Village Institutional Capacity in Realising Economic Development towards a Superior and Self-Reliant Village

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DOI: https://doi.org/10.47772/IJRISS.2026.100800682

Received: 24 August 2026; Accepted: 29 August 2026; Published: 15 September 2026

ABSTRACT

This article traces the source of that anomaly by positioning village institutional capacity as an explanatory variable that has remained under-theorised. The study is conceptual-analytical: the author synthesises reputable international literature, national scholarship, and positive legal materials on village governance, then tests the synthesis against the agrarian highland rural context of Garut Regency, West Java, treated as an illustrative locus. The analysis yields a five-dimensional framework of village institutional capacity whose elements interlock: regulatory-planning capacity, human resource and leadership capacity, fiscal and accountability capacity, economic organisation capacity, and relational capacity grounded in social capital. Digitalisation is positioned not as a sixth dimension but as a lever operating across all five. The article's central conceptual finding is a weakest-link thesis: village resources convert into welfare only when the five dimensions are satisfied simultaneously, so that weakness in any single dimension severs the entire conversion chain and explains why budget increases do not reliably translate into improved village status. The framework is formalised into ten empirically testable propositions. Its policy implication is direct: an agenda towards superior and self-reliant villages requires a shift from a budget-disbursement logic towards a sustained and measurable institutional capacity-building logic.

Keywords: institutional capacity; village economic development; self-reliant village; village governance; Garut Regency

INTRODUCTION

Since the Village Law came into force, the state has channelled funds into the accounts of tens of thousands of villages on a scale without precedent in the history of Indonesian administration (Undang-Undang Nomor 6 Tahun 2014 tentang Desa, 2014). That legal regime was subsequently renewed through a second amendment extending the term of office of village heads and reaffirming the standing of the village as a subject of development (Undang-Undang Nomor 3 Tahun 2024 tentang Perubahan Kedua atas Undang-Undang Nomor 6 Tahun 2014 tentang Desa, 2024). The policy logic is simple and sounds reasonable: give villages money and authority, and they will build themselves. The difficulty is that conditions on the ground refuse to be that simple.

Two neighbouring villages receiving almost identical village fund ceilings, with comparable populations and facing the same agro-ecological conditions, often end up far apart after a decade. One rises to self-reliant status with a functioning business unit; the other keeps repeating the same cycle of neighbourhood road construction year after year. Evaluations of the Village Fund in Indonesia do find positive effects on poverty reduction, but those effects are neither uniform nor automatic (Anam et al., 2023). Studies of the direct cash assistance financed from the Village Fund show a similar pattern, namely a real impact on some households but an uneven one across regions (Aulia et al., 2025). It is this anomaly that forms the point of departure for this article.

The development literature has long cautioned that resources are not the sole determinant. Institutional quality is closely associated with economic growth in middle-income countries (Gebrue, 2024), and that quality even moderates how effectively external aid flows are translated into growth (Abate, 2022). At the subnational level, governance capacity has been shown to determine regional fiscal performance under a decentralisation regime (Wahyudi et al., 2026). In Indonesia itself, local government capacity has been identified as a determinant of budget delay, an administrative symptom that bears directly on absorption and programme realisation (Vidyattama et al., 2022). The financial performance of local governments likewise varies according to institutional readiness, not merely according to the size of transfers (Hummel & Kusumasari, 2025).

The question that follows is why studies of villages in Indonesia rarely treat institutional capacity as a whole concept. Most national research captures it only in part. Some highlight accountability in village fund management (Gibran et al., 2021), some examine the influence of transparency and participation on the quality of financial management (Kaiwai et al., 2022), and others inspect the skills of those managing village-owned enterprises (Gunawan et al., 2024). All are valuable. Yet these fragments are seldom assembled into a single conceptual structure explaining how the various facets of capacity work with, or against, one another.

A second gap lies in the measuring instrument. The Developing Village Index measures social, economic, and ecological resilience as a composite index (Peraturan Menteri Desa, Pembangunan Daerah Tertinggal, dan Transmigrasi Nomor 2 Tahun 2016 tentang Indeks Desa Membangun, 2016). That instrument is useful for mapping status, but it measures *outcomes*, not *the capacity to produce them*. A village may rise in status because it receives a large project from a third party without its internal capacity growing at all. When the project ends, the status slides back. The governance literature refers to this problem as the error of reading institutional outputs as a proxy for institutional capacity (Ribeiro, 2023).

A third gap is theoretical. The concept of institutional capacity has developed rapidly in public administration and environmental governance. Pill calls for a rethinking of what the local state and its capacity actually mean (Pill, 2024). Zheng offers an analytical framework of institutional capacity in the context of crisis-driven governance reform (H. Zheng, 2025). Work on institutional hybridity and state capacity in polycentric governance maps the range of coordination modes at work when authority is dispersed (Sheng, 2026). This body of work is rich, but it is built almost entirely on cities, regions, or nations as units of analysis. The village, as the smallest governing entity with its own distinctive originary authority, has rarely been taken as the unit of analysis in that conversation.

The context of Garut Regency offers an instructive setting in which to think through this problem. Garut is an agrarian highland regency in West Java with a base in horticulture, plantations, livestock, and crafts spread across hundreds of villages. Its geography is hilly, distances between villages are relatively long, and parts of the territory face limited access. A study of agricultural road construction in one village in this regency shows that infrastructure investment does open up economic impact, but that its magnitude depends on how the village manages its subsequent use (Windani & Sukmawati, 2023). In other words, even at the level of the most concrete physical project, institutional factors remain decisive.

This article therefore poses one principal question: how does village institutional capacity work in converting resources into economic development that carries a village to superior and self-reliant status? That question breaks down into three: which dimensions constitute village institutional capacity; through what mechanisms each dimension produces economic outcomes; and how the framework can be operationalised in an agrarian rural context such as Garut.

The novelty on offer is conceptual and rests on three points. First, the article assembles village institutional capacity into an explicit five-dimensional framework rather than a list of free-standing factors. Second, it advances the weakest-link thesis as an explanation for the budget-outcome anomaly, a proposition that departs from the additive assumption commonly employed in village fund studies. Third, it positions digitalisation as a cross-dimensional lever rather than a dimension in its own right, thereby avoiding the familiar error of treating technology as a stand-alone solution. The purpose of the article is to produce an analytical framework that researchers can use to design empirical studies and that policymakers can use to construct better-targeted capacity-strengthening interventions.

Theoretical Review

1. The Concept of Institutional Capacity

Institutional capacity is a central concept in the study of development and governance, including village governance. Soeprapto (2010) defines capacity as the abilities, skills, understanding, attitudes, values, relationships, behaviors, motivation, resources, and conditions that enable individuals, organizations, networks, and broader systems to perform their functions and achieve development goals on a sustained basis. This definition emphasizes that capacity is not merely an individual's technical competence, but a combination of personal, organizational, and systemic factors that are mutually interrelated.

Haryanto (2014) reinforces this understanding through the framework of Institutional Capacity Development, which views the strengthening of institutional capacity as an ongoing process aimed at enhancing an organization's ability to respond to a changing strategic environment. Grindle (1997), meanwhile, offers a more performance-oriented definition, describing capacity as an organization's or institution's ability to achieve its objectives effectively, efficiently, and sustainably. These three definitions share a common thread: institutional capacity is understood as a precondition for, rather than an outcome of, an organization's success in fulfilling its mandate.

2. The Concept of Village Economic Development

Village economic development refers to systematic efforts to improve the welfare of village communities through the optimal utilization of local resources. The concept emphasizes sustainability, such that rural economic development oriented toward the long term must be supported by institutional strengthening, human resource empowerment, and innovation-based enterprise development (Sutrisno, 2019). Several principles commonly referenced in the practice of village economic development include transparency in management, active community participation, benefits that can be equitably enjoyed by the community, accountability throughout the planning-to-evaluation process, and the sustainability of programs over time.

Since the introduction of the Village Fund policy following the enactment of Law No. 6 of 2014 on Villages, this financing instrument has become one of the principal drivers of village-level economic development. Ningsih (2021) shows that village fund programs allocated to skills training, provision of business capital, and promotion of creative products contribute meaningfully to strengthening villagers' economic self-reliance. However, the effectiveness of such programs depends heavily on the quality of village governance and the extent of active community involvement; without full community participation, village economic transformation is unlikely to be realized. This finding underscores that the magnitude of funding alone is insufficient to drive village economic development unless accompanied by the strengthening of the institutional capacity that manages it.

3. The Concept of Advanced and Self-Reliant Villages

The Government of Indonesia uses the Village Development Index (Indeks Desa Membangun, IDM) as its official instrument for mapping the progress and self-reliance status of villages nationwide. The IDM is a composite index built from three sub-indices: the Social Resilience Index, the Economic Resilience Index, and the Environmental Resilience Index. Based on its IDM score, a village's status is classified into five categories: Self-Reliant Village (IDM greater than 0.815), Advanced Village (0.707–0.815), Developing Village (0.598–0.707), Underdeveloped Village (0.490–0.598), and Highly Underdeveloped Village (0.490 or below).

Mardikanto (2020) emphasizes that the concept of village self-reliance does not concern the economic dimension alone but also encompasses social and institutional dimensions, as well as the community's capacity to manage development in a participatory manner. Economic self-reliance is thus one of the principal indicators—though not the sole indicator—of the extent to which a village is able to sustain and develop itself without dependence on external assistance. The government has set a phased target for increasing the number of villages attaining self-reliant status through the National Medium-Term Development Plan (RPJMN), which in turn influences the Village Fund allocation formula through the affirmation-allocation and performance-allocation schemes.

4. Village Economic Institutions: Village-Owned Enterprises (BUMDes)

Village-Owned Enterprises (Badan Usaha Milik Desa, BUMDes) represent a concrete manifestation of village economic institutions established to manage local economic potential collectively. Nursetiawan (2018) argues that BUMDes can serve as a strategic instrument toward village self-reliance when managed innovatively and responsively to local potential and market demand. The establishment of a BUMDes is typically agreed upon through a village deliberative forum (musyawarah desa) and formalized through a village regulation, reflecting a participatory governance process from the planning stage onward.

Nevertheless, a number of studies find that BUMDes performance varies considerably across regions. A study on models for strengthening BUMDes institutional governance at the sub-district level found that several BUMDes had ceased operating due to weak financial accountability, poor coordination among administrators, and limited managerial capacity to identify and develop village potential. Factors such as participation, cooperative orientation, empowerment, and business sustainability emerged as important determinants that are often overlooked in the practical management of BUMDes.

Research Method

This study employs a conceptual-analytical approach with a strategy of directed literature synthesis. The choice is a deliberate one. The aim of the article is not to test hypotheses on a population of villages but to build a coherent framework out of a dispersed body of knowledge. Within research typologies, work of this kind stands as a theoretical contribution that produces constructs and propositions rather than parameter estimates (Scully-Russ & Torraco, 2020).

The analytical material comprises three layers. The first layer consists of reputable international journal articles indexed in Scopus at quartiles one and two, drawn from a five-year window except for seminal references. The second layer consists of Indonesian-language national scholarship providing contextual proximity, particularly concerning the practice of village government, village-owned enterprises, and farmer economic institutions. The third layer consists of positive legal materials, covering the Village Law together with its amendments and the ministerial regulation governing the measurement of village status.

The search procedure was carried out through bibliographic databases with layered filtering. The existence of every candidate reference was verified by searching for its digital object identifier in the Crossref catalogue, and the indexing status of each journal was checked against Scopus-based journal ranking data. References that failed identifier verification were excluded, without exception. This procedure was adopted because the integrity of the citation apparatus is the minimum condition for any conceptual claim.

The analysis proceeded in three stages. The first stage was open thematic coding of all the material to identify constructs that recur in explaining the success or failure of development in local governing units. The second stage was the grouping of constructs into dimensions on the basis of functional proximity, drawing on the institutionalist tradition that distinguishes the regulative, normative, and cultural-cognitive pillars (Scott, 1995). The third stage was the formulation of propositions linking each dimension to its mechanism and economic outcome, accompanied by the construction of a conceptual model.

Garut Regency is treated as an illustrative *locus*, not as an empirical case. Its function is to test the applicability of the framework to an agrarian highland rural context with an economic structure based on horticulture, plantations, and crafts. The author emphasises that this article presents no primary data from any village in Garut, conducts no interviews, and claims no statistical figures for any particular village. Every statement

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VIII August 2026

about the Garut context that is specifically factual is referenced to a verified source; the remainder is treated as a contextual assumption stated openly. This stance is adopted so that readers can clearly distinguish what is a finding from the literature, what is the author's reasoning, and what still requires field verification.

The validity of the analysis is safeguarded through source triangulation, by requiring that each dimension of the framework be supported by at least two distinct literature traditions, and through cross-checking between international findings and national scholarship. Where the two diverge, the difference is reported as a conceptual tension rather than forcibly reconciled.

Methodological limitations should be stated at the outset. Literature synthesis depends on what has been published, so that successful village practices not documented in scholarly publications are not captured. The resulting framework has also not been tested statistically; it is a hypothetical construction awaiting examination.

RESULTS AND DISCUSSION

Anatomy of the Concept Village Institutional Capacity

The term institutional capacity is often used without a firm definition, so that its meaning stretches and eventually loses explanatory power. For the purposes of this article, village institutional capacity is formulated as the organised ability of a village to establish binding rules of the game, mobilise human and financial resources, run economic organisations, and maintain relationships with actors beyond itself, in such a way that available resources are transformed into lasting welfare for its residents.

That formulation is rooted in the new institutionalist tradition. North positions institutions as the rules of the game that shape the incentive structure and in turn determine the economic performance of a society (North, 1990). Scott elaborates that institutions rest on three pillars: the regulative, which works through the coercion of rules; the normative, which works through moral obligation; and the cultural-cognitive, which works through shared understandings of what is taken for granted (Scott, 1995). For a village, all three pillars are present at once: village regulations stand as the regulative pillar, the norm of gotong royong as the normative pillar, and residents' views of what village government properly does as the cultural-cognitive pillar.

Ostrom contributes an idea closer still to village reality, namely that communities are capable of devising their own rules for managing common-pool resources without waiting for either the state or the market, provided certain institutional conditions are met (Ostrom, 1990). This idea matters because it breaks the assumption that the village is merely a recipient of rules from above. The village is a producer of rules.

From the development side, Grindle formulates capacity as something that can be deliberately built through planned intervention in the public sector of developing countries, rather than as a fixed innate trait (Grindle, 1997). Evans adds a condition that is often forgotten: transformative capacity requires the embeddedness of officials in the society they serve, not bureaucratic distance (Evans, 1995). Putnam, meanwhile, shows through regional comparison that differences in institutional performance ultimately take root in civic traditions and social capital accumulated across generations (Putnam, 1994).

Recent literature sharpens the operationalisation. Pill calls for a rethinking of the local state and its capacity, particularly where formal authority is no longer commensurate with the burden of tasks (Pill, 2024). Choi finds that local government capacity correlates with sustainable development performance, so that capacity deserves to be treated as a predictor rather than mere background (Choi, 2021). Vanhengel and colleagues propose the concept and measurement of the organisational change capability of public organisations, that is, an organisation's ability to change in a directed way (Vanhengel et al., 2025). Guan and colleagues show that organisational capacity is related to the ability to diversify revenue sources, a finding relevant to villages seeking to escape dependence on transfers (Guan et al., 2025).

Two further contributions complete this structure. Zheng constructs an analytical framework of institutional capacity in crisis-driven governance reform, showing that capacity is most visible precisely when a system is under strain (H. Zheng, 2025). Heydari and colleagues assess institutional adaptive capacity in governance, stressing that capacity is not only a matter of executing routines but of adjusting to change (Heydari et al., 2026). A review of polycentric governance scholarship shows how institutional hybridity and state capacity are intertwined, a condition that precisely describes the village that must deal with many authorities at once (Sheng, 2026). Dimitrijevska-Markoski and colleagues affirm that organisational capacity and collaboration jointly determine the quality of service delivery, especially in times of crisis (Dimitrijevska-Markoski et al., 2024), while Ribeiro warns of the danger of reading institutional outputs as evidence of capacity (Ribeiro, 2023).

Five dimensions emerge from this synthesis. The grouping is not taken from a single source but assembled on the basis of the functional proximity of constructs that recur in the literature.

Table 1. Dimensions, indicators, and manifestations of village institutional capacity

Dimension	Core indicators	Manifestation at village level	Principal references
D1. Regulatory & planning	Clarity of local rules; quality of planning documents; openness of the deliberative process	Village regulations that are enforced; RPJMDes grounded in actual potential mapping; deliberations representing every stratum of residents	(Scott, 1995); (Ostrom, 1990); (Lee & Min, 2023)
D2. Human resources & leadership	Officials' competence; leadership style; cadre formation	Trained officials who stay; a village head who distributes roles; renewal of empowerment cadres	(Jakobsen et al., 2021); (Mishra & Hassen, 2023); (Peng et al., 2023)
D3. Fiscal & accountability	Orderly financial administration; actual transparency; effort to raise PADes	Timely and open financial reports; spending consistent with planned priorities; more than a single revenue source	(Krah & Mertens, 2023); (Jeong et al., 2023); (Chen et al., 2024)
D4. Economic organisation	Managerial readiness of business units; position in the value chain; farmer economic institutions	BUM Desa that produce and trade; farmer groups acting as aggregators; organised market access	(Haryaningsih et al., 2022); (Batra, 2025); (X. Wang et al., 2021)
D5. Relational & social capital	Internal trust; quality of external collaboration; sustainability of collective action	Gotong royong still alive; partnerships with local government, universities, and the private sector	(Putnam, 1994); (Halstead et al., 2021); (McNaught, 2024)
Lever: digitalisation	Adoption of information systems; affordability of access; digital literacy of officials and residents	A village information system used for decisions; open spending data; online market access	(Budiantoro et al., 2023); (Kuhlmann et al., 2026); (Olson et al., 2025)

Source: compiled by the author from the literature synthesis (2026)

The First Dimension: Regulatory and Planning Capacity

This dimension concerns a village's ability to produce rules and plans that are binding, clear, and genuinely implemented. The Village Law grants villages the authority to draw up village regulations and to plan their own development (Undang-Undang Nomor 6 Tahun 2014 tentang Desa, 2014), and the second amendment to that law reinforces the standing of the village as a subject of development (Undang-Undang Nomor 3 Tahun 2024 tentang Perubahan Kedua atas Undang-Undang Nomor 6 Tahun 2014 tentang Desa, 2024). That authority, however, is worth only as much as the village's ability to use it.

The problem that arises most often is not the absence of planning documents but documents drawn up as a formality. A village medium-term development plan copied from a neighbouring village will not yield the right priorities. A study identifying potential and problems for sustainable village development shows that planning which starts from actual potential mapping produces a far sharper direction than planning which starts from a list of proposals (Kenangkinayu & Asyaiwati, 2022).

The quality of planning is heavily determined by how residents are involved. Evidence from participatory budgeting shows that citizen involvement changes local government spending patterns measurably, not merely adding legitimacy (Lee & Min, 2023). Pulkkinen and colleagues position participatory budgeting as an instrument for building sustainability rather than a democratic ritual (Pulkkinen et al., 2023). Zheng and colleagues even find that participatory scrutiny shifts spending allocations in a more productive direction (F. Zheng et al., 2025).

Citizen involvement in villages works through a mechanism deeper than mere attendance at deliberations. Osborne and colleagues argue that public services are in fact a process of value co-creation rather than the handing over of a finished product from government to citizens (Osborne et al., 2021). McMullin elaborates that co-production takes place at individual, group, and collective levels with differing conceptions of public value (McMullin, 2022). Skålén and Trischler caution that the same process also has the potential to destroy value if it is carried out wrongly (Skålén & Trischler, 2024). A village deliberation that convenes only the same familiar figures is one example of such co-destruction.

National scholarship supplies a practical bridge. Widadi and Eldo show the role of village community empowerment cadres as drivers of participation, a function often underrated within the formal structure (Widadi & Eldo, 2023). Siregar finds that citizens' political participation plays a part in sustaining self-reliant village status, which means that status is not a one-off achievement but the result of continuous maintenance (Siregar, 2023). The Developing Village Index itself, as an instrument for measuring status, will move only if the planning process behind it is conducted in earnest (Peraturan Menteri Desa, Pembangunan Daerah Tertinggal, dan Transmigrasi Nomor 2 Tahun 2016 tentang Indeks Desa Membangun, 2016).

The Second Dimension: Human Resource and Leadership Capacity

Good rules still require people to carry them out. The second dimension concerns the competence of village officials and the quality of the leadership that mobilises them.

Evidence from public organisations shows that leadership style is not a matter of taste. Jakobsen and colleagues find that distributed leadership improves employee performance outcomes in public sector organisations (Jakobsen et al., 2021). Mishra and Hassen show the pathway by which servant leadership influences performance through public service motivation (Mishra & Hassen, 2023). Fischer and Schott map the preconditions for the emergence of shared leadership, which demands particular relational networks within an organisation (Fischer & Schott, 2025). Park and Lee affirm that organisational processes and public service motivation jointly affect job satisfaction (Park & Lee, 2023), and job satisfaction in turn determines the sustainability of service quality.

In the village context, the leadership of the village head carries greater weight than that of leaders of public organisations generally, because the span of control is short and relations are personal. National scholarship on strategic leadership in rural development shows that the role of the village head determines the direction and pace of programmes (Fitria Agustina & Firdaus Nuzulla, 2025). This finding is consistent with Evans's embeddedness thesis: village leaders embedded among their residents have access to information that a distant bureaucracy does not possess (Evans, 1995).

Human capital also operates at the aggregate level. Peng and colleagues show that the level of human capital determines a region's economic performance (Peng et al., 2023). For villages, this means that training officials is not an administrative cost but a productive investment. Gunawan and colleagues find that the interpersonal skills of those managing village-owned enterprises affect business unit performance (Gunawan et al., 2024), while Satria and colleagues demonstrate the importance of communication performance in developing social entrepreneurship capacity in village enterprises (Satria et al., 2022).

A question rarely asked is who builds that capacity. Indraningsih and Swastika show that capacity strengthening functions as an accelerator of agricultural development in lagging regions (Indraningsih & Swastika, 2022), meaning that capacity interventions have their greatest leverage precisely where things are furthest behind. Knox and Sharipova, in their review of public sector reform in developing countries, warn that reforms targeting structures without touching competence tend to stop at the level of paper (C. Knox & Sharipova, 2023).

The Third Dimension: Fiscal and Accountability Capacity

The third dimension is a village's ability to manage money in an orderly, transparent manner directed towards priorities. This is where the bulk of policy attention has been poured, and it is also where a good deal of diagnostic error occurs.

International evidence shows that the design of intergovernmental transfers affects the fiscal behaviour of recipients. Porto and Puig analyse the interaction between own revenue and transfers, showing that the two do not always reinforce one another (Porto & Puig, 2023). Alves and Araujo find that transfers can weaken local governments' incentive to raise their own revenue (Alves & Araujo, 2024). Huang and colleagues show a relationship between fiscal decentralisation and the innovative capacity of local government (Huang et al., 2023), while Tang links local financial management to the sustainability of economic development (Tang, 2022).

For Indonesian villages, these findings carry an uncomfortable implication. Dependence on the Village Fund has the potential to blunt the drive to raise village own-source revenue. Chen and colleagues show that decentralisation does shift the informational advantage to the local level, but that it also opens space for effort substitution, whereby local governments reduce their own exertion as transfers increase (Chen et al., 2024). Lele documents that the design of decentralisation in Indonesia even varies asymmetrically across regions (Lele, 2021), and Farhan and colleagues highlight a governance perspective on Indonesian decentralisation practice (Farhan et al., 2025).

Transparency is the principal antidote. Krah and Mertens find that the financial transparency of local government builds citizens' trust along with their willingness to contribute (Krah & Mertens, 2023). Jeong and colleagues distinguish *de jure* transparency from *de facto* transparency, and find that only the latter is associated with a decline in corruption in local public office (Jeong et al., 2023). Astudillo-Rodas shows that transparency becomes effective only once it is internalised as an organisational habit, rather than merely discharged as a reporting obligation (Astudillo-Rodas, 2022).

National scholarship reinforces this picture from the side of practice. Gibran and colleagues link accountability in village fund management to efforts to improve welfare (Gibran et al., 2021). Kaiwai and colleagues find effects of accountability, transparency, and community participation on the quality of village fund management (Kaiwai et al., 2022). Baskara and Suarjaya analyse the social and financial efficiency of village credit institutions, showing that village-owned microfinance institutions can operate efficiently where their governance is orderly (Baskara & Suarjaya, 2022).

The evidence on the effects of the Village Fund itself shows a pattern consistent with this article's thesis. Anam and colleagues find an impact of the Village Fund on poverty reduction (Anam et al., 2023), Aulia and colleagues evaluate Village Fund direct cash assistance (Aulia et al., 2025), and Sidik examines village funds directed towards tourism development together with their effect on income inequality (Sidik, 2024). All three find real but variable effects. It is that variation which demands an institutional explanation rather than a fiscal one.

The Fourth Dimension: Village Economic Organisation Capacity

The fourth dimension concerns a village's ability to run organisations that genuinely produce and trade, rather than merely administer spending. Village-owned enterprises and farmer economic institutions are its two principal forms.

INTERNATIONAL JOURNAL OF RESEARCH AND INNOVATION IN SOCIAL SCIENCE (IJRISS)
ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VIII August 2026

National scholarship supplies an honest portrait. Afero and colleagues situate village-owned enterprises within the perspective of development decentralisation (Afero et al., 2022), while Haryaningsih and colleagues document the dysfunction of village-owned enterprises in the development of village autonomy (Haryaningsih et al., 2022). This second finding matters precisely because it is unwelcome: capital injection without managerial readiness produces enterprises that exist only on paper.

The entrepreneurship literature explains why this is so. Robert and colleagues formulate a framework for village development through self-help group entrepreneurship supported by microcredit, and find that its success rests on groups that already possess cohesion (Robert et al., 2021). Batra shows how entrepreneurial bricolage works in rural cooperative enterprise, that is, the ability to assemble whatever resources are at hand into a functioning business (Batra, 2025). Iacobucci and Perugini show that entrepreneurial ecosystems sustain economic resilience at the local level (Iacobucci & Perugini, 2021), and Matricano and colleagues affirm the link between innovative start-ups and local development (Matricano et al., 2025).

Cooperative forms have institutional dynamics of their own. Hou and Ma analyse the development of rural agricultural cooperatives through an evolutionary game approach, showing that cooperation endures only where the incentive structure benefits all parties over time (Hou & Li, 2025). Haryanto and colleagues examine the strengthening of farmer economic institutions in rice-farming communities (Haryanto et al., 2022), while Mulyani and colleagues analyse local capacity potential in empowering farmer economic institutions (Mulyani et al., 2024). Kusumadinata and colleagues find that institutional support determines the level of farmer self-reliance (Kusumadinata et al., 2021) — a finding that directly connects institutions with self-reliance, the central theme of this article.

The value chain side must not be neglected. Wang and colleagues find that participation in value chain activities affects the income of small-scale horticultural farmers (X. Wang et al., 2021), a finding of direct relevance to highland horticultural villages. Hoang shows the influence of contract farming on farmer incomes within the food value chain (Hoang, 2021). Ma and Ma examine efforts to encourage smallholder participation in value-adding practices (Ma & Ma, 2025), and Amrullah and Tokuda find that access to extension services improves the technical efficiency of smallholder farming (Amrullah & Tokuda, 2025). Ruben summarises poverty alleviation strategies that are genuinely effective for smallholders (Ruben, 2024). Rusdiana and colleagues examine the effectiveness of local government policy in developing agribusiness institutions (Rusdiana et al., 2025), while Pagala and Nurdiyah construct an agribusiness institutional model for leading commodities (Pagala & Nurdiyah, 2026). Mardhatilla and colleagues document resilience inequality among Indonesian smallholders, a reminder that uniform interventions produce non-uniform results (Mardhatilla et al., 2026).

Figure 1. Conceptual model of village institutional capacity towards a superior and self-reliant village

The Fifth Dimension: Relational Capacity and Social Capital

A village does not stand alone. The fifth dimension concerns a village's ability to maintain internal trust while building relationships with actors beyond its administrative boundaries.

Social capital is the foundation. Putnam shows that civic traditions explain differences in institutional performance between regions over long stretches of time (Putnam, 1994). Halstead and colleagues revisit the place of social capital in community development and affirm its continuing relevance (Halstead et al., 2021). Kitano finds that village development policy itself affects social capital, which means the relationship between the two is reciprocal (Kitano, 2025). Tantardini shows that organisational social capital affects the use of performance information, so social capital even determines whether data are used in making decisions (Tantardini, 2022).

Collective action is the operational form of social capital. Su and colleagues apply institutional analysis to rural collective action in agricultural land consolidation (Su et al., 2023). Lewis and Petersen examine Ostrom's thinking on choice, collective action, and rationality (Lewis & Petersen, 2023). Cáñez-Cota examines the sustainability of collective action under institutional constraints (Cáñez-Cota, 2026), and Barnaud and Muradian discuss the governance challenges posed by new forms of the commons (Barnaud & Muradian, 2024). Wibowo and colleagues, from the national side, show the role of strengthening social capital and stakeholders in village community empowerment (Wibowo et al., 2024). Sari and colleagues examine institutional capacity strengthening as a basis for sustainable development at the sub-district level (Sari et al., 2020).

The outward relational dimension is also decisive. McNaught examines the application of collaborative governance at the local level (McNaught, 2024). Afandi and colleagues examine collaboration in government-mandated programmes, a condition villages routinely experience when implementing national programmes (Afandi et al., 2023). Ferreira and colleagues examine collaborative innovation in project-based local economic development (Ferreira et al., 2023), while Lu and Carter document the collaborative governance that emerges in rural local food systems (Lu & Carter, 2022). Knox and Arshed show that network governance coordinates regional entrepreneurial ecosystems (S. Knox & Arshed, 2021), and Kallert and colleagues read rural governance through the lens of cultural political economy (Kallert et al., 2021). Prasetyanti and Kusuma, in the Indonesian context, offer a multi-actor collaboration model for village innovation (Prasetyanti & Kusuma, 2020).

Digitalisation as a Cross-Dimensional Lever

The greatest temptation in designing a framework of this kind is to make digitalisation a sixth dimension. This article declines that step, on conceptual grounds. Technology does not create capacity; it multiplies the capacity that already exists, including multiplying its absence.

The evidence supports this position. Djatmiko and colleagues find that the digital transformation of public services is associated with social inclusion, but that the relationship depends on how services are designed (Djatmiko et al., 2025). Hyytinen and colleagues identify the determinants of digital public service adoption, which turn out to be organisational rather than technical for the most part (Hyytinen et al., 2022). Kuhlmann and colleagues compare the governance of local government digital transformation across countries and find wide variation despite similar technology (Kuhlmann et al., 2026).

For villages, digitalisation strengthens each dimension differently. In the fiscal dimension, information systems ease reporting and open spending data to residents. Budiantoro and colleagues describe the village information system as integrated village economic infrastructure rather than merely an administrative application (Budiantoro et al., 2023). In the economic dimension, Zhang and Mishra show that information technology adoption raises farmers' commercial orientation and productivity (Zhang & Mishra, 2024).

The risks, however, are real. Olson and colleagues document an urban-rural digital divide in internet access that remains wide (Olson et al., 2025). Villages with low capacity and limited access may in fact fall further

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VIII August 2026

behind as services shift to digital channels. Digitalisation is therefore a lever that demands preconditions, not a shortcut that dispenses with them.

Applying the Framework to the Rural Context of Garut

This section tests the applicability of the framework to an agrarian highland rural context. It bears repeating that the discussion below is analytical and claims no empirical data from any particular village.

Villages in Garut Regency generally rest on horticulture, plantations, livestock, and crafts, with a hilly topography that affects logistics costs. An economic structure of this kind places the fourth dimension, economic organisation capacity, in a highly strategic position. Small-scale horticultural farmers selling individually to collectors occupy a weak bargaining position, and evidence shows that organised participation in the value chain is associated with better incomes (X. Wang et al., 2021). A village-owned enterprise functioning as a market aggregator therefore has a strong economic logic, provided its managerial capacity is adequate (Gunawan et al., 2024).

Infrastructure investment offers a good illustration of the weakest-link thesis. A study of agricultural road construction in a village in Garut Regency shows an economic impact, but one whose magnitude depends on subsequent use (Windani & Sukmawati, 2023). A road built without accompanying marketing institutions merely helps collectors reach the fields faster; a road built alongside the strengthening of farmer groups changes the bargaining position. The difference lies not in the asphalt but in the institutions.

Livelihood diversification is a second pathway. Abera and colleagues identify the determinants of rural household livelihood diversification strategies (Abera et al., 2021), while Das and Mahanta examine non-farm occupational diversification in rural areas (Das & Mahanta, 2023). Wang and colleagues show that livelihood capital endowment determines the success of household poverty alleviation (W. Wang et al., 2021). Chhatre and colleagues find that financial inclusion helps rural households confront climate risk (Chhatre et al., 2023) — relevant for regions exposed to hydrometeorological risk.

Village tourism is a third pathway that is often taken. The literature, however, warns against treating it as a general prescription. Sutomo and colleagues examine self-reliance in community-based tourism villages in Indonesia and find that self-reliance does not come automatically from visitor numbers (Sutomo et al., 2024). Li and colleagues show that village social structure affects how community-based tourism operates (Li et al., 2023). Saldarriaga Isaza and Salas document community perceptions of rural tourism development amid social tension (Saldarriaga Isaza & Salas, 2023). Krisnayana and colleagues show that participation in rural tourism is stratified, so that its benefits may become concentrated in particular strata (Krisnayana et al., 2026). Widyastuty and Dwiarta stress the importance of local wisdom in tourism village planning (Widyastuty & Dwiarta, 2021). Sidik adds the important note that village funds directed towards tourism may have an effect on income inequality (Sidik, 2024).

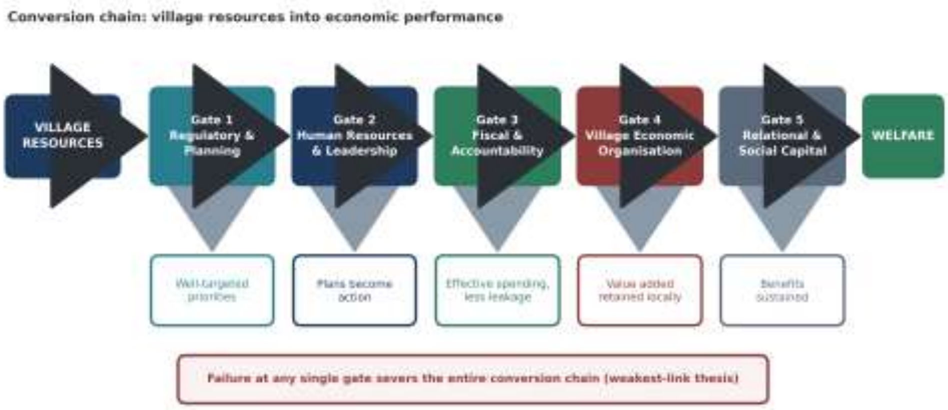

Figure 2. The conversion chain from village resources into economic performance

Propositions and the Conceptual Model

The synthesis above is formulated into a set of testable propositions. The propositions are constructed so that each dimension has an explicitly stated mechanism, allowing subsequent research to operationalise them as variables.

The core of the model lies in the weakest-link thesis. The additive assumption commonly employed treats each dimension as an independent contributor, so that weakness in one dimension can be compensated by strength in another. This article advances a different assumption: these dimensions operate sequentially within a conversion chain. Resources must pass the regulatory-planning gate before becoming programmes, pass the human resource gate before becoming action, pass the fiscal-accountability gate before becoming well-targeted spending, pass the economic organisation gate before becoming value added, and pass the relational gate before becoming lasting benefit.

The consequence is stark. A village with sharp planning, competent officials, and orderly finances, but without a functioning economic organisation, will produce tidy infrastructure without any rise in income. A village with a profitable enterprise but no accountability will lose the trust of its residents and ultimately lose the business itself. This pattern explains why budget increases do not always bear fruit in improved status.

The framework also offers a way of reading the sustainable development agenda at village level. Göçoğlu and Göçoğlu examine local potential in achieving the sustainable development goals (Göçoğlu & Göçoğlu, 2024), while Ciambra and Stamos examine the integration of those goals into regional governance (Ciambra & Stamos, 2025). Both show that localising a global agenda requires institutional capacity as a precondition rather than as a by-product. At the macro level, the relationship between institutional quality and economic growth (Gebrue, 2024) together with the role of institutions in moderating the effectiveness of aid flows (Abate, 2022) lend analogical support to this thesis at a smaller scale.

Policy Implications and Limitations

The first implication concerns how measurement is done. Instruments that measure village status need to be complemented by instruments that measure capacity, so that policymakers can distinguish villages that rise in status through their own ability from villages that rise through a temporary injection (Ribeiro, 2023). Without that distinction, interventions will be systematically mistargeted.

The second implication concerns the sequence of intervention. Because the conversion chain is sequential, capacity strengthening should begin from the weakest gate in each village rather than from a uniform package for all villages. A uniform approach produces non-uniform results, as found in the study of smallholder resilience (Mardhatilla et al., 2026).

The third implication concerns sustainability. Capacity is not a status attained once and thereafter self-sustaining. It requires continuous maintenance, and evidence from villages that have succeeded in holding self-reliant status shows that citizen participation forms part of that maintenance (Siregar, 2023). Cadre formation, institutional documentation, and the renewal of village regulations are concrete forms of such maintenance, although the effectiveness of all three still awaits empirical testing. A change of village head that erases the entire institutional memory is the most expensive form of capacity loss.

The limitations of this article should be stated honestly. The five-dimensional framework is a hypothetical construction resulting from literature synthesis, not yet tested empirically on any population of villages. The weakest-link thesis demands testing with a design capable of detecting non-additive effects, for instance through configurational analysis or modelling with interaction terms. The Garut locus is treated illustratively, so generalisation to regions with a different economic structure requires adjustment. Finally, this synthesis rests on published literature, so successful but undocumented village practices are not captured in the analysis.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VIII August 2026

Table 2. Proposition matrix: capacity dimensions, mechanisms, and village economic outcomes

Proposition	Statement	Assumed mechanism
P1	The quality of village planning is positively related to the accuracy of spending allocation against local economic priorities.	Planning based on potential mapping reduces unproductive spending.
P2	Stratified citizen involvement in village deliberations strengthens the relationship between planning and economic outcomes.	Fuller local information produces more accurate priorities.
P3	The competence of village officials is positively related to programme realisation and speed of absorption.	Technical ability lowers administrative barriers and delays.
P4	A village head who distributes roles strengthens the effect of officials' competence on performance.	Distributing roles extends execution capacity beyond a single person.
P5	Actual transparency, rather than formal transparency, is negatively related to leakage of the village budget.	Information-based citizen oversight raises the cost of misconduct.
P6	High dependence on transfers is negatively related to village effort to raise own-source revenue.	Effort substitution: transfers displace the incentive to raise one's own revenue.
P7	The managerial readiness of BUM Desa managers moderates the relationship between capital injection and business unit performance.	Capital without managerial capability does not convert into surplus.
P8	An organised position in the value chain is positively related to the income of village farming households.	Aggregation raises bargaining power against buyers.
P9	Village social capital strengthens the durability of programme benefits after funding ends.	Trust lowers the cost of maintaining collective action.
P10	Digitalisation magnifies the effect of each capacity dimension, and magnifies the impact of its weaknesses.	Technology amplifies initial conditions rather than replacing them.

Source: author's own elaboration (2026)

CONCLUSION

This article set out from an anomaly familiar to anyone who works with villages: similar budgets producing different achievements. The answer offered is that village institutional capacity, rather than the size of resources, determines whether those resources are transformed into welfare.

That capacity is formulated into five interlocking dimensions: regulatory and planning capacity, which turns authority into accurate priorities; human resource and leadership capacity, which turns plans into action; fiscal and accountability capacity, which keeps spending directed and trusted; economic organisation capacity, which creates value added; and relational capacity and social capital, which make benefits endure. Digitalisation stands outside these five dimensions as a lever that magnifies whatever already exists, including magnifying weakness.

The principal conceptual contribution of this article is the weakest-link thesis, which rejects the additive assumption and replaces it with a sequential one. From that thesis flows a fairly radical policy consequence: the agenda of superior and self-reliant villages cannot be pursued by raising budgets evenly, but by identifying the weakest gate in each village and strengthening it first.

For an agrarian highland rural context such as Garut Regency, this framework directs attention to economic organisation capacity as the most decisive gate, given an economic structure resting on commodities in which farmers' bargaining position is weak. That assertion, however, is itself a proposition rather than a finding.

The most pressing agenda for further research is empirical testing of the five dimensions with instruments developed specifically for the village unit, together with testing of the weakest-link thesis using a design capable of distinguishing additive from sequential relationships. Until such testing is carried out, this framework is best treated as a working map rather than a conclusion.

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