Model of Institutional Integration of the Community Revolving Fund as a Source of Sustainable Capital and Poverty Alleviation in Rural Areas

Emi Hidayati[1], Akhmad Sofyan[2], Djoko Poernomo[3], Supranoto[4]
[1,2,3,4]Universitas Jember, Indonesia
Email: emi@iaiibarahimy.ac.id

Abstract

This study attempts to create an integration model of institutional change from a government-driven initiative, specifically the integration of community revolving funds (DBM) into Village-Owned Enterprises (BUMDesa). In particular, every village in Banyuwangi Regency having a Village Credit Bank was included in this study. This study used descriptive qualitative research. The information was gathered using a combination of in-depth interviews, participant and non-participant observation, and document reviews. The data was examined for validity using a series of source triangulation, technique triangulation, and time triangulation. The institutional dynamics of community revolving funds (DBM) arising from government policies or programs. It was governed by overlapping rules from different independent bodies, which made it challenging to implement the transformation process and expensive to do so. The Village Credit Bank and the PNPM-Mandiri activity implementation unit (UPK) were eventually merged to create the Bumdesma business unit after overcoming numerous challenges. The Inter-Village Cooperation Agency (BKAD) and Bumdesma are two new organizations that were created as a result of the institutional change process but their existence does not enhance community services. The dynamics of institutional change and transformation led to disagreements over property rights, and uncertainty surrounding ownership status sparked the emergence of Free Riders who later converted BKD assets into KSPs run by a number of former managers, which in turn had an impact on the sale of BKD assets to private parties. The institutional transformation process caused BKD's institutional nature to move from private goods to common goods as a secondary bank of BRI. The oversight of Microfinance ex Village Credit Bank (BKD) is the sole aspect of Bumdesa business units that are covered in this research. This research is able to contribute a model of integrating the management of Bumdesa as a Common Resource as an effort to alleviate poverty in Indonesia.

Keywords: *Institutional Integration*, *Community Revolving Funds*, *Blended Institutions.*

– – – – – – – – – – ◆ – – – – – – – – – –

A. INTRODUCTION

One of the important issues that still emerges until the end of the 20th century is poverty and the problem of poverty is a global problem, especially a serious problem in developing countries such as Indonesia (Obadire, 2022). As a developing country, Indonesia also has a commitment to encourage equitable development at the village level and continue to encourage the reduction of poverty and inequality (Van Leeuwen & Földvári, 2016). The Government of Indonesia through Presidential Instruction Number 4 of 2022 on Accelerating the Elimination of Extreme Poverty. (Instruction of the President of the Republic of Indonesia Number 4 of 2022, 2022) gives instructions to 22 Ministries and other state institutions to take strategic steps in

accordance with their authority to accelerate the elimination of extreme poverty in Indonesia. Discussing poverty in Indonesia and many other developing countries cannot be separated from discussing the problem of poverty in rural areas, because almost all poverty problems in developing countries are in the village(Yustika, 2008). One of the most crucial issues regarding rural poverty is related to the lack of *capital* (Yustika & Baks, 2015). In particular, President Joko Widodo's Nawacita Vision raises the issue of building from the periphery (Setiawan, 2019). Building from the periphery in this case is a commitment from President Jokowi to solve problems from rural areas. One of the main problems of rural development is access to capital and limited capital in rural areas is indeed an important aspect which is a similar problem in almost all developing countries. Limited capital will not be able to circulate economic activities, and without circulating economic activities, capital accumulation will not be possible.

Policymakers therefore suggested the introduction of microcredit as a tool to solve the institutional features of the rural banking sector in consideration of the aforementioned issues. Around the 1990s, the rural financial sector began to flourish (Yustika, 2008). The development of the rural financial sector has been done in many developing countries, such as Bangladesh, Indonesia, Thailand, Malaysia, Pakistan, Nigeria, Zambia, and others. Some countries are considered successful such as in Bangladesh through the Grameen Bank(Yunus & Weber, 2007). In Indonesia there are several financial institutions that are *government driven* (government projects) such as BANK KREDIT DESA (BKD, UPK-PNPM, UED-SP, UEP-SP, PUAP, KUBE and UPPKS and all of them are government programs in the form of Community Revolving Funds (DBM). which are regulated by different ministries, and have the same goal of poverty alleviation, with different targets but both move in the rural credit market. In Banyuwangi Regency, there are at least seven DBMs consisting of: VILLAGE CREDIT BANK (BKD, UPK-PNPM, UED-SP, UEP-SP, PUAP, KUBE and UPPKS).

Can microfinance in Indonesia actually promote economic growth and lower poverty rates? There are numerous studies on the connection between the availability of microfinance and the alleviation of poverty, whether it was started by the government or the private sector. Several studies have shown mixed results on the relationship between the presence of microfinance institutions and poverty reduction and alleviation (Pitt & Khandker, 1998). The existence of microfinance institutions will be able to provide access to communities or groups of communities that cannot be accommodated by conventional financial institutions such as conventional banking (Armendariz & Morduch, 2010; Weiss et al., 2003). The existence of microfinance is expected to create financial inclusion for the poor, reduce poverty and increase household income (Adnan & Ajija, 2015; Fianto et al., 2018). Meanwhile, Takahashi et al. (2010) who conducted research in Indonesia, mentioned that the existence of microfinance institutions is not a "miracle" as many people believe, where in Indonesia, which is mostly driven by the government, there is a dilemma because to reduce the risk of potential default by charging high interest rates, thus sacrificing the social mission which is the main goal.

Microfinance institutions that currently exist include the Village Credit Agency (BKD) and UPK PNPM. Subsequently, the Ministry of Villages received the delegation of authority to transform the Village Credit Agency (BKD) and UPK PNPM into the existing policy system in Law Number 6 of 2014 concerning Villages. (Law of the Republic of Indonesia Number 6 Year 2014 on Villages, 2014). One of the contents of the transformation that must be carried out is the fusion of the Village Credit Bank (BKD) into BumDesa and UPK PNPM into BumDesa Bersama (Putra, 2015). Institutional transformation carried out by Microfinance Institutions in Indonesia in reality faces a variety of complicated and winding institutional dynamics. The complicated and winding dynamics did not only occur during the pre-transformation period, especially related to the overlapping regulations governing microfinance institutions. After the transformation of microfinance institutions into Bum Desa, several dilemmas await, especially related to changes in the character of the management of the Village Credit Bank (BKD) institutional model amidst the dilemma of sustainability and inclusiveness carried out by Microfinance institutions in Indonesia.

Given the foregoing context, this research looks at the phenomenon of overlapping regulations in the integration of government programs / driven government into BUMDesa in an effort to close the knowledge gap. It also conducts a study on the integration model of Microfinance Institutions in Indonesia after converting to BUMDesa. In attempts to empower rural communities and promote local economic development, institutional integration of various government initiatives (Driven Government) into village-owned businesses (BUMDesa) is a challenging task. While Driven Government programs are intended to promote economic growth, community empowerment, and gap closing, BUMDesa plays a crucial strategic role in enhancing village economic potential. However, in actuality, requirements from various government programs frequently overlap, making it more difficult to integrate them into BUMDesa. The character of MFIs has also altered as a result of the transition from MFIs to BUMDesa, becoming Common resources.

This collective ownership then raises the vulnerability side in terms of utilizing MFIs as a *commons resource,* MFIs are clearly expected to provide benefits in alleviating poverty, while the form of collective ownership in Bum Desa contains concerns that if managed irresponsibly and poor social management will cause a *tragedy of the commons*(R. Hardin, 1982). The inclusiveness of Bum Desa's mission could contribute to the tragedy of the commons. The social tragedy is that microfinance organizations have stopped functioning, making it impossible to reduce rural poverty. Along with the tragedy of the commons element, the existence of the Financial Services Authority (OJK) and regulations with different rules that appear to contradict local wisdom also hold the potential to turn MFIs into formal financial institutions, which will then move away from the desire to solve the issue of access to capital that cannot be provided by formal financial institutions, and the existence of OJK will actually have the potential to bring MFIs close together. An explanation of how the institutional integration model should be implemented in the management of Bumdesa, which incorporates

microfinance institutions of the old Village Credit Bank (BKD), may thus be derived from this research.

B. LITERATURE REVIEW

Some of the theories used to answer research questions in this study include: institutional change theory, *tragedy of the commons theory*, Polycentric Institutions, *Hybrid Institutions*. The main study in this research is about institutions related to institutions in poverty alleviation through microfinance institutions. Institutional problems play a very important role regarding the governance of a country, prosperity or poverty in a country depends on the institutional choices chosen by the country. Differences in welfare levels between countries are largely determined by their economic institutions and political institutions (Acemoglu & Robinson, 2013). An inclusive political and economic institution is believed to lead a country to prosperity, and on the contrary, extractive political and economic institutions will lead a country to misery. The solution through institutions presented by Acemoglu and Robinson basically only wants to answer a question about why one country is in prosperity while another country is poor. The classic approaches that have always been used as arguments about prosperity and poverty in a country include: geography, culture and ignorance, which cannot explain the question at hand (Acemoglu & Robinson, 2013). So, then Acemoglu and Robinson offer an institutional approach, according to them economic and political institutions play a very important role in the welfare of a country.

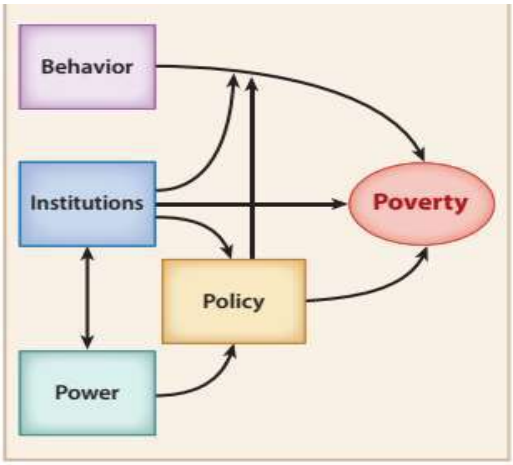


Figure 1. Conceptual models of causal relationships in behavioral, structural and political theories of poverty

Institutions must be seen as a dynamic concept or constantly changing, because there are adjustments from changes in economic interactions that bring together economic actors who have their own interests. In addition, institutional changes that experience cultural changes from the community along with the changing times. Institutional change means that there have been changes in the principles of regulation and organization and organization, behavior and even patterns of interaction that exist in society (Yustika, 2008). While Kingston & Caballero (2009) defines institutional change as a process of collective and centralized choice in which rules are

explicitly determined by the collective politics of entities, such as communities or countries, and individuals and organizations are involved in collective action, conflict and bargaining. So that institutional change can be a driver of changes in social structure in society and this institutional change has an active influence to influence aspects of social aspects, economic law, politics and so on (Yustika, 2008). In the conception of North (1990) institutional change occurs because of the emergence of scarcity problems and unpredictable individual behavior. The problem of scarcity is not only related to the scarcity of limited resources but also the scarcity of the *rules of the game*. Still according to North (1990) there are two main factors as a way to understand the dynamics of institutional change, namely:

1. Institutional change as a *symbiotic relationship* between the institution and the organizations surrounding the incentive structure provided by the institution;
2. Institutional change is a *feedback process* in which individuals perceive and react to changing opportunities.

The Polycentric Theory of Governance refers to a situation that consists of many formally independent decision-making centers. They are usually functionally independent but sometimes form a pattern of interdependence (E. Ostrom, 2010). Decision-making in polycentric governance theory is described as overlapping because it is made at multiple levels of jurisdiction (local, regional and even national) (Bish, 2014; McGinnis, 1999). This multilevel governance model usually regulates an object that is regulated at the scale of centralized government and even at the local scale (Carlisle & Gruby, 2019). Important attributes in Polycentric Governance based on Vincent Ostrom (1961) at least in Polycentric Governance there are: a polycentric political system would be composed of: (1) many autonomous units formally independent of one another, (2) choosing to act in ways that take account of others, (3) through processes of cooperation, competition, conflict, and conflict resolution (V. Ostrom et al., 1961).

On the other hand, Hayek (1945) observing the importance of knowledge and information on a social scale, this thought became known as Hayekian Knowledge highlighting the importance of local and decentralized knowledge in economic decision-making. Hayekian knowledge recognizes that no single authority can control knowledge that is widely distributed in society. In the village context, Hayekian knowledge suggests that decisions related to resource management and economic development should involve local knowledge held by village actors and community members. By utilizing this Hayekian knowledge, polycentric governments in villages can provide space for the participation of local actors and recognition of their local knowledge, which is not possible under a centralized regulatory model.

One of the most popular forms of institutionalization of individual, community and state behavior is the *tragedy of the commons which* originated from the hypothesis presented by Hardin (1968)in his book entitled the tragedy *of the commons,* according to Hardin there will be a social tragedy in the management of common resources (*commons resources*) if each individual maximizes common property resources for personal gain. In Hardin's understanding, the problem of population growth is a

problem that cannot be solved technically, so in managing common resources, state intervention is needed. Then the hypothesis. According to Ostrom (1990) in the utilization of common resources that are *open access, it* encourages social conflicts of people who utilize *commons resources* and environmental degradation if it is not managed with clear rules of the game, and social tragedies will not occur if the common property resources are managed by the community that they do themselves without the need for state intervention (E. Ostrom, 1990).

One form of state intervention in this case is by emphasizing through the enforcement of ownership rights. According to Hardin (1968) enforcement of property rights over shared resources can be left to the state or the private sector. The ownership regime becomes an instrument capable of providing certainty in the utilization of natural resources and becomes a social instrument with certain objectives. Therefore, institutions are needed to manage and bridge between private, group, or state ownership with a clear system of rules so that there is no conflict in managing common property resources that are *open* access (Bromley, 1992). In line with Ostrom (1990) about communities, Wade argues that local organizations can be used as an alternative to accommodate collective action rather than through settlement with the enforcement of *property rights to* the state or private sector, which is often ineffective and costly (Wade, 1987).

Based on the debate between Ostrom and Hardin, a middle way effort to combine the two ideas between individuals, communities and the state through *Hybrid Institutions is proposed by* German & Keller (2010).The best solution to resolve the interests of individuals, communities and the state can be done with the *Hybrid Institutions* model rather than individually. Based on the approach, *hybrid institutions* are positioned as a forum that connects the various interests of individuals, communities and the state in managing common property resources in a balanced manner between two or more actors and regulated by clear and firm legal regulations (*formal regulation*). In an effort to obtain results that can bridge the dualism of missions in the management of MFIs. The transformation of MFIs into BUMDesa must be seen as a collective action in order to solve the problems being faced (Heckathorn, 1993). There are several collective actions that can be taken. *First, the* system used to manage *common resources* (E. Ostrom, 1990). *Second*, systems for *controlling behavior*, such as norms, religious dogmas that prohibit bad behavior, acts of exploitation, *Third*, social social changes such as revolutions, or slow changes (Yustika, 2008) These three prerequisites are important to do so that the utilization of shared resources can run effectively and efficiently. One of the conditions that need to be considered in the collective action carried out is the emergence of *small* parties that will exploit large actors *great* (Olson, 2003)*).* This can be seen in political activities where small elite groups are able to exploit public policies for large groups (Mosca, 1939).

C. METHOD

Qualitative descriptive research is used in this study. This study makes use of qualitative descriptive research for two reasons. In order to identify and comprehend

what is concealed behind phenomena that are occasionally challenging to understand properly, institutional transformation experience is first used. Second, the study makes discoveries about how organizations, social interactions, and community life have changed through time, producing descriptive data in the form of written words, relevant books, or oral reports based on people's observed behavior rather than numerical statistics. The institutional dynamics of microfinance organizations in Banyuwangi Regency are investigated in this study. It details the institutional conversion of the Village Credit Bank (BKD) into a Microfinance (MFI) that was formally overseen by the Financial Services Authority (OJK), and all assets controlled by the village government.

Third, information was gathered through a combination of in-depth interviews, participant and non-participant observation, and document analysis. Through a sequence of source triangulation, technique triangulation, and temporal triangulation, the acquired data was examined for validity. The informants were chosen based on a number of factors, including the following: a) those who were actually involved in the transformation process and management of the management organization; b) those who did not have a propensity to exaggerate or underestimate information; c) those who were suggested by at least two previous informants; and d) those who expressed their willingness to be interviewed and were prepared to set aside the time necessary. The data from the test were then examined using the interactive analysis method created by (Miles et al., 2014).

D. RESULT AND DISCUSSION

1. Polycentric Governance as a General Pattern of Institutional Interaction in Berdesa Tradition

The scope of this research is Microfinance Institutions established as programs that are government initiatives or programs. Such as Village Economic Enterprise-Saving Loan (UED-SP), Village Credit Bank (BKD), Rural Credit Enterprise (BUKP), Lumbung Pitih Nagari (LPN), Village Credit Institution (LPD), District Credit Agency (BKK), Joint Business Group (KUBE), Small Farmers and Fishermen Income Improvement Program (P4K) group, Community Self-Help Agency (BKM) PNPM Mandiri Urban, Coastal Community Economic Development (PEMP) group, Rural PNPM Mandiri Activity Management Unit (UPK), Family Welfare Service Program Unit (UPPKS) group, Village Financial Management Unit (UPKD), Rural Agribusiness Empowerment Farmer Group (PUAP), Community-Based Savings and Loan Institution (LSPBM), Baitul Maal wat Tamwil (BMT) and/or other similar institutions. In Banyuwangi Regency there are at least seven DBMs consisting of: Village Credit Bank (BKD), UPK-PNPM, UED-SP, UEP-SP, PUAP, KUBE and UPPKS.

Based on the Joint Decree of the Minister of Finance, Minister of Home Affairs, Minister of State for Cooperatives and Small and Medium Enterprises, and Governor of Bank Indonesia No. 351.1/KMK.010/2009, No. 900-639A of 2009, No. 01/SKB/M.KUKM/IX/2009 No. 11/43A/KEP.GBI/2009 on Microfinance Institution Development Strategy. The issuance of this joint decree requires Microfinance

Institutions to develop through the process of changing status into a form of business that has a clear legal basis, namely: (1) Rural Banks; (2) Cooperatives, (3) Village-Owned Enterprises (BumDesa) or (4) other financial institutions in accordance with applicable laws and regulations. The SKB describes the role of four ministerial institutions, 1) Bank Indonesia provides consultation to MFIs that will become BPRs in accordance with the applicable provisions in the establishment and licensing of BPRs, 2) The Ministry of Home Affairs, together with the local government, provides guidance to MFIs that will become BumDesa, 3) The Ministry of Cooperatives and Small and Medium Enterprises together with the local government facilitates, empowers and fosters MFIs that will become cooperatives, 4) The Ministry of Finance, provides consultation to MFIs whose business activities resemble financial institutions that are under the guidance and supervision of the Ministry of Finance to become financial institutions in accordance with applicable regulations.

In principle, the three ministerial decree seeks to assist MFIs to have clarity of legal status and organize MFI governance in order to compete with formal financial institutions, but the issuance of the decree raises new problems, especially related to the lack of technical regulations as technical guidance after the issuance of the decree. Other issues relate to the overlapping functions and roles of ministries and the weak coordination between ministries. Another complication is especially when the issuance of Law No. 1 of 2013 on Microfinance Institutions, Law No. 6 of 2014 on Villages that regulates BUMDesa governance and the presence of the Financial Services Authority by issuing Financial Services Authority Regulation No. 10 of 2016 which then threatens the operational existence of existing MFIs.

The overlapping rules of the game in the management of Microfinance Institutions in Indonesia occur not only because of the overlapping rules of the game of MFI institutions, but also because there are also types of services and subsidies issued by the government, every change of government always issues various types of assistance with the target group of poor and low-income people. The various regulations and programs issued by the government, coupled with fierce business competition, make the business sustainability of community revolving fund programs very vulnerable to bankruptcy, leaving only a few institutions that can survive and compete.

Theoretically, the symptoms of overlapping regulations that occur can be approached with the theory of Polycentric Governance(V. Ostrom et al., 1961). The conclusion of the several independent decision-making units within government agencies, communities (villages), individuals, and microfinance organizations is the explanation of the various regulations imposed by the government to combat poverty in Indonesia through microfinance institutions. For Ostrom (2010) the highly complex issues of human interaction cannot be understood through simplified systems that dichotomize the state and the community (E. Ostrom, 2010). The complexity of human interaction, especially in relation to the problem of poverty in rural areas, the approach of using microfinance institutions is not enough because humans as economic subjects have a complex motivational structure and building

microfinance institutions is also in addition to the state or community, there are also private economic actors both formal and informal who want to take advantage of the complexity of microfinance institutional problems for personal gain (North, 1990). Polycentric governance is not as simple as the concept of decentralization that still recognizes hierarchy, but it is more complicated because each regulation involves independent jurisdictions (Bish, 2014). Polycentricity refers to "the fragmentation of power between multiple decision-making centers with multiple veto rights within a single jurisdiction, and the development of multiple overlapping jurisdictions at very different scales." (V. Ostrom et al., 1961).

The presence of many decision-making centers on the one hand will be able to obtain various sources of information and specific knowledge that may not be able to appear in a centralized regulatory model. This specific information and knowledge is what is later referred to as *Hayekian* Knowledge(Hayek, 1945). This specific information and knowledge will guide a social organization to work more efficiently. However, various regulations from decision-making centers also result in overlapping regulatory systems and make it difficult to consolidate the collective action to be achieved. Financial Services Regulation (POJK) working on a uniform scale has the potential to dominate a set of unbalanced information and knowledge about the management of the financial system in Indonesia, so the problem of information and knowledge should be distributed to the public so that the problem of *lack of information* and knowledge can be minimized. The distribution of information and knowledge is absolutely indispensable because all management of Bumdesa will be carried out by villagers, whose level of information literacy and knowledge is very limited.

The transformation of Microfinance Institutions into Bumdesa on the one hand does create a complexity of rules of the game and requires a complicated and winding dynamic process that regulates institutional governance, but in our opinion it is a very appropriate step because it will be able to carry out the mission of sustainability and inclusiveness in a balanced and maintained manner (Hidayati & Fatimah, 2022). As an institution, Bumdesa is designed by the village government or initiatives from the village community (Putra, 2015), which is then recognized as a village-scale local authority whose existence is recognized by the Ministry of Villages PDTT in this case the Ministry of Villages PDTT has included the establishment and management of BUM Desa in the *Village-Scale Local Authority in* the *field of village local economic development* (*vide* Article 12 letter m Permendesa PDTT No. 1/2015) (Putra, 2015).

Behind the transformation of Microfinance Institutions into Bumdesa, it also transforms the institutional character of Microfinance Institutions ex Village Credit Bank (BKD) from private goods as a secondary bank of BRI to commons resources that must take local political structure, social both in the rules of the games and the interaction of actors involved at the community (village) scale into consideration. According to Ostrom et al. (1961) through *polycentric governance* there are many decision-making centers and the resolution of overlapping authority can be passed through cooperation, competition, conflict and conflict resolution, but in this case Polycentric governance can actually provide space for the community to be able to

take the supremacy of its sovereignty in the Village Consultative Meeting to become the highest decision maker at the village scale (E. Ostrom, 2010). Through *polycentric governance,* especially at the local scale, it will provide a spillover of local knowledge and move the locus of attention and the highest source of decision-making from the state to the community (village) (Wagner, 2005). Thus, if in a centralized system the state is the only source of knowledge and information, then through the principle of recognition and subsidiarity to the village (Putra, 2015). Therefore, if in a centralized system the state is the only source of knowledge and information, then through the principle of recognition and subsidiarity towards villages (Putra, 2015), then the recognition of the existence of community villages (villages) as well as alternatives as providers of information and knowledge on a local scale gets constitutional attention so that there is Coordination of Dispersed Knowledge between the state and local wisdom (Frank & Shockley, 2016).

The transfer of the locus of attention and the highest source of knowledge, namely the government to this kind of community, actually contains the potential problem of *lack of information* and *knowledge* as stated by Hayek (1945).Therefore, to reduce the potential *lack of information* and *knowledge, the* government and the Financial Services Authority are still needed as a source of information and knowledge providers. As the experience of the Village Credit Bank (BKD), which was able to survive only through regulations from Bank Rakyat Indonesia. The issue of access to information and knowledge is necessary to deal with the complexity of social issues and the level of uncertainty in the business climate and changes in economic institutions. In practice, there are two government-driven institutions, namely the PNPM-Mandiri Perdesaan Activity Management Unit (UPK) and the Village Credit Bank. If the PNPM-Mandiri Perdesaan Activity Management Unit (UPK) transforms to adapt to the policies in the Village Law into BUM Desa Bersama, which was established in the context of inter-village cooperation and business services between villages that have a locus of establishment based on rural areas (Building Villages). As a consequence of inter-village cooperation, an Inter-Village Cooperation Agency (BKAD) was formed, which then facilitated the implementation of the Inter-Village Deliberation (MAD), which then led to the establishment of BUMDesma through a Joint Regulation of Village Heads (Permakdes).

The establishment of the two new organizations, Bumdesma and the Inter-Village Cooperation Agency (BKAD), in practice did not contribute at all to the development of BUMDesma, and its decisions often intervened with BUM Desa Bersama. Meanwhile, the Village Credit Bank has been transformed from a People's Credit Bank into a Microfinance Institution (MFI) and serves as a legal entity of Bumdes.

2. Blended Institution as a Model of Institutional Integration of Community Revolving Funds in Bumdesa Bersama and Bumdesa

An institutional integration model that can facilitate policy implementation in Bumdesa is required due to the dynamics of institutional transformation of the

Community Revolving Fund and various types of existing regulations that overlap. According to the findings of the study, there are three institutional entities present in the Community Revolving Fund, specifically the former Village Credit Bank (BKD) after the transformation: the State (Ministry of Village PDTT), the Community (Village), and the Specific Authority (OJK). As a result, if you want to incorporate the institutional model into the governance of Bumdesa, you must be able to combine the three organizations(2010) and Hayek (1945) about Polycentric Governance and the *lack of Information and Knowledge* and elaborating on the debate between Hardin (1968) and Ostrom (1990) about the occurrence of the *Tragedy of the Commons*, especially in the management of shared resources, by also elaborating on the idea of *Hybrid Institution* German & Keller (2010). (2010).

To accommodate these various thoughts, an institutional model is needed to integrate various kinds of different interests both in terms of mission, namely sustainability and inclusiveness, and how to manage shared resources, especially regarding the presence of the government (*state*) as Hardin thought(1968) and Ostrom's community-based thinking model (1990) as well as the presence of the financial services authority (OJK) as a specific authority that we position as a solution to the problem of *lack of information and knowledge,* it is needed as an integration model into the offer of an institutional model that we call *Blended Institutions.* For the country, the presence of blended institutions itself is an answer to the dualistic thinking model of Booke (1953) in (Chongvilaivan & Kim, 2016) about the dualism of the economic system in Indonesia between the modern and traditional sectors that have no relationship. So that both can be connected in an interconnected pattern, the traditional economic system in the village can be commercially mobilized and can catch up with the development of urban areas.

Conceptually, *Blended Institutions* are similar to the *Hybrid* Institution model (German and Keller, 2010)model, especially ending the debate between Ostrom (1990) and Hardin (1968) . By combining state and community entities in managing shared resources, based on the results of the research conducted, the existence of the Financial Services Authority (OJK) is undeniably one of the regulatory tools that distinguishes the *Hybrid Institution* model, we position the Financial Services Authority (OJK) as a specific authority that regulates the governance of financial services in Indonesia. In the debate that occurred between Hardin (1968) the existence of the state is needed to solve the problem of shared resources, especially the occurrence of social tragedy, then Ostrom (1990) said that the state is not needed and there will be no so-called tragedy of the commons if the management of shared resources is left to the community. So for the context of managing the Community Revolving Fund, the existence of the Financial Services Authority is needed as a guide and guardian of the possibility of the presence of free riders and rent seeking behavior in managing these shared resources.

Conceptually, the depiction of the institutional integration model in BumDesa can be seen in the figure below:

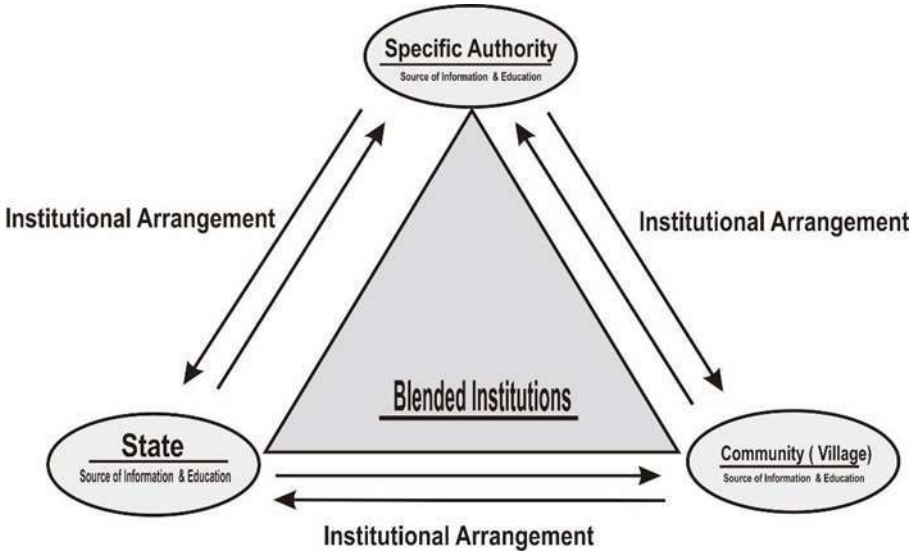


Figure 2. ***Blended Institution*** **Conceptual Model**

Source: Developed by Researcher

In general, the institutional integration pattern established in blended institutions used in the governance of Bumdesa, specifically the management of microfinance institutions, essentially merges the state, community, and specific authority organizations, mainly the Financial Services Authority (OJK). Each entity in the Blended Institution serves as a source of information and local knowledge for each member of the community, as well as forming a functional pattern of institutional interaction that creates the institutional arrangement, according to the conceptual relationship pattern. This is directly tied to the capability of knowledge and information that will become a crucial pillar in the technocratism of village development (Yustika, 2019).

E. CONCLUSION

Due to the fact that sustainability and inclusivity are frequently trade-offs, BumDesa, the engine of economic activity, is anticipated to propel strategic village business units that can integrate the two missions. In order to accomplish these two objectives, an institutional model that can integrate the two objectives is required. In order to create a national economy based on villages, it is believed that the offer of an integration model in a blended institution will serve as a new equilibrium point in the growth of the village economy and, at the same time, as a way to acknowledge the village community. This research only discusses the management of Microfinance ex Village Credit Bank (BKD) and has not touched all business units of Bumdesa.

ACKNOWLEDGMENT

The authors express their gratitude and appreciation to the Village Credit Banks in Banyuwangi Regency, Bumdesma in Banyuwangi Regency and the Government of Banyuwangi Regency.

REFERENCES

1. Acemoglu, D., & Robinson, J. A. (2013). *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. Profile Books.
2. Adnan, M. A., & Ajija, S. R. (2015). The Effectiveness of Baitul Maal wat Tamwil in Reducing Poverty: The Case of Indonesian Islamic Microfinance Institution. *Humanomics*, *31*(2), 160–182. https://doi.org/10.1108/H-03-2012-0003
3. Armendariz, B., & Morduch, J. (2010). *The Economics of Microfinance* (2nd ed). MIT Press.
4. Bish, R. L. (2014). Vincent Ostrom's Contributions to Political Economy. *Publius*, *44*(2), 227–248.
5. Bromley, D. W. (1992). The Commons, Common Property, and Environmental Policy. *Environmental and Resource Economics*, *2*(1), 1–17. https://doi.org/10.1007/BF00324686
6. Carlisle, K., & Gruby, R. L. (2019). Polycentric Systems of Governance: A Theoretical Model for the Commons. *Policy Studies Journal*, *47*(4), 927–952. https://doi.org/10.1111/psj.12212
7. Chongvilaivan, A., & Kim, J. (2016). Individual Income Inequality and Its Drivers in Indonesia: A Theil Decomposition Reassessment. *Social Indicators Research*, *126*(1), 79–98. https://doi.org/10.1007/s11205-015-0890-0
8. Fianto, B. A., Gan, C., Hu, B., & Roudaki, J. (2018). Equity Financing and Debt-Based Financing: Evidence from Islamic Microfinance Institutions in Indonesia. *Pacific-Basin Finance Journal*, *52*, 163–172. https://doi.org/10.1016/j.pacfin.2017.09.010
9. Frank, P. M., & Shockley, G. E. (2016). A Critical Assessment of Social Entrepreneurship: Ostromian Polycentricity and Hayekian Knowledge. *Nonprofit and Voluntary Sector Quarterly*, *45*(4_suppl), 61S-77S. https://doi.org/10.1177/0899764016643611
10. German, L., & Keller, A. (2010). "Hybrid Institutions": Applications of Common Property Theory beyond Discrete Property Regimes. *International Journal of the Commons*, *4*(10).
11. Hardin, G. (1968). The Tragedy of the Commons. *Science, New Series*, *162*(3859), 1243–1248.
12. Hardin, R. (1982). *Collective Action*. Published for Resources for the Future by the Johns Hopkins University Press.
13. Hayek, F. A. (1945). The Use of Knowledge in Society. *The American Economic Review*, *35*(4), 519–530. JSTOR.
14. Heckathorn, D. D. (1993). Collective Action and Group Heterogeneity: Voluntary Provision versus Selective Incentives. *American Sociological Review*, *58*(3), 329–350. JSTOR. https://doi.org/10.2307/2095904
15. Hidayati, E., & Fatimah, N. (2022). Rekontruksi Model Integrasi UKM dan LKM ke Dalam Cita-Cita Desa melalui BUMDesa di Kabupaten Banyuwangi. *RIBHUNA : Jurnal Keuangan dan Perbankan Syariah; Vol 1 No 1 (2022): (January 2022)*. http://ejournal.iaiibrahimy.ac.id/index.php/ribhuna/article/view/1276

16. Kingston, C., & Caballero, G. (2009). Comparing theories of institutional change. *Journal of Institutional Economics*, *5*(2), 151–180. https://doi.org/10.1017/S1744137409001283
17. McGinnis, M. D. (Ed.). (1999). *Polycentricity and Local Public Economies: Readings from the Workshop in Political Theory and Policy Analysis*. University of Michigan Press.
18. Miles, M. B., Huberman, A. M., & Saldaña, J. (2014). *Qualitative Data Analysis: A Methods Sourcebook*. SAGE Publications, Inc.
19. Mosca, G. (1939). *The Ruling Class*. McGraw Hill Professional.
20. North, D. C. (1990). *Institutions, Institutional Change, and Economic Performance*. Cambridge University Press.
21. Obadire, A. M. (2022). Analysis of the Impact of Microfinancing on Poverty Alleviation in Nigeria. *Journal of Financial Risk Management*, *11*(03), 648–657. https://doi.org/10.4236/jfrm.2022.113031
22. Olson, M. (2003). *The Logic of Collective Action: Public Goods and the Theory of Groups* (21. printing). Harvard Univ. Press.
23. Ostrom, E. (1990). *Governing the Commons: The Evolution of Institutions for Collective Action*. Cambridge University Press.
24. Ostrom, E. (2010). Beyond Markets and States: Polycentric Governance of Complex Economic Systems. *American Economic Review*, *100*(3), 641–672. https://doi.org/10.1257/aer.100.3.641
25. Ostrom, V., Tiebout, C. M., & Warren, R. (1961). The Organization of Government in Metropolitan Areas: A Theoretical Inquiry. *American Political Science Review*, *55*(4), 831–842. https://doi.org/10.2307/1952530
26. Instruction of the President of the Republic of Indonesia Number 4 of 2022, (2022).
27. Pitt, M. M., & Khandker, S. R. (1998). The Impact of Group-Based Credit Programs on Poor Households in Bangladesh: Does the Gender of Participants Matter? *Journal of Political Economy*, *106*(5), 958–996. JSTOR. https://doi.org/10.1086/250037
28. Putra, A. S. (2015). *Buku 7 Badan Usaha Milik Desa Spirit Usaha Kolektif Desa*. Kementerian Desa, Pembangunan daerah tertinggal.
29. Setiawan, S. (2019, June 24). Membangun Indonesia dari Pinggiran Desa. *Sekretariat Kabinet Republik Indonesia*. https://setkab.go.id/membangun-indonesia-dari-pinggiran-desa/
30. Takahashi, K., Higashikata, T., & Tsukada, K. (2010). The Short-Term Poverty Impact of Small-Scale, Collateral-Free Microcredit in Indonesia: A Matching Estimator Approach. *The Developing Economies*, *48*(1), 128–155. https://doi.org/10.1111/j.1746-1049.2010.00101.x
31. Van Leeuwen, B., & Földvári, P. (2016). The Development of Inequality and Poverty in Indonesia, 1932–2008. *Bulletin of Indonesian Economic Studies*, *52*(3), 379–402. https://doi.org/10.1080/00074918.2016.1184226
32. Wade, R. (1987). The Management of Common Property Resources: Collective Action as an Alternative to Privatisation or State Regulation. *Cambridge Journal of Economics*, *11*(2), 95–106. JSTOR.

33. Wagner, R. E. (2005). Self-Governance, Polycentrism, and Federalism: Recurring Themes in Vincent Ostrom's Scholarly Oeuvre. *Journal of Economic Behavior & Organization*, *57*(2), 173–188. https://doi.org/10.1016/j.jebo.2004.06.015
34. Weiss, J., Montgomery, H., & Kurmanalieva, E. (2003). *Micro Finance and Poverty Reduction in Asia: What is the Evidence?* [Research paper]. A Paper Presented for the 2003 Asian Development Bank Institute Annual Conference on Microfinance and Poverty Reduction, Tokyo.
35. Yunus, M., & Weber, K. (2007). *Creating a World without Poverty: Social Business and the Future of Capitalism*. PublicAffairs.
36. Yustika, A. E. (2008). *Ekonomi Kelembagaan Definisi, Teori, dan Strategi*. Bayumedia Publishing.
37. Yustika, A. E. (2019). *Proklamasi Desa: Kerangka Kebijakan dan Kisah Keberhasilan*. Intrans Publishing.
38. Yustika, A. E., & Baks, R. (2015). *Konsep Ekonomi Kelembagaan: Perdesaan, Pertanian dan Kedaulatan Pangan*. Empat Dua.