



INSTITUTIONAL ROLE: POLICY BIAS TOWARDS VILLAGE DEVELOPMENT TRANSFORMATION

PERAN INSTITUSIONAL: BIAS KEBIJAKAN TERHADAP TRANSFORMASI PEMBANGUNAN DESA

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ABSTRACT

Decentralization has been a key element in regional development in Indonesia, with significant impacts on reducing economic and spatial disparities. While initial policies were more centered on the district/city level, the 2014 Village Law has shifted the paradigm by giving villages greater authority to manage their development. This study explores village-oriented institutional and policy changes and their impact on rural development transformation. Using a qualitative approach based on interview content and desk research, this study identifies three main themes: village authority and finance, national-regional strategic projects, and controlling agricultural land conversion. The analysis results show that pro-rural policies have increased village capacity through the Village Fund and strengthened community participation but also created dynamics of authority trade-offs with local governments. National strategic projects, especially infrastructure development, have improved connectivity and opened new economic opportunities for villages. However, major challenges remain in harmonizing spatial policies with agricultural land protection. This study concludes that pro-rural policies have accelerated sustainable rural development and promoted economic convergence between urban and rural areas. However, multi-level coordination is still needed to optimize their impact.

Keywords: Institutional, Decentralization, Rural Development, Local Institutions

ABSTRAK

Desentralisasi telah menjadi unsur kunci dalam pembangunan regional di Indonesia, dengan dampak signifikan dalam mengurangi ketimpangan ekonomi dan spasial. Meskipun kebijakan awal lebih berfokus pada tingkat kabupaten/kota, Undang-Undang Desa tahun 2014 telah mengubah paradigma dengan memberikan kewenangan yang lebih besar kepada desa untuk mengelola pembangunan mereka. Studi ini mengeksplorasi perubahan institusional dan kebijakan yang berorientasi pada desa serta dampaknya terhadap transformasi pembangunan pedesaan. Menggunakan pendekatan kualitatif berdasarkan wawancara dan desk research, studi ini mengidentifikasi tiga tema utama: kewenangan dan keuangan desa, proyek strategis nasional-regional, dan pengendalian konversi lahan pertanian. Hasil analisis menunjukkan bahwa kebijakan pro-pedesaan telah meningkatkan kapasitas desa melalui Dana Desa dan memperkuat partisipasi masyarakat, namun juga menciptakan dinamika pertukaran kewenangan dengan pemerintah daerah. Proyek strategis nasional, terutama pengembangan infrastruktur, telah meningkatkan konektivitas dan membuka peluang ekonomi baru bagi desa-desa. Namun, tantangan besar tetap ada dalam menyelaraskan kebijakan ruang dengan perlindungan lahan pertanian. Studi ini menyimpulkan bahwa kebijakan pro-pedesaan telah mempercepat pembangunan pedesaan yang berkelanjutan dan mempromosikan konvergensi ekonomi antara daerah perkotaan dan pedesaan. Namun, koordinasi multilevel masih diperlukan untuk mengoptimalkan dampaknya.

Kata Kunci: Institusional, Desentralisasi, Pembangunan Pedesaan, Lembaga Lokal

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1. INTRODUCTION

Decentralization policy is one of the crucial keys to initiating a change in the direction of national-regional development in Indonesia (Brodjonegoro, 2009; Holtzappel, 2010; Suharyo, 2009). During the two decades of decentralization implementation, much literature has related it to development and spatial inter-regional disparities but has not evaluated how decentralization's success in reducing inter-regional disparities and economic-spatial fragmentation between regions (Hill & Vidyattama, 2016; Irawan, 2015; Sang-Arun, 2013; Shah, 2003). Decentralization has a positive impact on reducing inter-regional disparities and inter-regional economic-spatial fragmentation (Talitha et al., 2020). In the context of Indonesia, Hill & Vidyatama (2016) found that the results of decentralization have different impacts on each regional location depending on the dynamics of each region, making it sensitive to geographic location. The income gap between regions is still a major issue in decentralization policy, especially in areas that have specific characteristics such as large cities or regions rich in natural resources, where the income gap is the highest (Aginta et al., 2023). However, the implications of decentralization policies are often seen from a macro perspective, while gaps that occur at the micro level in a regional context such as urban-rural areas receive less attention (Sutiyo & Maharjan, 2017).

In this study, an institution is defined from a New Institutional Economics (NIE) perspective as the formal rules (laws/regulations) and informal constraints (norms/traditions) (Prasetyo et al., 2020) that shape human, social, and economic interaction. The primary role of institutions is to provide the "rules of the game" that manage the "Golden Triangle" of NIE (Ménard., 2018) consists of: transactions, property/decision rights, and contracts. By defining these rights, institutions reduce transaction costs and uncertainty, serving as the framework within which actors navigate regional development.

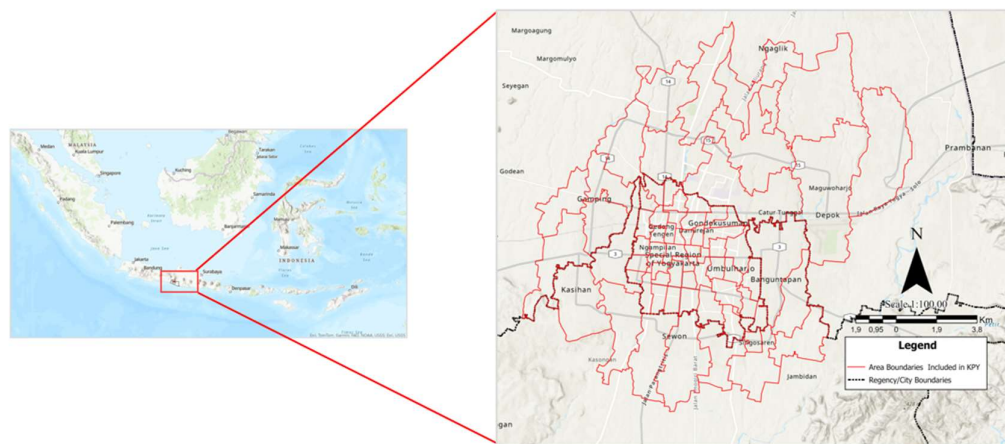
Historically, Law No. 5/1979 on village administration placed villages under the sub-district so that villages did not have independence in regional development. Villages were not given fiscal authority, making them "objects" of development in the constellation of Indonesia's regional development. As a result, villages become marginalized, poor, and less developed than urban areas, only receiving the impact of urban progress creating a large gap in income and development between urban and rural areas (Pranadji et al., 2021). Village development later became a focus in inter-regional development policies globally, such as in European Union countries (Andersson et al., 2017; Gren & Andersson, 2018; Rauhut & Humer, 2020) and China (C. Chen et al., 2018; Li, 2017; Shuqing, 2018; Ye et al., 2013).

In Indonesia, the enactment of Law No. 6 of 2014 concerning Villages (the Village Law) represents a manifestation of the "building from the periphery" strategy. This specific policy changed the "pendulum" of regional development from district-centered focus to local village development through the principles of recognition (honoring origins/traditions) and subsidiarity (local-scale decision making). Under this law, villages transitioned into a hybrid status: acting as both a *local-self-government* and a *self-governing community*. Several studies have linked these pro-village government policies to regional development (Abidin, 2015; Firdausy & Anjar, 2020; Mingkid et al., 2017; Priyarsono, 2017; Rusydi, 2012; Yudha et al., 2020; Zaman et al., 2020).

This study explores policy changes from a macro level (national-regional provincial, district/city) to a micro village-rural level. It defines village development transformation (or rural transformation) operationally as the shift from "building the village" (*membangun desa*)-where the village is a passive object-to "village-driven development" (*desa membangun*), where the village is an autonomous subject of development. By examining the institutional perspective and the role of local actors, the aim is to explain how policy encourages sustainable rural development and shapes the pattern of village-urban interaction. The resulting interaction is expected to create accelerated development and convergence between urban-rural areas.

2. DATA AND METHODS

This research explores rural-urban development transformation in the Special Region of Yogyakarta (DIY) through a qualitative approach. A qualitative study was selected because quantitative data at the village-rural level was insufficient to fully explain the nuances of policy impacts and institutional dynamics. DIY was chosen as the study site because of its unique institutional status under Law No. 13/2012 regarding the Special Region of Yogyakarta. This "Privilege Law" grants the region special authority and funding (Danais) to accelerate rural development and reduce spatial gaps, providing a complex "meso-institutional" layer not found in other provinces. Furthermore, the rapid expansion of the Yogyakarta Urban Area (KPY) offers a critical setting to observe intense institutional interactions between villages and the urban core.



Sources: Processed by the Author

Figure 1. Maps of Yogyakarta Urban Area (KPY)

The dynamics of development policies at the national and regional levels are analyzed through a framework of key regulations, including:

- National Level: Law No. 6/2014 (Village Law), Law No. 23/2014 (Local Government), PP No. 60/2014 (Village Funds), and Law No. 41/2009 (Protection of Sustainable Food Agricultural Land/PLP2B).
- Regional Level: DIY Regional Regulation No. 10/2011 (revised in 2021/2022) regarding agricultural land protection.

The research triangulates these policy findings through in-depth interviews with various stakeholders across multiple institutional levels to capture the perspectives. The study draws data from eight villages: four villages within the Yogyakarta Urban Area (KPY) in Bantul and Sleman Regencies, and four non-KPY villages that retain a significant agricultural economic base. These villages represent the diverse geographic, community, and socio-economic potential of DIY. Comparison between these locations facilitates an analysis of how different governance settings affect the extent of rural development (Georgios et al., 2021). The study involved a total of 46 participants, purposively selected to represent various levels of the institutional hierarchy. This sample includes 32 participants representing village-level government official and community leader(K) across the eight selected villages. The remaining 14 participants consist of 'upper-level' government officials from the regency (PK) and provincial (PD) levels, management members of the Kartomantul joint secretariat, policy innovator and experts (IN). To maintain analytical clarity, participants are coded as:

Table 1. Source Code

Code	Meaning as
IN	Policy Innovators and Experts
K	Village-Level government officials and community leader
PK	Regency-level officials
PD	Provincial-level officials

Interview data were processed using NVivo 20 software to identify dominant narrative. This analysis identified two primary pro-rural policy domains, categorized to reflect the essential pillars of rural transformation. Each theme was constructed to represent specific policy dimensions observed to drive rural transformation throughout the study. These domains are:

1. Authority and Finance
 Represents the internal engine of transformation mandated by Law No. 6/2014. The principles of recognition (acknowledging village origins) and subsidiarity (local decision-making) are only operationalized if villages possess the legal authority to govern and the fiscal capacity—provided via Village Funds (Dana Desa)—to execute those decisions. Without this domain, village autonomy remains purely theoretical.

2. National/Regional Strategic Projects and Land Conversion
 Stems from the national "Building from the Periphery" strategy. Large-scale infrastructure projects (toll roads, airports, and ports) act as the primary external catalysts for village progress by facilitating connectivity, mobility, and market access. This domain is essential for understanding how villages are integrated into the broader regional economy. The theme land conversion represents the critical "guardrail" and inherent conflict within pro-rural policy. While the first two domains drive growth, the mandatory national policy of Sustainable Food Agricultural Land Protection (PLP2B) acts as a necessary constraint to preserve the village's traditional economic base and ensure food security. Categorizing this separately allows the study to analyze the dilemma between rapid infrastructure-led development and sustainable rural preservation.

These themes describe the policy dimensions related to rural development under the assumption that other dimensions remain constant (*Ceteris Paribus*).

3. RESULT AND DISCUSSION

3.1 Pro-Rural Policy

The 2014 Village Law recognizes villages as autonomous units of government with broad authority, including in financial management, as strengthened by Law No. 23 of 2014. Villages have two main functions: local-self-government and self-governing community, which allow for regional regulation, development, and community participation (Seftyono et al., 2018; Eko, 2014; Richard Timotius, 2018; Vel et al., 2017). Village funds as intergovernmental transfers are regulated in Government Regulation No. 60 of 2014. Priyarsono (2017) emphasized that the development strategy from the periphery in Indonesia is asymmetrical, different from regional development in Europe (Melloni et al., 2011; Thomas, 2013) and China (Bhattacharya, 2016). This strategy adjusts the characteristics and local wisdom of each region, such as rural areas, disadvantaged areas, and borders, within the framework of a unitary state (Ministry of National Development Planning/Bappenas, 2019). This concept was first included in the 2014 Presidential Nawacita and became the basis of the 2015-2019 RPJMN.

The 2014 Village Law reflects a development strategy from the periphery, which aims to increase economic activity in rural areas through the development of massive infrastructure (roads, toll roads, ports, airports) to support connectivity between regions (Priyarsono, 2017; Yudhistira & Sofiyandi, 2018). This

connectivity accelerates mobility and accessibility, blurring urban-rural boundaries and creating more integrated spaces (López-Goyburu & García-Montero, 2018). Mobility is related to travel efficiency, while accessibility includes ease of access to location and transportation costs (Stępnia & Rosik, 2018). The proximity factor makes rural people prefer to live in villages close to cities, to improve access to markets, health services, and education (L. Zhang et al., 2019; Berdegué & Soloaga, 2018). Rural development policies in strategic national programs, such as infrastructure, health, and local economy, have an impact on local regulations to reduce the negative effects of urban development (Andersson et al., 2017). Although urbanization has a negative impact, it also has a positive impact on rural areas (Berdegué & Soloaga, 2018; A. Chen & Partridge, 2013; Chiang, 2018; Ganning et al., 2013; Partridge et al., 2007) through increased income, population growth (urbanization-migration) which leads to landscape change and land use in rural areas (Devi et al., 2020; Shukla & Jain, 2019; Zeng et al., 2018).

a. Authority and Finance

Several participants responded to the impact of pro-rural policies on local governments, especially villages. Based on experience, they feel that the village authority has changed more due to the focus on village development. Almost all participants understood this increase in authority, including the financial aspects in accordance with the Village Law. as expressed by one of the participants:

"The Village Law encourages various breakthroughs in the village development model because the authority possessed by the village is wider as a form of the principle of recognition and subsidiarity. The form of local authority at the village scale is not only interpreted in the form of providing Village Funds but also in the form of respect and recognition of the position of the village. Villages may carry out various programs/activities as a form of local authority on a village scale with the condition that it is then stipulated in the Perdes." (IN.1)

According to some participants, village autonomy provides freedom for villages to regulate their areas, catch up with other regions, and create equitable development and gradually reduce gaps between regions. The delegation of authority from the local government increases the supervisory function, making the local government more active in going down to the village to supervise development programs. The interaction between the district and village governments is getting better, although for areas with many villages, coordination is a challenge, and there is a dynamic of tug-of-war between districts and villages. The change in the authority of the village heads from regional heads to heads of offices has an impact on village financial management, which is now more structured and controlled according to standard rules. This delegation of authority was followed by increasing village financial capacity, especially through assistance from the central government in the form of intergovernmental transfer funds. Village autonomy is in line with the theory of equitable distribution of regional development which aims to improve community welfare and more equitable income distribution (Todaro & Smith, 2015).

The implementation of the Village Law changes the power relationship at the village level, but the inter-bureaucratic norms in this Law still need to be clarified (Vel et al., 2017), causing a tug-of-war between provincial, district, and village governments. The Village Law has not fully regulated the mechanism for complaints and sanctions for the failure of village development. Currently, the main sanction for villages that do not report development according to the provisions is the delay in disbursing Village Funds as intergovernmental transfer funds from the central government (Vel et al., 2017). The change in financial authority is then described in the sub-theme of changes in planning and budgeting, community participation, transfer of financial assistance and Yogyakarta's privileges.

Planning and Budgeting Changes

Many participants assessed those pro-rural policies had a significant impact on village planning and budgeting. The district government starts planning from the bottom up through musrenbang and the

Community Participation Proposal Ceiling (PUPM), which is made in the sub-district platform with various variables. Community proposals are submitted from the village level (bottom-up) with the involvement of the Village/Village Representative Body. Participants in villages generally see that planning is now more structured, democratic, and transparent. The district government accommodates village proposals according to regional development priorities and village potential. Some regions also use consultants and Activity Implementation Teams (TPK), which involve community leaders for the sake of openness in planning. The bottom-up approach is considered more effective because it increases community participation, in line with the opinion that top-down policies in rural development need the support of local actors to reduce resistance (Delphine et al., 2022; Long et al., 2012). Harmonization between bottom-up and top-down approaches in planning and budgeting is still needed to achieve optimal alignment (Butler et al., 2015; Delphine et al., 2022; Long et al., 2012). The formal planning and budgeting mechanism through Musrenbang (top-down) runs side by side with the tradition of community participation based on local cultural wisdom (Rembug Warga). Top-down and bottom-up relationship harmony can be achieved if it is based on pre-existing substantive beliefs and rationality (Jayasinghe et al., 2020).

The use of the Village Information System (SID) at the village level and the Regional Development Information System (SIPD) at the district/city-provincial level makes development planning more organized (Hafsari et al., 2020). Although many local governments have implemented e-planning, e-budgeting is still not common, especially in villages, even though both improve government performance and accountability (Gamayuni & Hendrawaty, 2020). The pandemic has accelerated the digitalization of planning at all levels (Laksana, 2021), and several villages in Bantul have initiated online musrenbangdus to increase participation and openness in development planning. Several participants in KPY area management in Bantul (Panggungharjo) and Sleman (Condongcatur) said that in addition to using SID, they also used social media such as websites, Facebook, Instagram, and WhatsApp groups to disseminate development information widely and transparently. This innovation arises due to the limitations of public services compared to the number of communities that must be served, as well as the increasing demand for community involvement and the use of digital technology as a more effective form of governance (Fung, 2015). Budgeting planning now increasingly considers spatial aspects, adjusting the needs, issues, and potentials of each region to the surrounding environment (Beynon et al., 2016; Divigalpitiya & Nurul Handayani, 2015; Giyarsih, 2017; Land and Spatial Planning Office DIY, 2017; Wong et al., 2015).

Village budgeting is now larger through the APBDes thanks to the Village Fund (DD) and the Village Fund Allocation (ADD), different from before. Assistance from the central government, ministries, non-ministries, regional OPDs, and the DPRD also strengthened funding. The APBDes no longer depend only on the village's original income, while the submission process is more transparent, open, and democratic. A village's financial capacity varies based on its ability to absorb aid and develop income. Significant differences occurred between KPY and non-KPY areas, as well as between KPYs in Bantul and Sleman.

Table 2. Village Revenue

Village Revenue (Billion Rp)			
KPY Village	2017	2025	Growth (%)
Banguntapan	4.8	9.3	93
Panggungharjo	4.3	7.7	79
Condongcatur	5.4	11.4	111
Sidoarum	3.1	4.3	38
Non-KPY Villages			
Pleret	2.5	6.2	148
Pendowoharjo	3.3	5.7	72
Donoharjo	3.4	4	17
Sumbersari	3.5 (2019)	4.9	40

Source: APBDes of the village concerned and calculated by the author

Based on APBDes data, KPY Village in Bantul since 2017 has reached more than 4 billion and in the same location as KPY villages which are directly adjacent to Yogyakarta City in the west (Panggunharjo) and in the east (Banguntapan). A different situation was experienced by Sleman, it turned out that KPY in the north of the city of Yogyakarta (Condongcatur) developed more rapidly than in the west (Sidoarum). The income of non-KPY villages in Bantul increased by more than 50% when viewed at two points in 2017 and 2025, even Pleret Village, which in 2017 only recorded 2.5 billion to 6.2 billion (2025) or a 148% increase over 8 years. However, the opposite condition occurs in the non-KPY village area in Sleman which is no more than 50% increase. Note, Summersari village income data only refers to 2019 and 2025. Financial capacity is increasing to accelerate village development, especially for villages that can develop their local original income with various innovations.

"Development has started to run well until the Padukuhan because after 2015 there are more and larger sources of funds (transfer funds) such as ADD, tax revenue sharing and BKK (Special Financial Assistance) from the Regency/Province. If there are no village funds, it is impossible for development in rural areas to be as rapid as it is now, if you only rely on the original income of the village, which is not much compared to the demands of the increasing needs (K1.1) Rapid village development, especially villages that are good at looking for PAD, for example, Panggunharjo village, PAD in 2020 is above 1 billion because there is a lot of village treasury land that can be used, whether it is rented, built-rented, for example, to make shophouses and then rented." (K2.1)

The management of Village Funds must pay attention to the sustainability of local resources and the development of the village economy (Yudha et al., 2018). Village expenditure through the APBDes, especially the Village Fund, needs to balance top-down priorities with the needs and capacity of village communities in decision-making (bottom-up) (Bonfiglio et al., 2017). Broad authority in financial management provides opportunities for villages to innovate in improving PAD, both through asset management (Raharjo et al., 2021) and optimization of BUMDes (Pratono et al., 2021).

Community Participation

This study found that community participation in the preparation and implementation of village development budgeting planning while community participation in development supervision is not known for certain. Community participation in development planning improves quality, innovation, and socio-economic solutions, as well as strengthens government accountability (Indonesian Ministry of Home Affairs, 2022). Since Law No. 6 of 2014, village deliberations have become the main means of participation, although they still face challenges related to consensus, public trust, and proposal capacity (Fung, 2015; Jayasinghe et al., 2020). KPY area managers encourage participation as social capital, although social capacity does not always contribute directly (Seftyono et al., 2018; Westlund, 2014)

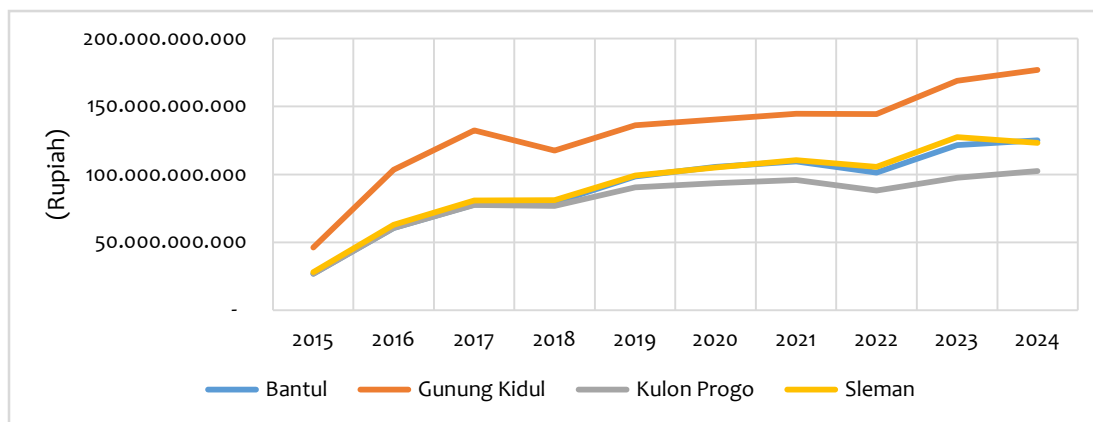
Inclusive rural development increasingly pays attention to gender issues (Hajdarowicz, 2022), the younger generation (Freeman & Aitken-Rose, 2005), and the involvement of the disabled (Shahraki, 2020), such as in Desa Condong Catur. However, the younger generation often faces obstacles in planning, especially for those who are less educated or come from economically weak groups (Severcan, 2015). Several developed villages have used social media to expand community participation, both in the form of proposals and financial support. Although internet adoption in Indonesia is higher in urban areas than in rural areas (APJII, 2019), DI Yogyakarta shows a high level of social media use for public services (APJII, 2022). Participation in development is influenced by IT literacy, with regions with high ICT adoption more advanced (Rumata & Sakinah, 2020). However, limited infrastructure and digital literacy still hinder the use of technology in villages. In online deliberations, community leaders are more dominant in urban areas, while villages are still influenced by "village elites," especially in communities with homogeneous social structures or not yet strong planning institutions.

Community participation in the form of manpower and materials remains crucial in development, although financial contributions decrease as the village's financial capacity increases thanks to government assistance. Community involvement not only supports development but also increases rural income. However, challenges remain, such as the lack of systematic leaders, the difficulty of reaching agreements, and the limited scope of participatory innovation (Fung, 2015) The results of the in-dept interview found the importance of the role of leaders in mobilizing community participation as social capital (Seftyono et al., 2018) in development and decision-making/policy (Keefer, 2018; Sutiyo & Maharjan, 2017) as a form of conflict management between communities, especially in community participation or collective action.

Financial Aid Transfer and Privilage Fund

In addition to the village's original income and other income, villages receive financial assistance transfers from the government, both central-provincial-regency, through an intergovernmental transfer scheme. The Special Region of Yogyakarta has special funding for the Special Fund which is obtained based on regional privileges. Transfer income consists of Village Funds (DD), Tax Revenue Sharing and Regional Levies, Village Fund Allocation (ADD), and Financial Assistance from the Regency. Village funds come from the State Budget while others come from the Regency Budget. Village funds are prioritized for the development and improvement of basic infrastructure, especially for villages that still lack basic infrastructure such as roads. The priority of using Village Funds is regulated in the Regulation of the Minister of Villages PDDT every year before the next fiscal year runs. The Amount (ADD) is regulated in PP 47 of 2015 as a regulation for the implementation of the Village Law of at least 10% of the Balance Fund received by the APBD (district) after deducting the Special Allocation Fund.

The following is a figure 2 of the development of the DIY Village Fund (Bantul, Sleman, Gunung Kidul and Kulon Progo) in 2015-2024.



Source: <https://djpk.kemenkeu.go.id> (Processed and accessed, May 2025)

Figure. 2 Village Fund DIY 2015-2024

Table 3 presents the proportions of KPY and non-KPY Village Budgets for the year 2025

APBDes	Proportion of the APBDes (%)			
	KPY Village			
	Banguntapan	Panggunharjo	Condongcatur	Sidoarum
Village Original Income	29	13.7	19.6	4.6
Transfer Income	70.9	86.1	77.6	95.3

APBDes	Proportion of the APBDes (%)			
	KPY Village			
	Banguntapan	Panggunharjo	Condongcatur	Sidoarum
Village Fund	41.1	37.5	31.5	41.4
Proceeds Share Fund	22.7	10.1	22.5	19.6
Village Fund Allocation	23.2	25.2	22.3	30
Provincial Financial Assistance	1.5	15.0	1.1	2.5
BK Kabupaten	11.5	12.2	22.5	6.5
Miscellaneous Income	0.2	0.3	0.3	0.1

APBDes	Proportion of the APBDes (%)			
	Non-KPY Villages			
	Pleret	Pendowoharjo	Donoharjo	Sumbersari
Village Original Income	7.5	6.7	1.5	2.6
Transfer Income	92.4	93.1	98.5	97.2
Village Fund	27.7		35.8	30.8
Proceeds Share Fund	7.5		18.2	14
Village Fund Allocation	23.7		37.1	27.5
Provincial Financial Assistance	18.6		8.9	2.1
District Financial Assistance	22.6			25.6
Miscellaneous Income	0.14	0.2	0.7	0.14

Source: Website of each village and original documents of the village

Table 3 shows that the proportion of village income obtained from transfers is very large compared to the original income of the village and other incomes. The transfer income of non-KPY villages is even more than 90% of the total income and in this study, it was found that there is one KPY village in Sleman (the western part), namely Sidorarum Village, which is in an anomalous condition because it is almost the same as non-KPY villages in terms of the proportion of transfer income. The large proportion of transfer funds received from the central/regional government makes the APBDes highly dependent on the fiscal capacity of the central/regional government. This heavy reliance on intergovernmental transfer over independent village original income (PAD) mirrors broader trends in rural development capacity observed in neighboring regions like Central Java (Sofianto et al., 2024), highlighting a universal challenge in achieving true fiscal autonomy at the village level.

The financial assistance that is now widely given to villages provides its own opportunities and challenges for villages. Fiscally, many villages rely on financial assistance from the government so that they have a high dependence on the government. Villages with characteristics like this show a tendency to be unable to innovate to find alternative sources of PAD. One of the social impacts felt due to the large amount of financial assistance in the village socially is the reduction of "gotong royong" activities even though gotong royong is one of the unique/distinctive social capital for the Indonesian people, especially in rural areas (Bowen, 1986; Suwignyo, 2019; Winardi, 2020).

Since the enactment of Law No. 13 of 2012 concerning the Privileges of Yogyakarta, the province has obtained special authority in governance, culture, land, and spatial planning, which is strengthened by the Privileges Fund (Danais). The funds are used not only for the five main authorities but also to support national programs, such as education and health. The institutional strengthening of cultural villages is part of the privilege policy, with 56 cultural villages developed through various regulations, including the

Yogyakarta Governor's Regulation related to Cultural Independent Villages that allow villages to receive Danais for cultural-based economic development, such as tourist villages or preneur villages.

The rural development approach is changing from top to bottom to community-based, encouraging villages to become more autonomous with active community participation. The implementation of the 1999 Regional Autonomy Law and the 2014 Village Law accelerated village development, but also created a dynamic of authority between provinces, districts, and villages. Districts lose direct links with villagers, while villages gain greater authority in governance and finance. The privilege of DIY provides additional advantages for villages through Danais, which can be used to reduce gaps between regions and accelerate rural development, although it still faces challenges in coordination and implementation.

b. National-Regional Strategic Projects and Land Conversion Control

Inter-regional connectivity is a key element in rural development policies, especially through investment in transportation infrastructure such as toll roads, underpasses, ports, and airports. Efficient infrastructure not only reduces the isolation of rural areas but also encourages economic growth, commuting activity, and urbanization (Salim & Negara, 2018; Bosker et al., 2018; Jain et al., 2018; Rustiadi et al., 2021). The Government of Indonesia has made infrastructure development a priority strategy to reduce poverty and disparities between regions, as stated in the RPJMN and RPJMD. However, limited resources and capacity demand selectivity in determining strategic projects that must be integrated with the Spatial Plan at various levels, including villages.

The impact of infrastructure development can also be seen in changes in land use patterns, where peri-urban areas are transformed into new growth centers due to agricultural land conversion. Although toll road construction is managed by the central government, local road projects triggered by the existence of toll roads also affect the distribution of housing and the population that takes up productive rice fields (Rondhi et al., 2018). Furthermore, the disparity in land rent values between commercial developments and agriculture continuously drives this conversion in peri-urban fringes, threatening the long-term sustainability of rice fields (Nafi & Basuki, 2019). The Village Law and Village Fund provide opportunities for villages to build local infrastructure such as village roads and other public facilities, but these policies must consider the sustainability of rural economies that are still based on agriculture, especially for farmers who are vulnerable to structural changes due to regional development.

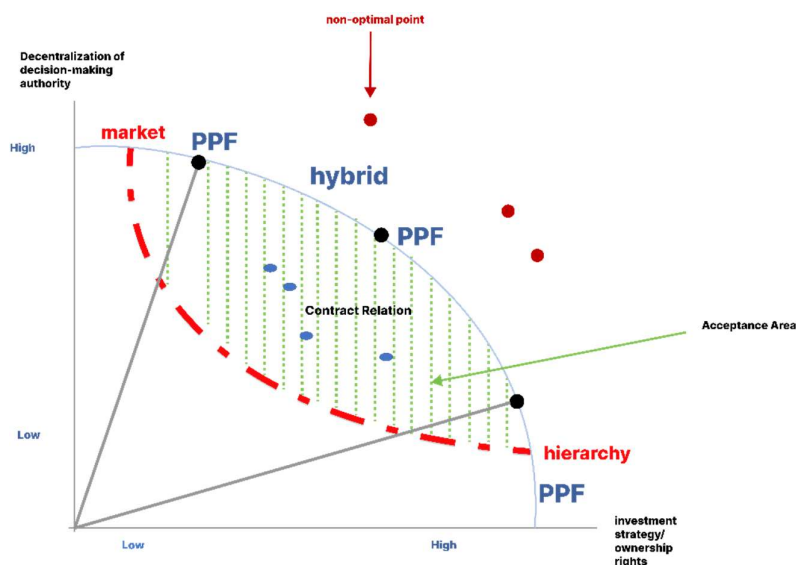
The consequence of development in development projects is a change in land function in the village. The issue of land conversion has made the central government stipulate the protection of agricultural land or what is often referred to as PLP2B based on Government Regulation No. 11 of 2011. In Yogyakarta, it is translated in the form of DIY Regional Regulation No. 10 of 2022 and revised through the 2021 Raperda. One of the consequences is that there have been many changes in the function of agricultural land to non-agricultural land in Yogyakarta (Devi et al., 2020; Divigalpitiya & Nurul Handayani, 2015) for massive development causes a decrease in environmental quality (Shukla & Jain, 2019), changes in the economic structure of rural communities from agriculture to non-agriculture and increase in land prices (Pratomo et al., 2020). The conversion of agricultural land to non-agricultural land has an impact on the surrounding area in the form of population growth, encouraging land conversion (Haarsma & Qiu, 2017) and cause land use change (Ustaoglu & Williams, 2017).

Land conversion is usually a concern because it is related to the issue of food security, therefore the Government of Indonesia has established the Sustainable Food Agricultural Land Protection (PLP2B) policy and Law No. 41 of 2009 as a legal basis to control the conversion of agricultural land, protect food agricultural land so that farmers are entitled to receive government assistance in the form of incentives to ensure that their agricultural land does not change its function. This policy was then downgraded into several Government Regulations (Government Regulation No. 1 of 2011, Government Regulation No. 12 of 2012, Government Regulation No. 25 of 2012 and Government Regulation No. 30 of 2012) at the national level and translated to the regions in the form of Regional Regulations such as DIY Regional Regulation No. 10 of 2011. National strategic projects and PLP2B are *mandatory* from the central government. The LP2B policy is

still a dilemma for local governments rather than a solution (Anggalini et al., 2020; Rokhmah, 2012; Rusono et al., 2015). This dilemma is not unique to DIY, similar institutional challenges regarding spatial planning and the enforcement of agricultural land protection have been observed in other rapidly developing regions, complicating local governance (Pratomo & Wijayanti, 2023) The key is the coordination of the DIY-Regency/City-Village, RTRW, and the National Strategic Project. Although there are still shortcomings, PLP2B is one of Indonesia's pro-rural policies related to the protection of agricultural land as one of the economic activities of rural communities.

3.2 Meso Institutions of Rural Development

The New Institutional Economics (NIE) paradigm offers both micro and macro-level analysis by examining institutional arrangements, ownership rights, transaction costs, and institutional change (Musole, 2009). Microanalysis focuses on transactions at the organizational level (Coase, Williamson), while macroanalysis addresses political, legal, and administrative aspects of institutions (North, Ostrom). NIE's hybrid approach explains the diversity of organizational arrangements between markets and hierarchies, influencing theory and policy. Ménard (2018b) applies the production possibility frontier (PPF) concept to describe the optimal balance between market structures and hierarchical control. Under high uncertainty, organizations struggle to maintain transactions above this optimal curve, necessitating decentralization of decision rights and ownership to achieve ideal organizational zones. In Indonesia, this is reflected in the decentralization of authority to regions and villages under the central government framework. Law No. 6 of 2014 embodies this hybrid institutional arrangement through the principles of recognition and subsidiarity, acknowledging village diversity and reinforcing the manager's role in shaping economic outcomes (Ménard, 2018b).



Source: Ménard (2018b)

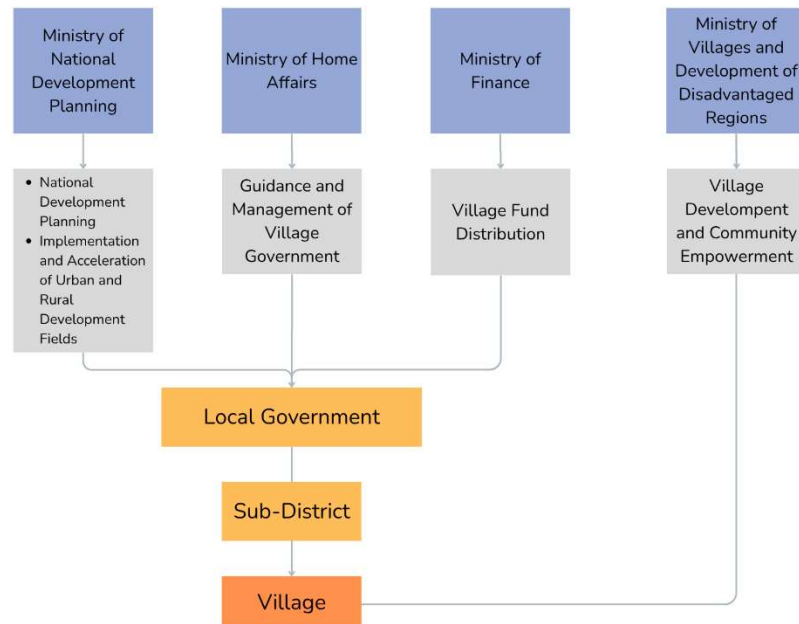
Figure 3. Concept of Diversity of Settings

Institutions in NIE are structured across macro, meso, and micro levels (Ménard, 2017, 2018a). Macro institutions define overarching rules, authority, and financial frameworks, yet often face implementation gaps. Meso institutions bridge macro rules with local norms through political, judicial, and administrative systems, varying by region and country (e.g., American states, EU). Micro institutions operate at the organizational level but often encounter misalignments with broader rules or technologies. In Indonesia's regional development context, NIE contributes to reducing rural inequality by promoting inclusive growth (Prasetyo et al., 2020). Law No. 6 of 2014 emphasizes subsidiarity, and identifying macro, meso, and micro

institutions helps assess alignment between national policies and village-level implementation. Since 2014, facilitation institutions have emerged to support village development, with meso institutions acting as intermediaries between policy and practice, empowering villages and communities as key development agents.

The village government is under the district decentralization system with a mandate from the Ministry of Home Affairs, especially the Directorate General of Regional Government Development (Presidential Decree No. 11 of 2015). In the same year, the government established Presidential Regulation No. 12 of 2015 concerning the Ministry of Villages and Rural Development, which is tasked with village development, community empowerment, acceleration of development of disadvantaged areas, and transmigration. Based on Presidential Regulation No. 12 of 2015, there are two Directorates General that take care of community empowerment and rural area development, which in 2020 were merged into the Directorate General of Village and Rural Development in accordance with the SOTK of the Ministry of Rural Development (Permendes PDDT No. 15 of 2020).

Financing for the acceleration of village development through Village Funds is regulated in Government Regulation No. 60 of 2014, sourced from The State Revenue And Expenditure Budget (APBN) with the financial support of the Ministry of Finance. Meso institutions are technically supported by ministries, non-ministerial institutions, and Regional Apparatus Organizations at the local government level.



Source: Processed by the Author from various sources

Figure 4. Summary of Meso Institutions

At the regional level, the implication of the Village Law is that districts and sub-districts have an important role in supervising and supporting village governments. At the local government level (Province/Regency), the institutions that play a general role are the Village Community Empowerment Office (village community empowerment), the Asset and Regional Finance Agency (Village Fund), the Inspectorate and Bappeda (development planning). At the sub-district level, the Village Government Technical Supervisor (PTPD) is also important to bridge the gap between the policies of the regional and village centers in the form of supervision and assisting village officials in their duties in the field of government and community service administration (capacity building of village apparatus).

3.3 Local/Village Institutional Changes and Interregional Coordination/Cooperation

Policy changes from centralization to decentralization, which began with the Decentralization Law of 1999 and strengthened by the Village Law of 2014, have transformed governance at various levels (Hariyati et al., 2021; Yasin et al., 2014). Law No. 22 of 1999 gives villages the authority to regulate their own government, but the relationship with the district/city government is still unclear. Law No. 32 of 2004 places villages as part of local government and implements uniform financial management standards, triggering debates related to village position and governance due to the existence of two implementing institutions at the village level: village government and local government (Yasin et al., 2015)

The ambiguity in the status of villages in Law No. 32 of 2004 continues because villages are not recognized as legal subjects by the central government, only as part of the district/city government. This causes various ministries to have village-based programs that are more development-oriented than strengthening village institutions. The 2014 Village Law strengthens village autonomy through the principle of recognition and subsidiarity, allowing villages to manage finances, government, and development independently with community participation. Villages now function as hybrid governments that combine the roles of government and community, continuing the tradition of community-based development previously supported by national programs such as PNPM and PAMSIMAS.

The new model of village development emphasizes quality growth, community participation, and strengthening local institutions to increase social resilience. The decentralization policy, which was strengthened by Law No. 6 of 2014, plays a role in increasing village independence in governance and decision-making. Now the village has authority in general elections, employee recruitment, the formation of institutions, the preparation of RPJMdes and APBdes, as well as the management of BUMDes which strengthens the role of villages in locally based development (Vel et al., 2017). This pro-rural policy has direct and indirect implications for village institutional change, especially in strengthening and forming local institutions such as BUMDes. Villages that do not have BUMDes are now encouraged to form them, while villages that already have BUMDes experience increased flexibility and a stronger position. As the only village economic institution that receives Village Funds, BUMDes now receives special treatment to support village economic independence.

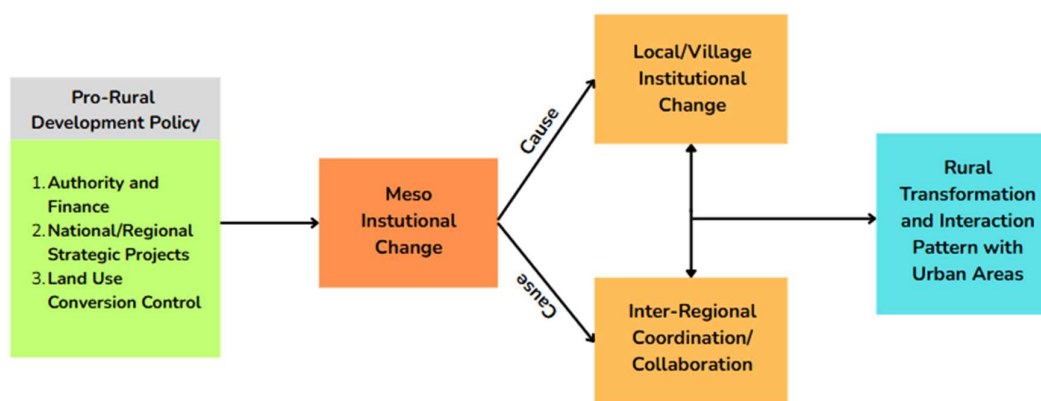
Village institutions receive funds from the APBDes, therefore they must coordinate with the village government. Some examples of village institutions that have appeared in several villages are as follows:

"In Panggungharjo, BAPELJPS takes care of economically vulnerable communities, [including] those who may be chronically ill, children who drop out of school due to financial constraints, and pregnant women who lack funds for childbirth. There is also the Bumi Panggungharjo institution, [which handles] cooperation regarding DIY's special autonomy affairs. So, new institutions have appeared here, [such as] the Children's Forum to take care of children, and a Village Mediation Institute (LMD) specifically to solve community problems, [where] most of the issues are inheritance disputes" (K2.1). In Banguntapan, many activities of village institutions [such as LPMD- Village Community Empowerment Institution and PKK-Family Welfare Movement] are funded by the APBDes; therefore, these institutions must consistently coordinate with the village government"(K2.2)

Villages and their institutions have become increasingly adaptive, responsive, and innovative in addressing the Covid-19 pandemic, as seen in the establishment of Disaster Risk Reduction Forums (FPRB) in nearly all villages in Bantul. Since the enactment of the 2014 Village Law, numerous innovations have emerged, such as in Panggungharjo Village, which introduced a Village Market to stabilize supply chains and promote food education, alongside the formation of a Village Innovation System Processing Institute to manage village data systems.

Coordination and cooperation between regions are increasingly vital due to urban-rural disparities influenced by economic factors, urbanization, central policies, bottom-up initiatives, and local human

development (C. Chen et al., 2018). The absence of adequate compensation for rural areas exacerbates poverty and environmental degradation, requiring balanced status and market mechanisms for sustainable collaboration (Ji et al., 2019). Urbanization has blurred rural-urban boundaries (Ye et al., 2013), making coordination essential. Enhanced village authority post-2014 has fostered interregional cooperation, particularly in spatial development, economic activities (e.g., tourism villages, BUMDes), and environmental management across administrative borders (e.g., rivers, waste, and shared infrastructure), further supported by joint governance initiatives (Secretariat of the DIY DPRD, 2017).



Source: Processed by the Author

Figure 5. Pro-Rural Development Policy in the Process of Rural Transformation and Its Interaction with Urban

Figure 5 is the framework of the findings in this study related to the role of pro-rural development policies on rural transformation and its interaction patterns with cities. The central government's pro-rural development policy, which is then translated at the regional and local scale of villages, encourages the change of local/village institutions that are more *hybrid* between bureaucracy-markets and coordination/cooperation between regions including between villages, cities and third parties in various matters such as socio-economic, tourism, and environment. This mechanism is through the *channel* of institutional change at the meso level related to rural development. Rural transformation can be seen from the number and percentage of poor people in rural areas and the Village Development Index, where the Village Law shows its effectiveness in encouraging regional independence and development.

Table 4. Rural Transformation

Rural Transformation	2015	2019	2024 (sept)
Number of Rural Poor	17.89 million	15.15 million	13.01 million
% Rural Poor Population	14,09%	12,85%	11,34%
Rural Development Index	2015	2019	2024
Independent	173	840	17.206
Advance	3.576	8.647	23.083
Developed	22.522	38.185	28.742
Underdeveloped	32.256	17.626	6.798
Very Underdeveloped	9.059	3.536	3.920

Source: Ministry of Villages and Central Statistics Agency

4. CONCLUSION

Based on the qualitative analysis of the content of interviews and literature studies on how the role of policy in encouraging the transformation of sustainable village development and shaping the pattern of village-city interaction, it can be concluded that the pro-rural policy carried out by the central government began with the enactment of Law No. 6 of 2014 concerning Villages which gave great authority to villages accompanied by various financial assistance brought major changes to the rural development. The financial capacity of the village is getting bigger. KPY village areas have more ability to innovate, including in exercising their authority and developing village income through village institutions so that they are relatively more advanced than non-KPY villages. National-regional strategic project policies related to improving connectivity between regions and developing strategic areas also accelerate the progress of village independence and strengthening the local economy through villages becoming more advanced and empowered when viewed from indicators of the number and percentage of poor population and the development of IMD. It was found that there was a conflict between policies related to national strategic projects and the control of land use transfer according to spatial planning so that there was a dilemma at the implementation level at the regional and village levels.

This pro-rural policy encourages changes in meso institutions in rural development which results in a change in local/village institutions that are more *hybrid* (bureaucratic market) and coordination/cooperation between regions. This causes interaction between villages and urban areas that is increasingly unavoidable. Preliminary results from this study suggest that the pattern of rural-urban interaction that is formed creates a more sustainable acceleration of development in villages and convergence between urban-rural areas, although this requires further studies to prove this.

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