong social and cultural ties and still uphold customary values. That also requires BUMD to adjust to the conditions of the village community.

Another formidable challenge faced by BUMD managers is in formulating the ideal BUMD concept. This is because BUMD has two big objectives: first to pursue profit to increase community income and original village income and second, to pursue non-profit social goals. These two goals then become the main reference in managing BUMD, but the main obstacle is how to synchronize or harmonize the two conflicting goals into one. This is because the two objectives are the opposite. The purpose of BUMD is philosophically different from that of a company (BHMN or PT), which cannot be equated with the logic of management like a BUMN that is pursuing maximum profit, or with a management concept like those that prioritize the social function of empowerment to the community.

The challenges faced by villages and managers of BUMD mentioned above are to get/ look for solutions not to be mourned. One solution that can be implemented is by formulating a BUMD subsidiary that touches on economic aspects that are profit (seeking profit) and there is a BUMD business unit that touches on the social aspect (nonprofit), for example a village establishing BUMD whose business unit manages the village market so villages can collect fees on traders in the village market, can also provide good business management training in trading activities in the village market. In this context the village has the advantage of collecting fees in the village market, but the community also has additional insights on how to manage their merchandise properly and an understanding of trading transactions in the market. The method that can be taken by the village so that BUMD managers have the ability and integrity in carrying out their duties as BUMD administrators who carry out dual functions (economic and social) is by directly involving or recruiting local villagers as employees in BUMD business unit, so that

employees the capacity can be improved through various assistance and training carried out by the government. The BUMD business unit that has an economic perspective (profit oriented) is expected to benefit, but on the other hand the villagers directly involved in the business will gain insight and social sensitivity.

The problem of managing BUMD is not an easy and trivial affair because it involves responsibility, integrity and sustainability (regeneration) of BUMD managers. The expertise and innovation of BUMD managers in managing BUMD is very much needed and demands that BUMD are developed and developed in accordance with the wishes and expectations of the community. The challenge faced by villages is in finding a new BUMD manager who has the same or better vision and mission than the previous BUMD manager, because each village does not have the same potential resources. Each village has heterogeneous human resource potential so it is not easy and it needs special strategies to find new BUMD management candidates. BUMD progress in running depends on expertise and innovation as well as the courage to take risks in making decisions to develop businesses. If the village cannot find or get a new manager from the existing BUMD, then the fate of BUMD success in carrying out the dual functions will be increasingly deteriorated. Conversely, if the village finds a better candidate for management, BUMD will become more advanced.

One form of efforts to realize public awareness and participation in the formation of BUMD is the development of a legal culture, bearing in mind that the legal culture is one of the components in the process of working for the law besides the substance and structure components [29-32]. Legal culture is the whole factor that determines how the legal system obtains a logical place within the cultural framework of the general public. While participation is a mental, emotional, and physical involvement in using all of its capabilities (initiative) for a particular activity. Development oriented to human development in its implementation requires a direct involvement in the community receiving the development program, because only with that, the results of development will provide optimal benefits for meeting the needs of the community [27]. Influence on aspects of community life in the village, arrangements regarding the formation and management of

BUMD with regional regulations will provide guidelines for the procedures for the government and village communities to form and manage a joint business entity that can support village finances [22]. Rural communities in Indonesia are transitional societies. The nature of transitional societies is that of people who have both traditional and modern characteristics [25]. This study indicates that the supply chain of these four commodities, despite their importance in the economy, have not been managed in an optimal way due to (i) inefficient supply chain (excessive role of middlemen), (ii) high price fluctuation (particularly for chili), and (iii) high cost margin between upstream (at farmers' level) to downstream market (at customers' level).

4. Conclusion

This study aims to identify the supply chain, undertake market profiling for the four identified commodities, and conduct problem mapping with key stakeholders. Based on the results, the study proposes several potential inclusive business supply chain and partnership models, with information and communication technology as the key driver or facilitator. The regulation of BUMD as a village economic institution that carries out two functions, namely the economic function so that it is profit oriented and the social function is nonprofit oriented, from time to time since the colonial era until now experiencing development in accordance with the development of central government policies. In addition, the Village Law provides an opportunity for villages so that the Village Owned Enterprises (BUMD) can become one of the tools to fight for supply chain management improvement and prosperity in the village. In addition, the challenge of establishing BUMD after the issuance of the Village Law, Government Regulation Desa and Permendes PDDT, is increasingly complex. This is because not all villages in Indonesia are ready with adequate human resources in making village regulations, looking for business opportunities, becoming an administrator, making reports and implementing BUMD management. Therefore, the most serious challenge for villages is that villages must prepare themselves well in relation to the availability of human and natural resources as local potentials in efforts to prepare the establishment and development of BUMD through supply chain system in accordance with the demands and needs

of the community. The starting business from the production section in the village and distribution through the supply chain (producer to customer) can be more effective for the supplier and customers, which reduce time and cost.

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