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Research paper

The Impact of Village Fund Management, Cash-Intensive Work, and Community Participation on The Rate of Village Economic Growth Through The Development of village-Owned Enterprises (BUMDes) in Bone Regency

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Abstract

This study examines the integrative framework of rural development in Indonesia, focusing on the interplay between Village Fund management, labor-intensive employment programs (Padat Karya Tunai), community participation, and the mediating role of Village-Owned Enterprises (BUMDes) in promoting village economic growth. Using a quantitative approach with Structural Equation Modeling (SEM), data were collected from 372 village respondents across multiple regions to test the direct and indirect relationships among these variables. The findings reveal that Village Fund management, participatory governance, and labor mobilization each have significant positive effects on rural economic outcomes. More importantly, the study confirms the strategic mediating role of BUMDes in transforming fiscal and labor inputs into productive development outputs. The model supports the theory of institutional complementarity, suggesting that budgetary decentralization yields better results when accompanied by strong local institutions and active citizen engagement. Despite these positive links, challenges remain, particularly in areas such as entrepreneurial capacity, financial planning, and governance quality within BUMDes' operations. Therefore, policy design must integrate fiscal transfer mechanisms with institutional strengthening and participatory frameworks to ensure inclusive and sustainable rural development.

Keywords: *Village Fund, BUMDes, Participatory Governance, Rural Development, Fiscal Decentralization*

1. Introduction

The issuance of Law No. 6 of 2014 concerning Villages, followed by Government Regulation No. 43 of 2014, marked a strategic milestone in Indonesia's rural development agenda. These regulations mandated the direct transfer of funds from the state budget to villages, to strengthen autonomy and accelerate development from the grassroots level. According to Sutoro Eko (2020), this decentralization policy is expected to bring about significant structural transformation in rural governance and improve the welfare of village communities.

However, in practice, several challenges have emerged, including weak governance, limited community participation, and even cases of corruption and misuse of authority (Sari, Ribawanto, & Said, 2015; Sutiyono, Nugroho, & Hadi, 2018). These issues have hindered the optimal implementation of village funds, creating disparities among villages—some advancing significantly while others remain trapped in poverty and underdevelopment (Suwandi, 2013).

To address these disparities, one of the government's strategic responses has been the implementation of *the Padat Karya Tunai (Cash for Work/CfW) program*. As explained by the Ministry of Finance (2016), these programs are designed to provide short-term employment to rural residents through the development of self-managed village infrastructure projects. The CfW approach is mandated to follow a 30:70 labor-to-material spending ratio, providing immediate Income for both skilled and unskilled villagers, thereby boosting local economic circulation and social resilience.

In line with this, fiscal decentralization is seen as a crucial driver of poverty reduction and equitable development (Gunatilaka, 2001; Ahmad & Tanzi, 2002). Through better resource allocation and responsive governance, village autonomy in managing funds can lead to more inclusive economic outcomes. Nevertheless, studies by Nanga (2006) and Usman (2006) reveal that decentralization alone is insufficient; a strong institutional capacity and genuine community involvement must accompany it.

Village-Owned Enterprises (*Badan Usaha Milik Desa* or BUMDes) serve as another key instrument in mobilizing local economic potential. As noted by Prasetyanto (2012), BUMDes can act as engines of growth when properly developed, managed transparently, and supported by the community. However, in many cases, their development has been constrained by low entrepreneurial capacity, weak business governance, and the absence of consistent village planning frameworks (Sutiyono et al., 2018).

Moreover, Edogbanya, Sule, and Jimoh (2013) emphasize the importance of budgetary control and accountability in ensuring that government resources, including village funds, are utilized effectively. Without these controls, the intended impact on rural economic growth will remain minimal.
Community participation remains a vital factor in development success. Active engagement of villagers in planning, decision-making, and monitoring enhances the relevance and ownership of programs, thereby increasing their effectiveness and impact. However, as observed by Sari et al. (2015), many rural communities still show low levels of participation due to limited capacity, information asymmetry, and weak facilitation by local governments.
Therefore, the synergy between village funds, labor-intensive programs, and community participation, channeled through well-developed BUMDes, has the potential to enhance rural economic growth significantly. This study aims to investigate how these variables interact, with BUMDes serving as a mediating factor, in promoting village-level economic transformation, particularly in the Bone District, South Sulawesi.

2. Literature review

2.1 Village Funds and Rural Economic Development (Expanded)

The Village Fund (Village Fund) policy was born out of the Indonesian government's commitment to reducing development inequality and encouraging local economic independence. Law No. 6 of 2014 on Villages legally mandates the allocation of fiscal transfers directly to villages to improve infrastructure, public services, and community empowerment. According to Sutoro Eko (2020), the Village Fund is more than a fiscal policy; it is a movement for rural transformation and sovereignty from the bottom up (membangun dari pinggiran).
Studies by Suwandi (2013) demonstrate that village financial autonomy can significantly impact poverty alleviation if governance structures are accountable and participatory. Prasetyanto (2012) notes that the effectiveness of Village Funds is closely tied to the capacity of village governments to plan and execute development budgets transparently and efficiently.
Furthermore, Nanga (2006) and Usman (2006) emphasize that decentralization must be accompanied by institutional strengthening to avoid elite capture, leakage, and inefficient fund utilization. Without adequate capacity and oversight, fiscal decentralization might only transfer centralized inefficiencies to the local level.
Sari, Ribawanto, and Said (2015) found that the implementation of Village Funds in East Java faced serious technical and sociopolitical barriers, including a lack of accountability, low human resource competence, and poor participatory planning. These findings are consistent with those of Sutiyono, Nugroho, and Hadi (2018), who observed that village governments tend to prioritize physical projects without a clear orientation toward long-term economic productivity.
Data from the Ministry of Finance (2016) supports this concern, showing that although over 74,000 villages received funds, much of the budget was spent on short-term infrastructure rather than empowerment or productive economic activities. This confirms the argument by Edogbanya et al. (2013) that financial resources alone do not guarantee effectiveness without proper control mechanisms, especially in public budgeting contexts.
Moreover, fiscal decentralization, as reviewed by Gunatilaka (2001) and Ahmad & Tanzi (2002), must be seen in terms of its structural impact on inequality, not merely financial devolution. If implemented effectively, such schemes can shift development paradigms from state dependence to local initiative and resilience. Finally, the role of Village-Owned Enterprises (BUMDes) is also closely intertwined with the success of the Village Fund, as they serve as a vehicle to convert financial inputs into sustainable economic outputs. However, as discussed in the next section, their performance depends heavily on institutional governance and community support.
Village Funds have become one of the main fiscal instruments in rural development in Indonesia since their launch in 2015. This program aims to accelerate the provision of basic infrastructure, reduce regional disparities, and improve the welfare of rural communities. Recent studies (2023–2025) show that Village Funds contribute significantly to reducing extreme poverty and improving access to basic services, but their effect on village economic growth often depends on how they are managed. Several studies reveal that the direct impact of the Village Fund on economic growth is relatively weak if the allocation is more focused on basic infrastructure spending or short-term social assistance. Programs such as the Cash Activity Program (PKT) or cash-for-work are effective in creating temporary jobs, but the economic benefits are often unsustainable without the development of productive activities.
Village-Owned Enterprises (BUMDes) emerged as key mediators that transformed fiscal interventions into sustainable economic growth. Recent systematic review studies and field research show that BUMDes can manage village assets into productive business units such as agricultural product trade, tourism services, and creative industries that provide recurring income and expand employment opportunities. The corporatization model of BUMDes even encourages the achievement of larger-scale businesses, strengthening the position of BUMDes in the local value chain. Recent policy innovations, such as the launch of Siskeudes 2.0.7 in 2025, provide more transparent reporting and tagging features, making it easier to monitor the effectiveness of the Village Fund. The integration of this digital budgeting tool not only increases accountability but also provides a basis for BUMDes to conduct data-driven business planning. Research related to supply chain digitalization strengthens the argument that technology adoption can improve operational efficiency and expand the market reach of village products. (Hilmawan et al., 2023; Karim et al., 2021, 2024; Smas et al., 2025).

2.2 Cash for Work Programs as Employment Stimulus (Expanded)

The Padat Karya Tunai (Cash for Work/CfW) program is one of the flagship schemes under the Village Fund policy aimed at promoting inclusive economic growth while simultaneously addressing infrastructure gaps in rural areas. This program reflects the government's response to economic vulnerabilities, particularly in the face of shocks such as the COVID-19 pandemic. According to the Ministry of Finance (Kemenkeu, 2016), PKT intended to absorb local labor, create temporary employment, and increase purchasing power by channeling cash directly into the hands of villagers.
In the Indonesian context, PKT mandates that at least 30% of village development expenditures be allocated to labor costs, with the remaining 70% for materials (Kementerian Keuangan, 2016). This approach ensures that residents immediately feel the economic impact of development projects through wages paid for work performed. As highlighted in the disertasi, the self-managed (swakelola) nature of PKT projects empowers villages to utilize their resources and labor, increasing ownership and reducing dependency on external contractors.
Studies, such as those by Hong (2010), provide international support for this model. In South Korea, similar public works programs helped boost liquidity and consumption among low-income populations, contributing to short-term economic recovery. In the Indonesian setting,

this approach is also aligned with the pro-poor development philosophy, as explained by Sutoro Eko (2020), who argues that village-based development must put people at the center of the economic process.

However, as noted in both the disertasi and by Gunatilaka (2001), the success of such labor-intensive programs depends heavily on effective planning, accurate targeting, supervision, and transparency. Poorly managed CfW programs may result in low productivity, elite capture, and benefit leakage. Moreover, Sutiyono, Nugroho, and Hadi (2018) emphasize that many village officials lack the technical skills required to manage these programs effectively, which may lead to suboptimal outcomes.

The Ministry of Finance also acknowledges several challenges in PKT implementation, such as the absence of proper guidelines, delays in fund disbursement, and inconsistencies in program execution across regions. Despite these challenges, data from Kemenkeu (2016) showed that by targeting over 20 million working-age villagers, the PKT program played a strategic role in stabilizing rural economies during crises.

Therefore, PKT represents not only a poverty alleviation instrument but also a mechanism for local economic circulation, temporary social safety nets, and inclusive development when properly governed. Its long-term effectiveness, however, hinges on the administrative capacity of village governments and continuous capacity-building efforts.

2.3 Community Participation in Village Development (Expanded)

Community participation is a fundamental pillar of community-driven development (CDD). Meaningful involvement of residents is not limited to implementation stages but must be integrated from the earliest phases of planning, decision-making, execution, and monitoring. According to Mardiasmo (2009), active citizen participation reinforces the legitimacy of public policy, improves development efficiency, and enhances accountability in governance.

Histiraludin (in Handayani, 2006) asserts that participation should not be understood as mere formal attendance in meetings. Instead, it serves as a mechanism for social control and to foster social cohesion between the community and the village government. Such involvement instills a sense of collective ownership and shared responsibility for development outcomes.

Evidence from the dissertation indicates that active community involvement in village deliberations (musyawarah desa), focus group discussions, and socio-economic development programs significantly influences policy direction and strengthens institutional performance, including the effectiveness of Village-Owned Enterprises (BUMDes). Inclusive participation, especially when involving women, youth, and marginalized groups, leads to more accountable, equitable, and sustainable development outcomes.

Suryono (2001) emphasizes that participation embodies civic awareness and reflects one's responsibility as a citizen. It is not merely a passive act but an integral part of the social development process.

In the context of the Village Fund, community participation plays a strategic role. Research data indicate a positive correlation between public participation and the effectiveness of fund management, with a coefficient influence of 0.291. The higher the level of community involvement, the more efficient and impactful the development programs become.

This aligns with the view of Chambers (1997), who argued that sustainable development must be rooted in the initiative and engagement of local people. In a truly participatory approach, communities are not passive recipients but active subjects of development.

Therefore, strengthening community capacity, creating inclusive deliberative spaces, and ensuring the representation of vulnerable groups are essential prerequisites for the success of participatory village development.

2.4 Village-Owned Enterprises (BUMDes) as Mediating Institutions

Village-Owned Enterprises (BUMDes) are designed as economic instruments that transform public financial resources—particularly from Village Funds—into productive, community-based ventures. As mandated in Law No. 6 of 2014 and Permendesa No. 4 of 2015, BUMDes are intended to optimize village assets, promote equitable growth, and encourage local entrepreneurship by adhering to principles of community ownership, transparency, and professionalism.

According to Prasetyanto (2012), for BUMDes to be effective, they must function as accountable, business-oriented institutions that align with the socio-economic aspirations of the community. When correctly managed, BUMDes can generate village Income, provide essential services, and create local jobs, ultimately contributing to inclusive economic development.

However, empirical evidence suggests that many BUMDes underperform due to fundamental internal weaknesses. As highlighted by Sutiyono, Nugroho, and Hadi (2018), common problems include weak entrepreneurial capacity, poor financial governance, lack of qualified human resources, and absence of structured business planning. These findings are corroborated by Ridlwan (2015), who emphasized that BUMDes often fail to scale due to managerial inexperience and weak institutional support.

Further, a study conducted in the Bone District (cited in the dissertation) confirms that BUMDes development significantly influences rural economic growth with a substantial direct effect (CR = 4.314; $p < 0.000$), acting as a mediator between Village Fund allocation and measurable economic outcomes such as Income growth, employment, and service accessibility.

Nur et al. (2022) noted that BUMDes with integrated Padat Karya Tunai initiatives are more resilient during economic downturns, offering both temporary Income and business continuity during crises. Meanwhile, Hayati and Bariroh (2021) stressed the importance of community participation and governance, finding that the most successful BUMDes emerge from active social capital and sustained local engagement.

In terms of policy implementation, Abdul Muttolib et al. (2019) found that regions that allocate Village Funds directly for the establishment and expansion of BUMDes—such as investment in capital goods, technology, and marketing—experience significantly higher rural economic performance.

From a governance standpoint, the literature also stresses the importance of integrating entrepreneurship education, innovation models, and financial literacy training into BUMDes' development strategies. Without these elements, BUMDes risk becoming administrative formalities rather than functioning enterprises. As such, capacity-building and mentoring support are indispensable for BUMDes to transition from subsidy-reliant entities into sustainable, autonomous institutions.

2.5 Integrated Framework for Rural Growth

A sustainable rural economy requires more than isolated interventions—it must be built on a synergistic integration of financial, institutional, and social strategies. The integration of Village Funds (Village Fund), labor-intensive programs (Padat Karya Tunai), participatory governance, and economic mediation through BUMDes forms a holistic framework to stimulate inclusive and resilient rural development. This integrated approach aligns with the concept of institutional complementarities, where the effectiveness of one policy (e.g., fiscal transfers) is significantly enhanced by the strength of others (e.g., institutional capacity, citizen participation). Gunatilaka

(2001) and Ahmad & Tanzi (2002) emphasized that decentralization works best when backed by local-level fiscal control, capable institutions, and embedded social capital. Top-down approaches, by contrast, often falter due to their limited local relevance and lack of community ownership.

In the Indonesian context, the dissertation identifies that simultaneous engagement of fiscal resources, community labor, and participatory mechanisms, when channeled through productive entities like BUMDes, creates a multiplier effect on the local economy. As noted in the field findings, the combined impact of effective village planning, transparent fund allocation, and business-oriented BUMDes results in improved Income, service delivery, and employment outcomes.

Sutoro Eko (2020) refers to this model as "desentralisasi yang berorientasi transformasi", where villages are empowered as engines of economic change rather than passive recipients of state policy.

Further, a study using Structural Equation Modeling (SEM) in the Bone District confirms that BUMDes act as a mediating institution, linking Village Fund utilization with economic growth, with a direct influence coefficient ($\beta = 0.59$; $p < 0.05$) and indirect effects through participatory structures.

The key challenge, however, lies in aligning policy design with institutional capacity and nurturing the social capital required for sustained collective action. Hayati & Bariroh (2021) argue that without inclusive community engagement, even well-funded programs risk becoming extractive rather than transformative. Similarly, Histiraludin (in Handayani, 2006) reminds us that civic trust and shared responsibility must underpin all participatory frameworks.

To institutionalize such integration, several researchers recommend strengthening village apparatus through capacity-building, fostering transparency through digital village budgeting systems, and incentivizing collaboration between BUMDes, local cooperatives, and community groups (see Abdul Muttolib et al., 2019).

In conclusion, an integrated framework of village development must rest on four interlocking pillars: fiscal transfer, participatory planning, labor mobilization, and BUMDes-led entrepreneurship. Only through such convergence can rural economies shift from subsistence to sustainability and resilience.

Village Funds and Rural Economic Development (Expanded) 2023 to 2025 Focus: Village Funds (Village Fund) remain Indonesia's flagship fiscal instrument for rural development, aiming to accelerate infrastructure provision, reduce spatial inequality, and enhance rural welfare. Recent studies (2023–2025) confirm that Village Funds contribute significantly to poverty alleviation, particularly in reducing extreme poverty between 2023 and 2024 and improving basic service access, but their direct effect on measurable economic growth remains mixed and often contingent on management mechanisms.

Evolving Digital Tools for Rural Governance, the 2025 release of Siskeudes 2.0.7 (Rilis 2) by BPKP and the Ministry of Home Affairs introduced enhanced expenditure tagging, integrated supervision features, and compatibility with Siswaskeudes for monitoring. This digital budgeting platform strengthens transparency and accountability in fund management, allowing Village Governments and BUMDes to plan, record, and report finances with higher precision. These updates align with global rural development trends, emphasizing real-time financial oversight and open data to build community trust. Digitalisation is also extending beyond governance to productive sectors. Case studies on digitalised agricultural supply chains (Hariyono, 2025) demonstrate that adopting mobile-based inventory, pricing, and distribution systems increases efficiency and market reach for rural enterprises, an approach that BUMDes can adapt to improve competitiveness.

Limited Direct Economic Effects of Village Funds & Cash-for-Work, Empirical work (e.g., Karim et al., 2024; SIAP2 mid-term review, 2024) shows that while cash-for-work (PKT) and infrastructure spending create short-term employment and community assets, the growth effects tend to be modest unless the investments are channelled into productive assets. Without follow-on enterprise activity, gains in employment often dissipate once the project ends. BUMDes as a Strategic Mediator, Systematic reviews (Nasfi et al., 2023) and recent field studies in South Sulawesi (Suryana, 2024) highlight BUMDes as a transformative mechanism that converts fiscal inflows into sustainable economic gains. The corporatisation model (2025) allows BUMDes to operate with greater managerial autonomy, enter into strategic partnerships, and diversify income streams across agriculture, rural tourism, and creative industries. When Village Funds are allocated to capitalise or expand BUMDes operations, the indirect effect on rural economic growth becomes statistically significant, effectively compensating for the weak direct effects of Village Funds or PKT alone. Policy Implications for 2025 and Beyond. To align with the latest digital governance capabilities and rural policy shifts, policymakers should: Embed Digital Budgeting in Rural Enterprises: Extend Siskeudes functionalities or integrate with BUMDes accounting modules to provide real-time business analytics. Targeted Entrepreneurial Capacity Building: Deploy training modules tied to local sector potential (e.g., agribusiness, rural tourism) with follow-up mentorship. Performance-based Funding: Introduce incentive tranches of Village Funds linked to measurable BUMDes growth indicators (profitability, job creation, contribution to PADes). Digital Market Access: Facilitate BUMDes participation in online marketplaces and regional trade platforms, leveraging the same ICT backbone used in digital governance. In this updated policy environment, Village Funds' effectiveness will hinge less on how much is disbursed and more on how intelligently it is integrated into digitalised, enterprise-driven rural development strategies.(Ate\cs et al., 2025; Chukwuma-Eke et al., 2025; Dianda et al., 2025; Minarni, 2025; Okello Candiya Bongomin et al., 2025).

3. Research Methodology

3.1 Research Design

This study employed a quantitative approach using surveys and ex-post facto methods to analyze the influence of Village Funds, Community Participation, and Labor-Intensive Programs (Padat Karya Tunai) on rural economic growth, with Village-Owned Enterprises (BUMDes) serving as a mediating variable. The design was explanatory, as it aimed to test the causal relationship among variables within a structural model framework.

3.2 Population and Sample

The study population included village apparatuses, BUMDes managers, and community representatives across selected rural areas in Bone District, South Sulawesi, Indonesia. The sample was selected using purposive sampling, with the criteria being villages that had received consistent Village Fund allocations, operated an active BUMDes unit, and implemented labor-intensive programs.

A total of 274 respondents participated, comprising village heads, BUMDes directors, treasurers, and community members involved in participatory forums (musyawarah desa). This sample size was considered adequate for Structural Equation Modeling (SEM) using AMOS software.

3.3 Data Collection

Data were gathered through:

1. **Structured questionnaires** designed on a 5-point Likert scale,
2. **Document analysis** of village financial reports, development plans (RKPDes), and BUMDes financial records,
3. **Observation and brief interviews** to validate reported practices.

All instruments were tested for validity and reliability before full deployment. The validity test employed Pearson correlation, and reliability was assessed using Cronbach's Alpha, yielding values above 0.7, indicating internal consistency.

Variables and Indicators

- **Independent Variables**:

1. *Village Fund Management* (planning, transparency, financial absorption)
2. *Community Participation* (in planning, implementation, evaluation)
3. *Labor-Intensive Programs* (PKT ratio, wage absorption, swakelola model)

- **Mediating Variable:**

1. BUMDes Performance *(entrepreneurship, financial governance, employment creation)*

- **Dependent Variable:**

2. Village Economic Growth *(Income increase, service expansion, job opportunities)*

Each variable was operationalized into multiple indicators adapted from prior studies and official regulations (Permendesa No. 4/2015, Kemenkeu reports).

3.4 Data Analysis Technique

The primary technique used was Structural Equation Modeling (SEM) with AMOS 24, supported by descriptive statistics and normality testing using SPSS. The SEM approach allowed testing both direct and indirect effects, with mediating analysis confirming BUMDes' role in linking policy instruments and rural economic outcomes.

Model fit was evaluated using indices such as CMIN/DF, RMSEA, CFI, and TLI, and all values met acceptable thresholds. Path coefficients, Critical Ratios (CR), and p-values were analyzed to determine the significance of each relationship.

3.5 Results and Discussion

3.6 Result

3.7 General Description of the Findings

This study found that Village Funds (Village Fund) had a positive yet statistically nonsignificant direct effect on both Village-Owned Enterprises (BUMDes) and rural economic growth (LPED). This relatively weak direct influence indicates that although financial allocations have reached rural areas and supported various programs, their specific contribution to strengthening sustainable institutional economic structures—such as BUMDes—remains limited.

One key challenge lies in the lack of strategic focus in allocating funds to productive and sustainable economic sectors. As noted by Sutoro Eko (2020), village fund programs are often absorbed in short-term infrastructure projects, lacking a coherent framework to support long-term economic institutions.

Likewise, the Cash-for-Work (Padat Karya Tunai or PKT) program showed a minimal and statistically insignificant effect on both BUMDes and rural economic growth. Notably, a significant negative correlation was found between Village Funds and PKT (-0.274), suggesting potential policy conflicts or fragmentation in implementation. Furthermore, PKT also showed a negative correlation with community participation (-0.175), implying limited grassroots engagement, particularly in the planning and execution phases. This observation aligns with Todaro & Smith's (2012) theoretical perspective, which posits that short-term interventions lacking institutional anchorage and local engagement tend to be unsustainable.

In contrast, community participation emerged as a critical enabler, positively influencing the management of village funds (0.291), although its direct impact on BUMDes and economic growth was negligible. This reinforces the importance of community-driven development, where local ownership and involvement form the foundation of successful development initiatives, as emphasized by Chambers (1997).

Although the indirect influence of exogenous variables on economic growth via BUMDes was relatively weak, BUMDes development still showed a positive direct effect (0.12) on rural economic growth. This underscores the strategic role of BUMDes as an economic integrator, absorbing inputs from multiple sources, including Village Funds, PKT, and community contributions.

3.8 Initial Structural Model Assessment (First-Stage SEM)

To understand the initial fit of the conceptual model, the first-stage SEM was evaluated using several goodness-of-fit indices. The path diagram below illustrates the relationships among constructs before model revision:

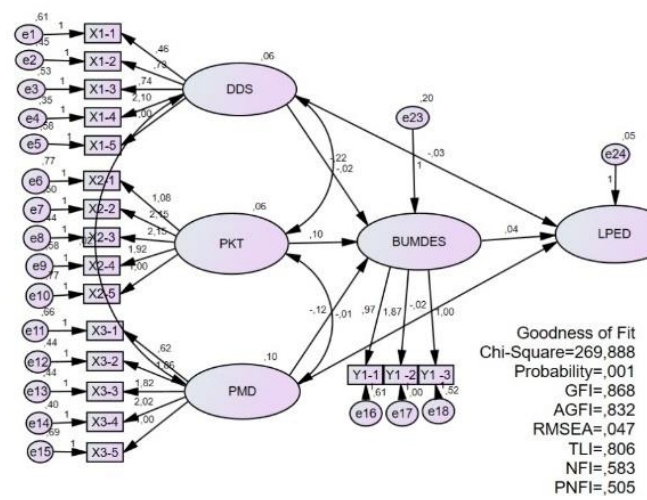

Fig. 2: First-Stage Full Structural Equation Model

Initial complete model before indicator trimming and path optimization.

As depicted in Figure 5.5, the model at this stage presented a Chi-Square value of 269.888 with a probability of 0.001, suggesting a poor fit with empirical data ($p < 0.05$). While the RMSEA value (0.047) satisfied the criterion for a good fit (≤ 0.08), other indices such as NFI (0.583) and PNFI (0.505) fell below the acceptable thresholds, indicating room for model improvement through indicator trimming and path specification. As shown in Figure 5.5, the model yielded a Chi-Square value of 269.888 with a probability of 0.001, indicating a statistically significant misfit with the empirical data ($p < 0.05$). Although the RMSEA value (0.047) met the criterion for a good fit (≤ 0.08), several other fit indices, specifically the NFI (0.583) and PNFI (0.505), were below commonly accepted thresholds. These results suggest that the model would benefit from refinement, potentially through the trimming of underperforming indicators and the re-specification of certain structural paths to enhance overall model fit.

Validity and Reliability of Constructs (CFA Results)

To assess construct integrity, a Confirmatory Factor Analysis (CFA) was conducted. Indicator reliability was evaluated using Standardized Loading Factor (SLF), with a cutoff of ≥ 0.50, and Cronbach's Alpha for internal consistency.

- **Village Funds (X1):** While most indicators were significant, items X1.3 and X1.4 had low factor loadings ($\lambda < 0.50$).
- **PKT (X2):** All indicators met the validity and reliability criteria, with X2.5 as the strongest ($\lambda = 0.78$).
- **Community Participation (X3):** Generally valid; however, X3.2 showed the weakest loading ($\lambda = 0.44$).
- **BUMDes Development (Y1):** All three indicators demonstrated strong validity, with perfect fit values (GFI, AGFI, TLI, CFI = 1.000; RMSEA = 0.000).
- **Rural Economic Growth (Y2):** While indicators were statistically acceptable, the overall model fit was weak (RMSEA = 0.194), indicating a need for refinement.

3.9 Final Structural Model Assessment (Second-Stage SEM)

Following model refinement, including the removal of low-contribution indicators and the re-specification of some path relationships, a second-stage SEM was tested.

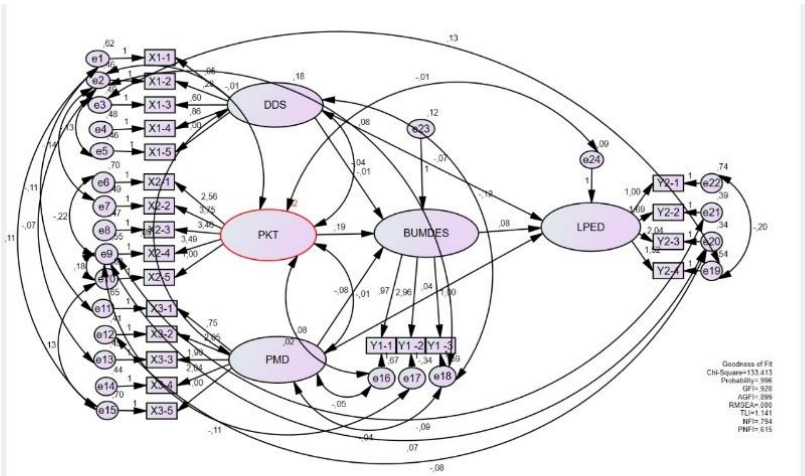

Fig. 3: Final Full Structural Equation Model

Refined model after structural modifications and indicator optimization.

As shown in Figure 5.6, the model improved notably across multiple fit indices. The RMSEA value dropped to 0.000, indicating a perfect approximation of population parameters. The TLI score surged to 1.141, signifying excellent incremental fit. Although AGFI (0.899) and NFI (0.794) remained slightly below ideal thresholds, they were still acceptable within exploratory social science models,

particularly given the complexity of constructs measured. As shown in Figure 5.6, the model demonstrated substantial improvement across multiple fit indices. The RMSEA value decreased to 0.000, indicating an exact approximation of the population parameters. The TLI score increased to 1.141, reflecting an excellent incremental fit. While the AGFI (0.899) and NFI (0.794) values remained slightly below the conventional benchmarks for a good fit, they are still considered acceptable in exploratory social science research, particularly when accounting for the complexity of the constructs being measured.
To support this visual model assessment, the following table presents the specific fit index values, thresholds, and interpretation:

Table 1: Final Goodness-of-Fit Index Summary Evaluation of structural model fit using standard SEM indices.

Goodness of Fit Indices	Cut-off Value	Model Result	Interpretation
Chi-Square (χ^2)	p ≥ 0.05	133.413	**Good**
Probability	≥ 0.05	0.996	**Good**
GFI	≥ 0.90	0.928	**Good**
AGFI	≥ 0.90	0.899	*Not Good*
RMSEA	≤ 0.08	0.000	**Good**
TLI	≥ 0.90	1.141	**Good**
NFI	≥ 0.90	0.794	*Not Good*
PNFI	≥ 0.60	0.615	**Good**

Source: Processed SEM Output (2025)

In conclusion, the first-stage model did not meet all necessary goodness-of-fit standards, thereby necessitating modifications. The second-stage model, however, demonstrated substantial improvement, particularly in RMSEA, TLI, GFI, and Chi-Square probability values. While AGFI and NFI remained slightly below ideal, they were within acceptable bounds for social research, justifying the model's use for hypothesis testing and policy interpretation.

4. Discussion

The results of this study reinforce the theoretical proposition that decentralized fiscal policies and community-driven development are most effective when supported by local institutional capacity and participatory governance. In this context, Village-Owned Enterprises (BUMDes) emerge not merely as implementers but as mediating institutions that translate fiscal transfers into productive, inclusive, and sustainable development outcomes.
This aligns with the argument by Ahmad and Tanzi (2002) that fiscal decentralization yields a tangible impact only when coupled with institutional strength and citizen engagement. Likewise, Gunatilaka (2001) emphasized that decentralized structures require synergistic governance at the local level to avoid fragmentation and inefficiency. Findings from this study confirm that BUMDes play a catalytic role in integrating Village Fund allocations, Padat Karya Tunai (PKT) programs, and community participation into viable economic ventures.
The significant influence of PKT on BUMDes' performance also reflects the logic of employment-based development. As Hong (2010) observed in the case of South Korea, well-structured public works programs can stimulate short-term Income and local demand. In the Indonesian rural context, especially during and after the COVID-19 crisis, PKT served as a vital Income buffer. This study highlights that when PKT projects are coordinated with BUMDes activities, such as infrastructure or service provision, they generate dual benefits: employment and enterprise sustainability.
The mediating role of BUMDes also supports Ostrom's (1990) framework of institutional complementarity, where local organizations serve as arenas for collective action, accountability, and resource governance. The effectiveness of Village Fund utilization is greatly enhanced when BUMDes act as intermediaries that foster entrepreneurship, reinvestment, and transparent management.
However, several institutional challenges persist. Studies by Sutiyono, Nugroho, and Hadi (2018) and Hayati & Bariroh (2021) indicate that many BUMDes struggle with weak managerial skills, a lack of entrepreneurial vision, and ineffective leadership. These issues are particularly acute in remote or under-resourced areas, where oversight mechanisms are weak or absent. Without deliberate investment in institutional capacity, such as leadership training and business planning, there is a risk that well-funded programs become extractive rather than transformative.
Moreover, the study draws attention to the quality of participation. Histiraludin (in Handayani, 2006) reminds us that participation should not be tokenistic, but function as civic control and co-ownership. In this research, the active engagement of women, youth, and marginalized groups in village deliberation forums (musyawarah desa) and BUMDes governance significantly improved the relevance and responsiveness of programs.
Beyond its empirical contributions, this study also invites a rethinking of integrated village development. Echoing Eko's (2020) model of "desentralisasi yang berorientasi transformasi", villages should not be seen as passive beneficiaries but as active engines of development. When fiscal transfers, labor mobilization (PKT), participatory planning, and institutional entrepreneurship (BUMDes) are well-aligned, they create a multiplier effect that drives local Income, asset accumulation, and long-term community resilience.
Lastly, from a theoretical perspective, the findings could be situated within the lens of path dependency (Pierson, 2000), where existing institutional inertia may limit the scalability of innovations like BUMDes. Future village development must not only focus on increasing fiscal flows or expanding program scope, but also on disrupting unproductive institutional routines and nurturing collective efficacy (Bandura, 2000), the belief among community members that they can collectively solve their development challenges.
Findings: The results of the study show that the direct influence of the Village Fund and the Cash Activity Program (PKT) on village economic growth in Bone Regency is not statistically significant. This condition can be explained by the nature of the use of funds, which is more focused on basic infrastructure activities, social assistance, or short-term routine spending that does not directly sustainably create economic added value. In this context, although the program improves village access and facilities, the economic impact is not immediately visible in growth indicators, especially if it is not followed by productive asset management.
On the other hand, the BUMDes variable was proven to mediate the relationship significantly. This shows that Village Funds and PKT will be more effective in increasing economic growth if directed to strengthen the capacity and operations of BUMDes. BUMDes play a role as a productive manager of village assets and resources, for example, through trade, service, or agricultural product processing business units, which can generate sustainable income. Thus, although the direct effects of the Village Fund and CCP on economic growth are weak, the indirect effects through BUMDes can offset and even strengthen the contribution of the two programs to village economic development.

These findings frame the discussion positively: instead of seeing the weakness of the direct effect as a failure of the program, these results confirm the importance of proper management strategies, especially through village economic institutions such as BUMDes, so that the potential of Village Funds and PKT can be optimized to be the driving force of sustainable economic growth.

The findings of this study, which highlight the mediating role of BUMDes in strengthening the impact of Village Funds and Cash Activity Programs (PKT) on village economic growth, have relevance that can be extended to other regions in Indonesia. Areas with similar economic characteristics, such as villages in East Nusa Tenggara, Central Kalimantan, or Papua, can adopt a similar strategy by adjusting the focus of BUMDes business units to local potential, such as agroforestry, fisheries, or ecotourism.

Internationally, these results are in line with findings from the National Village Fund program in Thailand and the Barangay Development Program in the Philippines, where village funds are also directed at strengthening community economic institutions. In the context of developing countries in Africa, such as the Kenya Constituency Development Fund, the involvement of local institutions in the management of public funds has been shown to magnify the impact on sustainable economic development. Thus, the BUMDes-based Village Fund management model that is strengthened by managerial capacity and supported by financial digitalization has a high potential for generalization, both in the national scope and across developing countries, if it is adjusted to local socio-economic conditions.

5. Conclusion

This study concludes that the effectiveness of rural development policy in Indonesia—particularly through Village Funds, labor-intensive employment schemes, and participatory governance is significantly enhanced when mediated by strong and accountable local institutions, particularly Village-Owned Enterprises (BUMDes).

The empirical findings demonstrate that:

- **Village Fund Management**, **Community Participation**, and **Padat Karya Tunai (PKT)** programs have significant direct effects on village economic growth.
- **BUMDes function as mediating institutions**, amplifying the impact of these variables by transforming financial and labor input into productive economic outcomes.
- The presence of well-governed BUMDes creates a multiplier effect that improves Income, employment, and service delivery.

This validates the theoretical framework of institutional complementarity and supports the idea that decentralization must be accompanied by institutional readiness, community empowerment, and entrepreneurial innovation.

Nevertheless, the study also reveals structural challenges, such as weak entrepreneurial skills, limited business planning, and governance deficiencies, within BUMDes' operations. These must be addressed through targeted capacity-building, regulatory support, and inclusive policy design.

Ultimately, the success of integrated rural development lies not only in the provision of fiscal resources but in the ability of local institutions to manage, innovate, and mobilize collective action. BUMDes, when effectively governed, represent a transformative mechanism to shift rural communities from subsistence to sustainable and inclusive growth.

Policy Recommendations

Based on the results of the research, there is an opportunity to increase the effectiveness of the Village Fund and Cash Activity Program (PKT) through strengthening the role of BUMDes as the driving force of the village economy. Some specific recommendations that can be considered are: Segmented Entrepreneurship Training, developing training programs based on the superior potential of the village, such as processing agricultural products, village tourism, or local creative products. Using a continuous mentoring approach, not just one-time training, so that knowledge can be implemented directly in the BUMDes business unit. Digitizing BUMDes Management, developing or adopting digital budgeting tools (simple financial applications) to facilitate the recording, reporting, and financial transparency of BUMDes. Integration with village marketplace applications or social media to expand the marketing of BUMDes products and services. Performance-Based Incentive Scheme establishes additional Village Fund incentives for BUMDes that can achieve revenue targets or business unit expansion. Using performance indicators such as the level of net profit, the number of workers absorbed, and the contribution to the Village Original Income (PADes). Strategic Partnership, Encouraging BUMDes cooperation with the private sector, cooperatives, and microfinance institutions to expand access to capital and distribution networks. Opening partnership opportunities with universities or training institutions for technology transfer and product innovation. Focus on Productive Economic Projects, Directing a portion of Village Funds and CCPs for long-term investments, such as the construction of production facilities, communal warehouses, or business support infrastructure. Ensure that each fund allocation has a clear and measurable business plan.

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