LEGAL RECONSTRUCTION OF VILLAGE FUNDS IN REALIZING THE ECONOMIC DEVELOPMENT OF INDONESIAN MSMES

Azhar Rashed[1], Anis Masdhurohatun[2], Jawade Hafidz[3]
Doctor of Laws, Sultan Agung Islamic University Semarang[1,2,3]
rashedazhar@gmail.com

ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) have significant potential to become the primary driver of economic transformation from the perspective of village economic development. To support this need, clear and measurable regulations are required to direct Village Funds so that their utilization is appropriately targeted. Although Village Funds have great potential as an instrument to promote village economic growth and MSME empowerment, their implementation still faces various obstacles, such as unintegrated regulations, low capacity of village officials, and weak supervision and accountability in budget utilization. The purpose of this research is to examine the conditions, weaknesses, and formulate legal reconstruction of Village Fund management regulations in supporting the economic development of MSMEs in Indonesia. This research employs a constructivism paradigm with descriptive-analytical research specifications and qualitative research design. The data types include primary data, secondary data, and tertiary data. Data collection methods encompass literature study, interviews, and observation, which are then analyzed using a qualitative analysis approach.Research findings indicate that the legal regulatory framework governing the management of village funds for the development of the MSME economy in Indonesia is currently based on Law Number 6 of 2014, as amended by Law Number 3 of 2024, along with its derivative regulations such as Ministerial Regulation of the Village, Development of Disadvantaged Regions, and Transmigration (Permendesa PDTT) Number 7 of 2023. In practice, however, a larger portion of the funds is allocated to physical infrastructure development, while productive sectors like MSMEs receive less attention. Program planning often remains a mere formality. The weaknesses in the regulation of Village Fund management in supporting MSME economic development in Indonesia include both technical and substantive aspects. The absence of specific regulations on systematic MSME development has led to uncoordinated program implementation. Legal reconstruction of Article 26 paragraph (3), Article 34A paragraph (4), Article 39, Article 72, Article 87A paragraph (3), and Article 118 of Village Law is expected to optimize efforts toward achieving MSME-based economic development.

Keywords: Village Funds; Pancasila Justice; MSMEs; Economic Development; Legal Reconstruction

1. INTRODUCTION

One of the government's efforts to realize national development goals begins by enhancing economic growth at the smallest level, namely, the village. In order to achieve self-reliant villages, it is essential to improve the economy of Micro, Small, and Medium Enterprises (MSMEs), as well as to develop competent and competitive human resources (HR). One of the government's strategies to

realize this is through the Village Fund (Dana Desa), which is allocated by the Ministry of Finance in the form of intergovernmental fiscal transfers to village administrations.

Government Regulation No. 60 of 2014 concerning Village Funds sourced from the State Budget (APBN) states that these funds are to be utilized to finance village governance, infrastructure development, community guidance, and empowerment programs. Subsequently, the Village Funds are transferred from the regional budget (APBD) of regencies/municipalities to the village budget (APBDes) (Wardoni, 2020). These funds are distributed to each village based on mechanisms stipulated in existing laws and regulations.

Transparency and accountability in the management of Village Funds are imperative to prevent misuse and to ensure that development programs are well-targeted. Ministerial Regulation of Villages, Disadvantaged Regions, and Transmigration (Permendesa PDTT) No. 7 of 2023 stipulates that the priority of Village Fund usage must be directed towards village development and community empowerment. This regulation identifies four main priorities: (1) Meeting basic needs, (2) Developing village infrastructure, (3) Enhancing local economic potential, and (4) Sustainable use of natural and environmental resources.

Inclusive and community-based economic growth is a core objective of village development. The people's economy emphasizes the empowerment of local economic actors such as farmers, fishermen, and MSMEs. Village Funds are thus utilized to support productive economic activities that can increase villagers' incomes. These initiatives are expected to generate new employment opportunities, reduce unemployment rates, and improve overall community welfare. Empowering local economies is a strategic step in strengthening the foundation of national development from the village level.

The Village Fund, as formalized in Law of the Republic of Indonesia Number 3 of 2024 concerning the second amendment to Law Number 6 of 2014 on Villages, is designed as an instrument to enhance development at the village level. One of its key approaches is empowering MSMEs by creating a supportive business environment, providing entrepreneurial opportunities, and offering broad-based support, protection, and development. This initiative aims for MSMEs to contribute significantly to economic growth, equitable distribution of welfare, increased community income, job creation, and poverty alleviation (Rahmawati, 2016).

In the context of MSME development, the Village Fund holds great potential to be utilized as start-up capital, training funding, and a foundation for creating a business ecosystem that supports MSME growth. However, to date, the implementation of Village Funds in supporting MSMEs still faces various challenges, including the absence of specific regulations, unclear implementation mechanisms, and the limited capacity of village officials to manage empowerment-based economic programs.

From the perspective of village economic development, MSMEs have significant potential to serve as key drivers of economic transformation. However, this potential cannot be realized without adequate policy intervention. MSME development requires support in various aspects, such as entrepreneurship training, market access, supply chain strengthening, and technological innovation for marketing. The Village Fund can be directed toward meeting these needs, but clear and measurable regulations are also required to ensure effective and targeted use. Additionally, community involvement in the planning and implementation of Village Fund–based programs is

crucial to ensure the success of this policy.

MSME development at the village level has a direct impact on increasing community income, reducing unemployment, and alleviating poverty. Therefore, the effectiveness and efficiency of Village Fund management are prerequisites for creating a conducive ecosystem for MSME growth. However, in practice, Village Fund implementation still tends to focus on physical infrastructure development such as bridges, roads, and public facilities, while economic empowerment aspects are often neglected. This reflects an urgent need to adjust Village Fund usage priorities to be more oriented toward economic development.

This background and consideration have motivated the author to conduct a study and analyze these issues in a scientific dissertation titled: "*Legal Reconstruction of the Implementation of Village Funds in Realizing Economic Development of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia*."

2. RESEARCH METHOD

This research is based on a constructivist paradigm, which emphasizes that human beings actively shape, adapt, and develop various concepts, models, and realities they encounter. This includes aspects of knowledge and legal truth, which are not viewed as static entities but rather as outcomes of ongoing social and intellectual construction processes that evolve in line with shifts in human thought and life dynamics (Salim, 2017). The research approach employed in this study is sociological (socio-legal research), focusing on understanding and analyzing the relationship between law and society (Utsman, 2013). It falls under the category of descriptive research, wher e the main objective is to provide a clear and accurate depiction of the social phenomena taking place, specifically the implementation of village funds to support the development of the micro, small, and medium enterprise (MSME) sector in Indonesia.

The data analysis method used in this study is qualitative descriptive analysis, which requires the researcher to present data in a structured, logical, and clear manner, thereby facilitating comprehension of the analytical results. This analysis is conducted thoroughly, taking into account various relevant aspects within the scope of the research by examining both primary and secondary data sources obtained through literature review and field studies. These studies focus on the management of village funds with the aim of linking theory to practice, by comparing applicable laws and regulations with expert opinions and the realities observed in the field.

3. RESULT AND DISCUSSION

a. The Legal Regulatory Framework for Village Fund Management in Realizing MSME Economic Development in Indonesia

The Village Fund Program was first implemented in 2015 with an initial budget allocation of IDR 20.76 trillion. Although the absorption rate of the funds was not yet optimal at that time, the allocation of the Village Fund has continued to increase significantly year by year. In 2016, the budget rose to IDR 46.9 trillion, then further increased to IDR 60 trillion in 2017. This amount remained steady in 2018 before rising again to IDR 70 trillion in 2019. In 2020, the allocation increased by 2.86 percent compared to the previous year, bringing the total to IDR 72 trillion (Sukarno, 2020).

The revision through Law Number 3 of 2024 introduced critical improvements to the previous regulations, placing a new emphasis on optimizing the Village Fund, particularly for activities related to the economic empowerment of rural communities. This provision reflects a more progressive approach to fiscal policy at the village level, targeting the growth of the local economy. The primary focus is to promote sustainable productive economic activities rooted in the potential of the villages.

This emphasis is clearly articulated in Article 72 paragraph (4) of Law No. 3 of 2024, which mandates that a minimum of 10% of Village Fund allocations must be directed toward the development of productive economic initiatives. This formulation provides a strong legal foundation for reprioritizing the use of Village Funds. The rationalization of budget allocation is aimed not merely at financing infrastructure projects, but also at addressing the needs of the people's economy. Such allocation affirms that rural economic development is an urgent agenda. The central government is sending a strong signal that villages should truly become centers of microeconomic growth.

The policy mandating a minimum of 10% of Village Funds for productive economic activities provides legal certainty for the implementation of village-level programs. Article 72 paragraph (4) serves as a normative basis ensuring that village governments do not overlook the economic sector in their budget planning. Prioritizing MSMEs and Village-Owned Enterprises (BUMDes) is a long-term strategy to strengthen village competitiveness. Reforming the governance of Village Funds through this approach is expected to mark a significant milestone in realizing prosperous and equitable villages. BUMDes is also identified as a key stakeholder in the allocation of the Village Fund.

Article 72A provides legal guidance on the management of Village Funds, emphasizing that village revenues must be managed based on development priorities. These priorities include critical sectors such as education, community education, community development, and empowerment. One practical manifestation of this is through the development of Micro, Small, and Medium Enterprises (MSMEs). MSMEs are considered a strategic sector because of their ability to absorb local labor and optimize the potential of local resources within the village.

The ultimate goal of Village Fund management, as stated in Article 72A, is to create employment and boost the rural economy. MSME development is one of the most effective pathways to achieving this goal. MSMEs are capable of absorbing a significant portion of the local workforce, utilizing available resources, and producing value-added goods and services. As MSMEs grow optimally, the income of rural communities increases. Active community involvement in these efforts also strengthens the spirit of entrepreneurship, which serves as a key foundation for successful, independent, and equitable economic development at the village level.

MSMEs play a vital role in improving the welfare of rural communities because they can generate new employment opportunities suited to local conditions. The job opportunities created through MSMEs are not confined to a single sector but span various fields depending on the village's potential. MSMEs also create new sources of household income, and aggregate increases in household income can drive the overall growth of the village economy. Community welfare improves when income becomes stable and sustainable. MSMEs have the potential to

establish a healthy local economic cycle, where village products are consumed and marketed within the local environment (Ananda, 2024).

Furthermore, MSMEs are instrumental in reducing social and economic disparities in rural areas. In many cases, inequality arises when access to economic opportunities is limited to a select group, leaving vulnerable populations marginalized. MSMEs offer a solution that is broadly accessible to individuals from various social and economic backgrounds. Given their low capital requirements and reliance on basic skills, MSMEs can facilitate the economic participation of groups that have traditionally been overlooked.

MSMEs in villages are closely connected to natural resources, as most of their activities directly depend on the wealth of the surrounding environment. In addition, Article 95 of Law Number 6 of 2023 concerning Job Creation contains highly strategic and crucial provisions aimed at supporting the growth and strengthening of the Micro and Small Enterprise (MSE) sector in Indonesia. Specifically, this article governs the mechanism for allocating Special Allocation Funds (DAK) by the central government to support regional governments in carrying out MSE empowerment and development activities, particularly in terms of capital or financing.

Article 95 paragraph (1) explicitly mandates that the central government is obligated to allocate Special Allocation Funds as a source of funding to assist regional governments in empowering MSEs, especially those that fall within certain categories. Through this provision, local governments are granted the opportunity to design and implement programs that reflect the unique characteristics and needs of MSEs in their respective regions.

The regulations outlined in Article 95 of the Job Creation Law have broad implications for local economic development. With more accessible and affordable funding, regional MSEs can grow faster, create new job opportunities, and enhance the well-being of communities. Improved capacity and competitiveness of MSEs also have the potential to increase the sector's contribution to regional and national economic growth. Local governments can design various empowerment programs based on the real needs of MSE actors, ranging from business capital provision, skills training, product marketing, to the utilization of digital technology in business (Siska, 2024).

The Job Creation Law also provides for alternative financing mechanisms to support MSE development, as stated in Article 102. This article refers to funding sources or schemes outside of conventional bank loans. These mechanisms are designed to offer more flexible, inclusive, and adaptive capital access tailored to the needs and characteristics of MSME actors, who often do not meet the requirements of traditional banking systems.

However, in practice, the management of Village Funds in several areas, such as Buduk Village (Bali), Ponggok Village, Trangsan Village, and Sendang Village (Central Java), has not yet been optimized. Although the regulations technically allow Village Funds to be allocated to productive sectors, in reality, such allocations remain very limited and are still heavily focused on physical infrastructure and operational needs of village administration. This suggests that the development approach taken thus far remains conventional and has not yet fully supported people-centered economic empowerment.

The lack of technical regulations, the weak capacity of village apparatus, and the limited synergy between BUMDes and local MSMEs are the main obstacles to implementing

empowerment-based economic programs. Yet with proper planning, cross-sector collaboration, and active community participation, Village Funds have enormous potential to drive the establishment of a sustainable MSME ecosystem.

A. Regulatory Weaknesses in Village Fund Management for Realizing MSME Economic Development in Indonesia

The substantive weakness of the Village Fund regulatory framework lies in the misalignment between the spirit of fiscal decentralization and the legal recognition of village autonomy as stated in the law, and its technical implementation, which remains highly centralized and bureaucratic (Basri et al., 2021). The amendments made by Law Number 3 of 2024 introduce significant changes to village governance, reflecting the dynamics between bureaucratic interests, budget efficiency, and the need for local representation. These changes include:

Article 26 Paragraph (3) of Law No. 3 of 2024 explicitly outlines the rights of the village head in carrying out village governance, development, community empowerment, and social guidance. One of these rights, as stated in point (d), entitles the village head to a one-time post-service allowance at the end of their term, depending on the village's fiscal capacity and as regulated by government regulation.

This policy has sparked criticism and raised fundamental issues, particularly in terms of fiscal justice between villages. Some villages, especially those located in economically rich areas such as tourist villages or those endowed with abundant natural resources, possess strong fiscal capacities. In contrast, many underdeveloped and poor villages struggle even to meet their basic operational needs.

Granting additional financial rights to village heads without an accompanying affirmative mechanism or fiscal redistribution from the central government may widen the gap between wealthy and poor villages. Economically weak villages may be forced to reduce their community empowerment programs simply to fulfill the mandated financial entitlements of their village heads.

Therefore, a national standard for village head compensation should be considered, funded not solely from village budgets but also through proportional contributions from central and regional governments. This approach aligns with the principle of affirmative action in public budgeting, promoting equity for underdeveloped areas and ensuring equal recognition for village leadership, regardless of geography or economic independence.

Article 39 extends the village head's term to eight years, allowing for two consecutive terms with a maximum of sixteen years in office. Such an extended tenure raises concerns about centralized power and reduced democratic participation, especially when only one candidate runs in an election. This could compromise the accountability and participatory nature of village governance. Long terms may hinder leadership regeneration, leading to administrative stagnation and a persistence of outdated governance models. Leadership turnover is essential for a healthy, dynamic democratic system.

Article 72 provides fiscal certainty for villages by mandating that at least 10% of the Regional Transfer Fund be allocated to the Village Fund. This provision aims to strengthen village capacity in delivering governance, development, and public services. However, the

government must ensure that the 10% allocation reaches the villages in full without unlawful deductions. Any irregularities or illegal levies would erode public trust and obstruct development. Transparency in fund disbursement must be guaranteed through strict regulations and reporting mechanisms, with oversight spanning from planning to evaluation. Firm enforcement against budget misuse is also essential.

A national evaluation of the 10% allocation policy should be conducted to assess its effectiveness. The central government must collect data on Village Fund usage from all regions to determine its actual impact on development. Such evaluations would provide a foundation for reformulating policy if gaps or inefficiencies are identified. A data-driven approach would make fiscal policy more responsive and adaptable to social changes, making evidence-based policy improvement a key to sustainable village development.

Article 74 gives legal authority to regional governments to allocate incentive funds to neighborhood (RT) and community (RW) leaders. However, such incentives should consider the workload and complexity of the region. In densely populated areas, the responsibilities of RT/RW leaders are far greater than in sparsely populated ones. Therefore, the incentive scheme should account for the number of residents and the intensity of service delivery. This policy also bears the risk of political manipulation, as incentives could be used to secure loyalty ahead of local elections.

Article 34A provides a legal basis for the appointment of a village head by acclamation if only one candidate is registered. However, when acclamation becomes an overly convenient option, leadership regeneration in villages is stifled. Young people, women, and marginalized groups may struggle to enter the local political arena. A closed system will only reproduce leaders from existing power circles. Inclusive village elections are a hallmark of healthy local democracy. Without broad opportunities for all citizens to participate, village governance will remain dominated by the same groups repeatedly occupying key positions.

Furthermore, the implementation of the Village Fund to promote rural economic development, particularly through the empowerment of MSMEs, still faces multiple challenges, such as a weak legal culture, rigid regulations, and low public participation. The problems are not solely formal legal issues, such as regulation content or institutional structures, but also cultural, relating to how village communities and officials perceive, respond to, and implement existing rules.

A fundamental issue lies in the disconnect between village governments and residents. Low legal literacy and poor public understanding of village finance regulations often lead to social conflict and hinder the collaboration that should be the foundation of village development. This is compounded by political polarization that lingers after village elections, resulting in tensions that affect the implementation of strategic programs, particularly in the economic sector, where resistance is often based on political sentiment rather than program content. From an economic perspective, community participation remains low, mainly due to the daily struggle to meet basic needs. Most residents prioritize survival over involvement in social or economic development initiatives.

The limited Village Original Revenue (PADes) also makes villages heavily reliant on central transfers (Wignjosoebroto, 2002). However, Village Fund allocation is still dominated by spending

on physical infrastructure, while productive economic sectors such as MSMEs are often neglected. The lack of regulatory prioritization for MSME development has led to the underutilization of the village's economic potential. Additionally, institutional weaknesses, such as the limited capacity of BUMDes and the absence of effective monitoring and evaluation systems, remain major obstacles to local economic development.

B. Legal Reconstruction of Village Fund Implementation in Realizing MSME Economic Development in Indonesia

The comparative study of village governance in China and Indonesia highlights that successful rural development requires a balanced combination of strong fiscal support and broad-based community participation. While both countries adopt models of village self-governance, their approaches are shaped by distinct historical, political, and administrative contexts (Zhllima et al., 2023).

China, despite its centralized political system, has implemented grassroots-level democratic practices through the Village Self-Governance model since the 1980s. This model empowers villagers to directly elect the Village Residents' Committee (VRC), which acts as the executive body, and to be represented by the Village Representatives' Assembly (VRA) as the local legislative institution. However, financial authority remains centralized, with villages heavily dependent on fiscal transfers from provincial governments. Budget allocations are categorized systematically into administrative, social, and infrastructure funding, and managed under a tightly controlled bureaucratic hierarchy (Al-Fa'izah et al., 2023).

Indonesia, on the other hand, embraces a more decentralized and participatory model. Since the enactment of Law No. 6 of 2014 on Villages, villages have been granted broader autonomy, particularly in financial and administrative matters. The Village Head is directly elected by residents and supported by the Village Consultative Body (BPD). Fiscal decentralization is evident in the annual direct transfer of Village Funds from the central government to villages via local governments. These funds are managed through village deliberations that determine development priorities based on local needs. This approach fosters transparency and community ownership of development programs.

Nevertheless, Indonesia's model faces challenges, especially in terms of limited administrative capacity at the village level and weaknesses in financial oversight, which can lead to mismanagement or corruption. In contrast, China's hierarchical system ensures strict control over budget implementation, which supports more disciplined fiscal management but limits community involvement in decision-making processes.

Both systems offer valuable lessons. China's model excels in efficiency and centralized coordination, enabling rapid infrastructure development. Meanwhile, Indonesia's strength lies in its democratic practices and inclusive decision-making, empowering communities to play an active role in shaping development outcomes.

Importantly, the two models should not be seen as mutually exclusive or superior to one another. Instead, they reflect different societal values and governance philosophies. China prioritizes national cohesion and state-led development, while Indonesia emphasizes grassroots democracy and local empowerment.

Whereas South Korea's experience through the Saemaul Undong program demonstrates that successful rural development depends not only on the amount of funding allocated, but more importantly on active community participation, collective spirit, and productive values such as hard work and mutual cooperation. Although villages in South Korea do not possess political autonomy, the success of this program proves that development rooted in community participation and collective awareness can be more effective than approaches focused solely on funding (Deniar, 2021).

Meanwhile, Indonesia has granted broad autonomy to villages through the Village Law and Village Fund scheme. However, in practice, community participation remains limited, and the management of Village Funds continues to face challenges in terms of accountability and governance. Village empowerment still tends to prioritize physical infrastructure projects, while neglecting social transformation and work culture development among rural residents.

Therefore, Indonesia can draw valuable lessons from South Korea, particularly the importance of fostering a collective community mindset, strengthening local capacities, and instilling development-oriented values. The Saemaul Undong model can serve as an inspiration for Indonesia to redesign its rural development approach to become more centered on human and community development, rather than solely on budget disbursement.

in Indonesia, Pancasila justice not only reflects equitable distribution, but also emphasizes the principle of "equal liberty," which ensures that every citizen has equal rights and opportunities to grow, as well as a rejection of all forms of discrimination (Latif, 2011). Although the Village Fund has significantly contributed to infrastructure and rural economic development, the prevailing regulation, such as Article 72 of Law No. 3 of 2024 that still adopts a uniform fiscal distribution approach, without considering the varying needs and potentials of different villages. This contradicts the principle of substantive justice, as poor, remote, and resource-limited villages receive relatively the same amount of funding as economically advanced villages, such as the previously mentioned case of Ponggok Village. Moreover, this also disregards the principle of equal liberty, thereby denying communities in underdeveloped villages the same opportunities to cultivate their local economic potential, especially in the MSME sector.

According to the widely recognized legal system theory by Lawrence M. Friedman, a legal system consists of three core components: (1) Structure, referring to institutions, organizations, legal apparatuses, and implementation mechanisms; (2) Substance, which includes the rules, norms, and formal policies within the legal framework; and (3) Legal Culture, which reflects the public's attitudes, values, and behavior toward the law, whether they are compliant, concerned, or indifferent. These three elements are interconnected and determine the success or failure of a legal policy in practice. In the context of the Village Fund, this systemic approach is highly relevant in formulating a regulatory model that is not only legally formal but also functionally effective in promoting MSME-based rural economic development (Hutomo & Soge, 2021).

In economic development theory, as proposed by Evsey Domar and Roy Harrod, it is emphasized that higher levels of investment directed toward productive sectors can only lead to economic growth when there is continuous capital accumulation in line with increased productivity and job creation (Athoillah, 2024). However, the current use of the Village Fund in Indonesia, particularly in driving rural economic development through the Micro, Small, and

Medium Enterprise (MSME) sector, tends to be directed toward consumptive activities such as physical infrastructure projects, which do not necessarily have a direct impact on improving economic productivity.

This condition illustrates the low effectiveness of public investment at the village level. Therefore, there is an urgent need for regulatory reconstruction regarding the Village Fund, so that it no longer functions merely as an administrative or standardized tool, but instead becomes a truly productive capital investment instrument**.**

	Regulation	Weaknes s	Reconstruction Proposal
.	Article 26 Paragraph (3) letter d In carrying out their duties as referred to in paragraph (1), the Village Head has the right: d. to receive a one-time post-service allowance at the end of their term, subject to the financial capacity of the Village and regulated by Government Regulation.	In terms of fiscal justice, this additional financial entitlement carries the risk of exacerbating inequality between wealthy and poor villages, as each village has varying fiscal capacities. If Village Fund management is overly directed toward routine expenditures and compensations for officials, it will hinder the Village Fund's role in promoting economic productivity within the	Article 26 Paragraph (3) letter d In carrying out their duties as referred to in paragraph (1), the Village Head has the right: d. to receive a one-time post-service allowance at the end of their term based on the Village's financial capacity and contingent upon performance evaluation and accountability throughout their tenure, as regulated by Government Regulation

		community.	
.	Article 39 (1) The Village Head holds office for eight (8) years starting from the date of inauguration. (2) The Village Head as referred to in paragraph (1) may serve no more than two (2) terms, whether consecutively or non-consecutively.	The extension of the term of office without an accompanying performance evaluation system may negatively affect innovation dynamics. Village governance led by the same individual for an extended period without healthy political competition tends to lose its drive for innovation and collaboration.	Article 39 (1) The Village Head holds office for five (5) years starting from the date of inauguration. (2) The Village Head as referred to in paragraph (1) may serve no more than two (2) terms, whether consecutively or non-consecutively. (3) During their term, the Village Head is obligated to submit a performance evaluation report every 2.5 (two and a half) years to the supra-village institution, based on development indicators, financial transparency, and participation in economic empowerment.
.	Article 34A Paragraph (4) (4) In the event that the extended registration period for Village Head candidates, as referred to in paragraph (3), ends	Such an acclamation mechanism is vulnerable to misuse by local elites seeking to monopolize the nomination process and	Article 34A Paragraph (4) (4) In the event that the extended registration period for Village Head candidates as referred to in paragraph (3) ends

	with only one registered candidate, the Village Head Election Committee, together with the Village Consultative Body (BPD), shall appoint the registered candidate through deliberation to reach consensus.	restrict the entry of new leaders with more innovative development visions. The emergence of Village Heads through non-competitive acclamation processes risks lowering leadership quality. In the context of local economic development, especially in the MSME sector, villages need leaders with innovation, transparency, and courage to take bold steps in empowering the people's economy.	with only one registered candidate, the Village Head Election Committee, together with the Village Consultative Body, shall determine the eligible candidate through deliberation to reach consensus, followed by an open vote by the participants of the village deliberation. The candidate shall be declared validly elected if they obtain at least 50% plus one vote of the total number of legally present participants.
.	Article 72 Paragraph (4) (4) The allocation of Village Funds as referred to in paragraph (1) letter d shall be no less than 10% (ten percent) of the General Allocation Fund and revenue-	The distribution of Village Funds based solely on a percentage of Regional Transfer Funds may result in inter-village inequality,	Article 72 Paragraph (4) (4) The allocation of Village Funds as referred to in paragraph (1) letter d shall be no less than 10% (ten percent) of the General Allocation Fund and revenue-

	sharing funds received by the regency/municipality in the regional budget (APBD).	especially if not accompanied by real-need and potential-based indicators. Villages with large populations, high poverty levels, or remote geographic locations have greater development needs than more developed villages, particularly in strengthening the Micro, Small, and Medium Enterprise (MSME) sector.	sharing funds received by the regency/municipality in the regional budget, and shall be used for economic empowerment programs through productive economic activities.
.	Article 87A Paragraph (3) (3) Cooperation by Village-Owned Enterprises (BUMDes) as referred to in paragraph (2) shall aim to establish mutually beneficial partnerships among economic actors	The absence of strict technical regulations regarding partnership mechanisms, business governance, and accountability standards creates space	Article 87A Paragraph (3) (4) Cooperation by Village-Owned Enterprises as referred to in paragraph (2) shall aim to establish mutually beneficial partnerships among economic actors and reinforce one

	and reinforce one another in order to achieve economic democracy and high national efficiency and competitiveness.	for abuse. BUMDes are often exploited by local elites as exclusive economic vehicles, lacking transparency, oversight, and inclusivity, even in MSME development.	another to achieve economic democracy and high national competitiveness, in accordance with Partnership Governance and Accountability Standards.
.	Article 118 letter e At the time this Law comes into force: a. Village Heads and members of the Village Consultative Body who have served two (2) terms before this Law was enacted may run for office for one (1) additional term based on this Law. e. Village Heads whose terms end by February 2024 may have their tenure extended in accordance with this Law.	The retroactive application of extended terms for Village Heads and officials raises constitutional concerns and legal uncertainty. In the context of rural economic development, especially the enhancement of MSMEs, legal certainty, public participation, and leadership quality are critical. Extending terms without proper evaluation and re-election	Article 118 letter e At the time this Law comes into force: a. Village Heads and members of the Village Consultative Body who have served two (2) terms prior to this Law may run for one (1) additional term under this Law. e. Village Heads whose terms expire by February 2024 may have their tenure extended through village deliberation.

		poses a serious risk to the continuity of community-based empowerment programs and may hinder comprehensive MSME development.	

4. CONCLUSION

The management of Village Funds in realizing the economic development of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia currently has a solid legal foundation through Law Number 6 of 2014 on Villages, as amended by Law Number 3 of 2024, along with its implementing regulation such as Ministerial Regulation of the Minister of Villages PDTT Number 7 of 2023. These regulations grant authority to villages to independently manage Village Funds to support governance and development, including the promotion of MSMEs. However, in practice, the majority of Village Fund allocations are still focused on physical infrastructure development, while productive sectors like MSMEs receive disproportionately less attention. Moreover, community participation in program planning remains largely procedural and lacks meaningful substance.

This situation reflects weaknesses in both the technical and substantive aspects of Village Fund regulation. The absence of specific guidelines for comprehensive MSME development has resulted in unfocused economic empowerment programs. The low capacity of village human resources in planning, implementation, and monitoring has hindered program effectiveness. Weak internal and external oversight systems increase the risk of fund misuse. In addition, the lack of synergy between village governments, local governments, and the private sector presents a significant barrier to the formation of a supportive entrepreneurial ecosystem. Economic development approaches at the village level have also yet to fully adapt to local characteristics and potentials, often resulting in mismatched programs that fail to meet the actual needs of rural communities.

Therefore, a legal reconstruction of Village Fund implementation is urgently needed to optimize the realization of MSME-based economic development across various regions of Indonesia, each with its unique characteristics. This reconstruction should involve the formulation of derivative regulations that specifically govern the strategic use of Village Funds for the MSME sector—from planning based on local potential, technical assistance mechanisms, to performance indicator–based evaluation systems. The regulations must ensure transparency, accountability, and active community participation as key actors in rural economic development.

Capacity building for village officials must be prioritized through training in entrepreneurship, financial management, and business digitalization. The legal approach to Village Fund management should also be grounded in the principles of recognition and subsidiarity, to ensure support for local autonomy and equitable development among villages. In this context, reconstruction of key provisions in the Village Law, including Article 26 paragraph (3), Article 34A paragraph (4), Article 39, Article 72, Article 87A paragraph (3), and Article 118, is essential to strengthen the legal foundation of Village Fund governance that prioritizes productive economic development.

Thus, the Village Fund should not merely serve as an instrument for physical development, but should also function as a strategic tool for promoting MSME growth, expanding employment opportunities, increasing household income, and fostering a rural economic transformation that is just, inclusive, and sustainable.

REFERENCES

Al-Fa'izah, Z., Rahayu, Y. ., & Hikmah, N. (2023). Diplomasi Vaksin Sebagai Alat Untuk Memperkuat Hegemoni Tiongkok. Program Studi Ilmu Hubungan Internasional Fakultas Ilmu Sosial Dan Ilmu Politik Universitas Jember, 3(3), 69–70.

Ananda, D. (2024). Sentra Tahu Dalam Meningkatkan Kesejahteraan Masyarakat Desa Kalikabong. Jurusan Konseling Dan Pengembangan Masyarakat Fakultas Dakwah Uin Prof. K.H. Saifuddin Zuhri Purwokerto.

Athoillah, A. (2024). A Comparative Analysis of Consumption Theories by Harold Domar and Monzer Kahf and Their Impact on National Economic Policies. Jurnal Penelitian Hukum Ekonomi Syariah, 9(2), 384–398.

Basri, Y. M., Findayani, T. I., & Zarefar, A. (2021). Implementation of Good Governance To Improve the. Jurnal Akuntansi, 11(2), 123–136.

Deniar, S. M. (2021). Collaborative Governance dalam Program Desa Percontohan Saemaul Undong di Provinsi Yogyakarta, Indonesia. KONSTELASI: Konvergensi Teknologi Dan Sistem Informasi, 1(2), 233–244. https://doi.org/10.24002/konstelasi.v1i2.4189

Hutomo, P., & Soge, M. M. (2021). Perspektif Teori Sistem Hukum Dalam Pembaharuan Pengaturan Sistem Pemasyarakatan Militer. Legacy: Jurnal Hukum Dan Perundang-Undangan, 1(1), 46–68.

Salim, A. (2017). Demokrasi Dalam Merawat Keberagaman: Perspektif Politik Indonesia. Jurnal Politik Indonesia, Vol. 15(No. 2), 120.

Zhllima, E., Hayoz, N., Imami, D., & Miftari, I. (2023). The Evolution of Village (Self)Governance in the Context of Post-Communist Rural Society. Politics and *Governance*, *11*(2), 368–379. https://doi.org/10.17645/pag.v11i2.6495

Latif, Y. (2011). Negara Paripurna : Historisitas, Rasionalitas dan Aktualitas Pancasila. Gramedia.

Rahmawati. (2016). Bisnis Usaha Kecil Menengah. Ekuilibria.

Utsman, S. (2013). Dasar-dasar Sosiologi Hukum: Dilengkapi Proposal Penelitian Hukum (Legal Research). Pustaka Belajar.

Wignjosoebroto, S. (2002). Hukum: Paradigma, Metode, Dan Dinamika Masalahnya. Elsam.

Siska, E. (2024). Mendongkrak Kinerja UMKM : Peran Financial Literacy , Credit Scoring , dan Kebijakan Pemerintah PT Kimshafi Alung Cipta.

Sukarno, W. S. (2020). Akuntabilitas Dana Desa. BPKP Jateng. http://www.bpkp.go.id/jateng/konten/3544/AKUNTABILITAS-DANA-DESA accessed on 10 April 2025

Regulation:

[1] The 1945 Constitution of the Republic of Indonesia

[2] Law Number 23 of 2014 concerning Regional Government

[3] Law Number 6 of 2023 concerning the Enactment of Government Regulation in Lieu of Law Number 2 of 2022 on Job Creation

[4] Government Regulation Number 43 of 2014 concerning the Implementation Regulation of Law Number 6 of 2014 on Villages

[5] Government Regulation Number 8 of 2016 concerning the Second Amendment to Government Regulation Number 60 of 2014 on Village Funds
[6] Government Regulation Number 46 of 2016 concerning Village Financial Management
[7] Government Regulation Number 7 of 2021 concerning the Implementation of the MSME Promotion and Development Program
[8] Presidential Regulation Number 98 of 2020 concerning National Economic Policy in Realizing Local Economic and MSME Development
[9] Regulation of the Minister of Villages, Development of Disadvantaged Regions, and Transmigration Number 7 of 2023 concerning Details of Village Fund Priority Use
[10] Regulation of the Minister of Cooperatives and Small and Medium Enterprises Number 12 of 2019 concerning General Guidelines for the Development of Micro and Small Enterprises
[11] Regulation of the Minister of Home Affairs Number 20 of 2018 concerning Village Financial Management
[12] Regulation of the Minister of Finance Number 29/PMK.07/2020 concerning Procedures for the Management of Village Funds
[13] Presidential Decree Number 9 of 2017 concerning National Policy on MSME Development
[14] Presidential Instruction Number 6 of 2020 concerning the National Action on Poverty Alleviation and MSME Development