

## **The Role Of Village Owned Enterprise (VOE) To The Rural Community Empowerment: Preliminary Review**

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### **ABSTRACT**

*The major problems of Indonesian rural development are unemployment, poverty, and inequality. To solve these problems, instead of giving direct financial assistance, the government prefers to facilitate the rural community on generating their own income by involving them in the economic activities through the establishment of Village Owned Enterprise (VOE). However, the establishment of VOE does not automatically empower the rural community. In many cases, VOEs compete with the existing Small and Medium Enterprises (SMEs) then fail to empower rural community. Therefore, the effectivity of VOE's role to empower rural community is still questionable. This paper will answer above question using systematic literature review and mapping the pathways of VOE on empowering the rural community, then finds the significant variables influence the effectivity of VOE to empower the rural community. Those variables are local economic potential, community participation, and business scaling up. Since the number of VOE in Indonesia is continuously increasing but only 20 percent of them has active transactions, this study contends that scaling up the VOE business is the key issue to empower the rural community and recommends further strategy to scale up the VOE business.*

**Keywords:** Village Owned Enterprise; Rural Community Empowerment; Scale Up Business; Governance Policy.

## INTRODUCTION

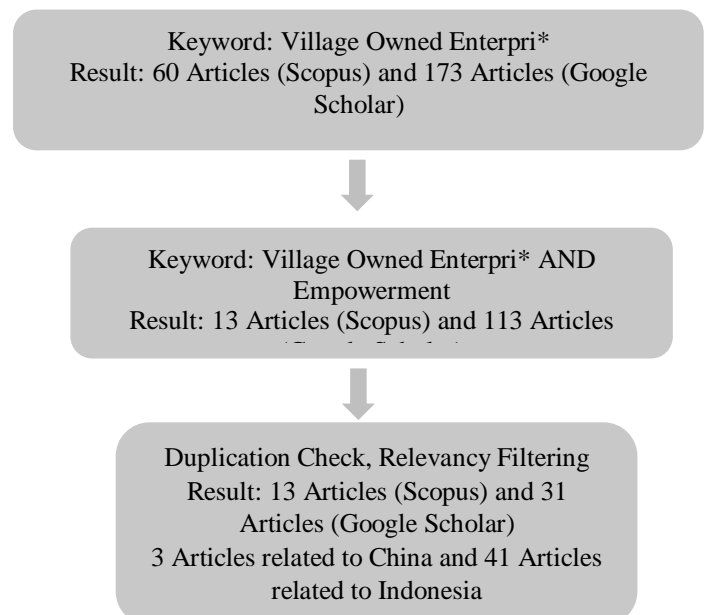
Unemployment, poverty, and inequality are the major problem of rural development (Singh, 2019),(Rejeki, 2018),(Dhewanto et al., 2020),(Tarhani & Sirajuddin, 2020). Unemployment causes poverty, and poverty causes wider inequality. Since the unemployment become the root cause problem of rural development, therefore, the role of Village Owned Enterprises (VOEs) is essential to support the rural community empowerment through the community involvement in the economic activity. The establishment of VOE has several missions, such as (1) developing the village economy; (2) to increase the source of original village revenue; (3) as a pioneer for economic business activities in the village; and (4) organizing public benefit in the provision of services to meet the needs of village people (Badaruddin, 2020). However, the impact of VOE to the rural economic empowerment is still questionable (Wicaksono, 2020). To increase their social impact, the VOEs need run the business, generate income, and use the income to support the social programs. In Indonesia, from 51.134 VOEs has been established, only 10.629 or 20,7 percent of the has active transactions, the rest of them are stagnant (The Ministry of Village, Development of disadvantaged region, and Transmigration of Republic of Indonesia, 2020).

Using systematic literature review, this paper analyzes the journal article from Scopus databases and google scholars from 1949 to 2021 and categorized them into two main groups, first the VOE's empowerment pathways, dan second the factor influences the effectivity of the VOEs role to the community empowerment. This article proposes three empowerment pathways of SMEs impact to the rural empowerment, which are institutional, economic, and socio cultural, whilst factors influencing the effectivity of VOEs impact are local potential, participation, and scaling strategy. The implication of this research is the model on how to increase the impact of the VOEs to the rural community empowerment.

## METHODOLOGY

This research uses Systematic Literature Review (SLR). Systematic searching was conducted using database of Scopus and Google scholars, both in Bahasa and English. The keywords used were Village Owned Enterpri\* and Village Owned Enterpri\* AND Empowerment. The process of literature reviews illustrated in the figure below:

Figure 1: Systematic Literature Review Process



The lists of journal articles were grouped based on the relevancy to rural community empowerment using three aspects, proposed by Badaruddin, et al (2020), such as Institutional Aspect, Economic Aspect, and Socio-Cultural Aspect. Based on the research contents, the journal articles were re-grouped into several study focus, such as capacity building, entrepreneurship, and innovation (as part of institutional aspect); job opportunity, business partnership, and micro finance (as part of economic aspect); environmental protection, sustainable development, and social welfare (as part of socio-cultural aspect). The articles are also grouped into two big categories based on the original country, which are Indonesia and China and then compared the factors influence the development of VOEs in Indonesia and Township and Village Owned Enterprise (TVE) in China. The factors discussed were local potential, participation, and scaling strategy. Based on the

findings, the research discussed the community empowerment model and proposed the scaling strategy to increase the role of VOs to the rural community empowerment.

## RESULTS

The analysis of 13 Scopus articles and 31 Google scholar articles, where 3 article related to China and 41 Article related to Indonesia, shows that the pathways of VOs to rural community empowerment, illustrated as table below:

Table 1 The Pathway of VOE to Rural Community Empowerment

No.	Empowerment Aspect	Focus Study	Author	Results
1.	Institutional	Internal Capacity	(Wibisono, 2020);(Sulastriono & Saputra, 2020);(Hendriani, 2019);(Dilham, 2020);(Sari RN, Junit D, Anugerah R, 2021);(Sofyani et al., 2019)	VOEs are place for rural community to learn how to manage social enterprise and explore the village economic potential
		Entrepreneurship	(Rohim et al., 2021);(Sari RN, Junit D, Anugerah R, 2021);(Dhewanto et al., 2020);(Bleberan, n.d.)	VOEs support, develop, and multiply the existence of Social Entrepreneurship
		Innovation	(Aritenang, 2021);(Sari RN, Junit D, Anugerah R, 2021);(Xun Wang, 2009);(Arifin Lubis, Abikusno Dharsuky, 2019)	VOEs support the innovation through value creation based on the local potential to solve fundamental rural community's problem
2.	Economic	Job Opportunity	(Arifin, B; Eko Wicaksono, 2020);(Prabowo, 2014);(Weitzman & Xu, 1994)(Xun Wang, 2009);(Perotti et al., 2014)	VOEs recruit targeted community as employee to obtain their own income
		Business Partnership	(Wahid et al., 2020);(Saleh, 2021);(Sofyani et al., 2019);(Sulastriono, 2020);(Bauwens et al., 2020);(Singgih Purnomo, Endang Siti Rahayu, Asri laksni Riani, Suminah, 2020)	VOEs develop business partnership with targeted community as supplier, retailer, creditor, or investors.
		Micro Finance	(Saleh, 2021);(Prabowo, 2014);(Putterman, 1997);(Saleh, 2021)	VOEs play a role as financial intermediary between Lender and Borrower in the rural community
3.	Socio Cultural	Environmental Protection	(Hardika et al., 2021);(Haedar, Saharuddin, J Jasman, S Wass, 2019)	VOEs promote environmental protection through their business, for example waste management, clean water, and so on.
		Sustainable Development	(Dhewanto et al., 2020);(Singgih Purnomo,	VOEs are the pillar of rural economic activity,

Badaruddin, et al (2020) propose three empowerment aspects, which are institutional or internal capacity building, economic or involvement in the economic activity, and socio cultural related to community development. Related to institutional, there is a group of research related to the role of VOs to develop internal capacity, entrepreneurship, and innovation. In term of Economic, a group of

research discuss the role of VOs on job creation, business partnership, and providing micro finance to support Small, and Medium Enterprises (SMEs) without collateral requirement. The last aspect, related to socio cultural, the role of VOs is promoting environmental protection, sustainable development, and social welfare through its business.

The establishment of VOs alone is not enough, the VOs must run the business and make profit to support their social program. There are two main group of articles discuss the success and failure of the VOs role to empower rural community in Indonesia and China. Based on the study in China and Indonesia, there are three factors influence the effectivity of VOs impact to rural community empowerment, as explained in the table 2 below:

Table 2 Factors Influence the Effectivity of VOs impact on Rural Community Empowerment

No.	Aspects	Indonesia	China	Author
1.	Potential	The local potentials in Indonesia are diverse, from agriculture, tourism, plantation, mining, and fishery ect. VOs should understand the local potential to determine the VOs business sector.	The local potential in China commonly is labor surplus, Township and Village Owned Enterprise (TVEs) transform it as production factor in manufacturing process	(Ibrahim, 2020); (Sulastriono & Saputra, 2020);(Aritenang, 2021);(Putterman, 1997); (Xun Wang, 2009); (Perotti et al., 2014), Singh, 2019
	Participation	The level of community participation on VOE's formation is low. The establishment of VOs promoted by government policy and supported by Village Funds	The initial formation of TVEs are from local participation not from government policy	(Aritenang, 2021); (Ramadana & Ribavanto, 2010);(Putterman, 1997); (Xun Wang, 2009); (Perotti et al., 2014), Singh 2019.
3.	Scaling Strategy	The formulation of VOs development has four dimensions, such as: Management, Social, Economy, and Environment. Level of Development are Formation, Develop, and Advance	TVEs scaling strategy is Scale Up through collaboration with SOEs, and expand the external market by increasing Export	(Bauwens et al., 2020); (Moore et al., 2015); (Warsono et al., 2018), (Putterman, 1997); (Xun Wang, 2009); (Perotti et al., 2014).
4.	Result			, and Perotti et al., 2014), Arifin, B et al. (2020).

As the result, the contribution of VOs to the economy is still limited in Indonesia. Year 2020, from total 51.134 VOs only 20,7% or 10.629 which has active transaction, and the rests are stagnant. In 2017, VOs profitability is only 0,06% from total fund invested in VOs (Ministry of Village and Disadvantaged Region,

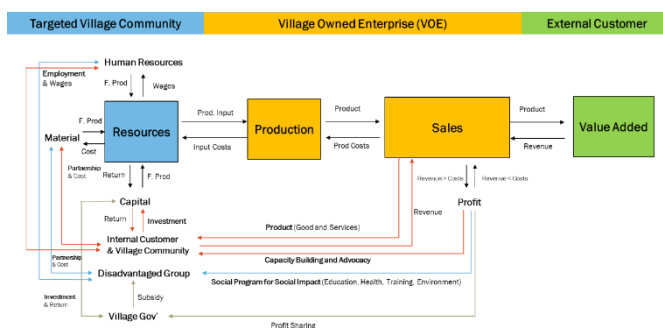
2020), Arifin, B et al. (2020). In the contrary, TVEs claimed as more profitable than State Owned Enterprise (SOEs). In 1997, the share of TVEs Export is 46,3% from Total Export in China (Perotti et al., 2014).

## DISCUSSION

### Village Owned Enterprise Empowerment Model

Based on the literature review, this article visualizes the empowerment pathways of VOEs to the rural community empowerment as figure 2 below:

Figure 2: VOEs Empowerment Pathways



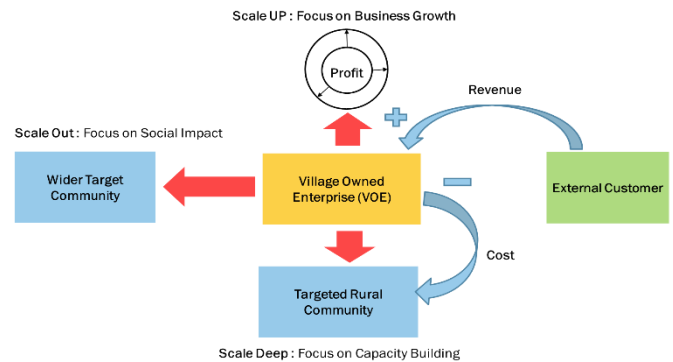
From the figure 2 above, VOEs empower the rural community through capacity building, and social program (education, training) as part of institution aspect, then employment, partnership, and investment as economic aspect, and advocacy and social program on environmental protection as part of socio culture aspects.

### VOEs Scaling Model to Increase Social Impact

The VOE is a hybrid organization between profit and non-profit or commonly called as social enterprise (Fahmi, et al. 2018). Bauwens et al., (2020) contends the scaling strategy of the VOEs to the rural community empowerment depends on the level of its hybridity. The level of VOEs hybridity determines the combination of scaling strategy whether scale up, scale deep, and scale out. For VOEs which more similar profit organization, it will scale up the business first, then continue with scale deep and scale out. While VOEs which more similar to non profit characteristic will focus on scale deep and scale out and less consider the profit earned.

The combination of scaling model of VOEs to rural community empowerment, can be illustrated as figure 3 below:

Figure 3 The VOEs Empowerment Scaling Model



As illustrated in the figure 3, the combination between scale up, scale deep, and scale out, determine the strategy of the VOEs to increase their social impact.

## CONCLUSION

The roles of VOEs to the rural community empowerment following three main aspects, which are institutional, economic, and socio-cultural aspect. However, the positive impacts of VOEs to the rural community in Indonesia is still limited compared to China. To increase their social impact, there are three combination of scaling strategies on rural community empowerment, such as “scale-up”, “scale-deep”, and “scale-out”. The future research should focus on the proper combination of VOEs scaling strategy in line with the VOEs mission related to business growth (scale up), capacity building (scale deep), and wider social impact (scale out) to the rural community empowerment.

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