



The Role of Village Banks In Reducing Poverty In Sengguruh Village, Kepanjen District, Malang Regency

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Abstract

This study aims to describe the role of Village Banks in reducing poverty and increasing community income in Sengguruh Village, Kepanjen District, Malang Regency. Using a descriptive qualitative approach, data were collected through interviews, observations, and documentation of Village Bank customers and managers. The results indicate that Village Banks facilitate access to business financing, encourage increased income, and foster more independent financial behavior. Convenient services, low interest rates, and a family-like approach make Village Banks a more humane financing alternative compared to informal institutions. Despite facing limited capital and low financial literacy, Village Banks continue to play a strategic role in empowering the rural economy.

Keyword: Village Bank, Poverty, Community Income, Village Communities.

1. Introduction

Poverty can be defined as a condition where a person experiences difficulty meeting their own basic needs, including food, clothing, and shelter (MacPherson & Silburn, 2002). This condition is usually caused by low income (Izzati & Indrawati, 2021). Poverty is a major development challenge in Indonesia, recurring in various regions, especially in rural areas. This problem requires special attention because it often creates socio-economic barriers. Poverty remains prevalent.

Rural communities face diverse and complex challenges. In addition to economic issues, high poverty rates, high unemployment, low levels of education, and a lack of understanding of financial management also hinder people from taking advantage of available opportunities. Furthermore, social stigma and dependence on government assistance often dampen individuals' motivation to become entrepreneurs. Therefore, a comprehensive and sustainable approach is needed to reduce poverty in rural areas, including providing easily accessible financial services to the community (Abramova et al., 2021; Jain et al., 2024).

Sengguruh Village is a village in the Kepanjen District, Malang Regency. Like many other villages in Indonesia, Sengguruh Village faces serious challenges in terms of poverty and unemployment. Rural communities often rely on agriculture and small businesses, which are vulnerable to price fluctuations and climate change. According to the Central Statistics Agency (2024), poverty rates in rural areas, particularly in Malang Regency, have begun to decline, although not significantly.

Sengguruh Village, located in the buffer zone surrounding the capital of Malang Regency, also faces poverty issues. Data from village officials and field observations indicate that several families remain trapped in poverty. Due to their poverty, they have limited access to education, healthcare, and decent employment. Most Sengguruh Village residents rely on the informal sector for their livelihoods, such as farm laborers, small traders, and casual workers, whose incomes are uncertain and far below the Regency Minimum Wage (UMK). One clear indicator of the persistently high poverty rate in Sengguruh Village is the significant number of recipients of the Family Hope Program (PKH). The Family Hope Program is a government program for poor households in the form of direct assistance. Based on village government data, the number of PKH recipient



families from 2021 to 2024 remained in the hundreds, although the number of recipients decreased in 2024. This situation indicates that many families remain poor and dependent on social assistance. This issue drives the need for sustainable economic empowerment interventions, one of which is through the role of Village Banks in providing financial access for low-income communities. Therefore, it is important to examine the extent of the role of Village Banks in supporting income increase and empowerment of the poor in Sengguruh Village. This study aims to explore the role of Village Banks in reducing poverty and increasing community income in Sengguruh Village, as well as identifying the impact of the services provided on local community welfare.

2. The Art of Research

2.1. Empowerment-Based Development

Economic development is an effort aimed at improving community welfare by encouraging sustainable economic growth. According to Todaro & Smith (2011), economic development encompasses not only per capita income growth but also improvements in social aspects such as education, health, and poverty reduction. In the village context, economic development focuses on leveraging local potential and expanding access to existing resources (Azzahra, 2024). This is particularly relevant for Sengguruh Village, where the community faces challenges in utilizing existing resources and limited understanding of financial services.

In achieving economic development goals, the existence of local financial institutions such as Village Banks is crucial (Sishumba & Mulonda, 2019). Village Banks function not only as financial service providers but also as driving forces for community economic empowerment (Akudugu, 2011). Empowerment is the process or effort to empower communities to take the initiative to take part in changes to improve their lives through capacity building and efforts to awaken their potential, as well as facilitating access to resources that benefit their independence (Ulum, 2020). Several key elements in enhancing empowerment are access to information, community involvement and participation, accountability, and local organizational capacity. These elements are key factors determining the success of the empowerment process.

The presence of Village Banks can strengthen access to financial information and encourage active community participation in economic activities (Kabir, 2016). By offering affordable financial products, such as loans and savings, Village Banks play a role in increasing the community's need for capital to develop businesses. Furthermore, several savings products offered by Village Banks can improve community financial literacy, enabling them to better manage their finances and capitalize on existing economic opportunities. The presence of Village Banks will strengthen the institutional capacity of villages, which in turn can increase community income and reduce poverty.

2.2. Village Bank

Village banks are financial institutions established by village communities to meet local financial needs, with the primary goal of improving their welfare (Zeller, 2003). In accordance with Law No. 6 of 2014 concerning Villages, village banks function as Village-Owned Enterprises (BUMDes) designed to provide relevant and accessible financial services to village communities. With a locally managed structure, village banks have the flexibility to tailor products and services to the specific needs of their communities.

According to the Ministry of Villages (2021), village banks are expected to provide affordable services, including loans and deposits. Loans from village banks provide opportunities for communities to obtain the necessary working capital to develop existing small and medium-sized enterprises that require additional capital (Hendricks & Chidiac, 2011). These village banks also offer a variety of savings products to suit individual needs. Village banks have significant potential to reduce poverty and increase community income. By providing better financial access, village banks can help communities break out of the cycle of poverty by creating new business opportunities and increasing productivity. The following are loan and savings products offered by village banks:

1. SIBUM (Simpanan BUMDes), this savings account is intended for people who want to open a regular savings account. There is no time limit for deposits or withdrawals. This savings account also offers bonuses or profit sharing, as determined by the village bank.
2. SIPENDIK (Simpanan Pendidikan), this savings account is intended for students and parents who want to open a savings account for educational purposes. This savings account also offers bonuses or profit sharing, as determined by the village bank.

3. SITABA (Simpanan Tabungan Qurban), this savings account is intended for people who want to open a savings account for the purpose of performing the qurban (sacrifice) during Eid al-Adha. This savings account can also be used for holiday savings purposes, as the product stipulates that deposits can only be withdrawn during major Islamic holidays, namely Eid al-Fitr and Eid al-Adha. This savings account also offers bonuses or profit sharing, as determined by the village bank.
4. Deposits: These savings products differ from regular savings because they have a fixed term and offer a higher interest rate. Customers cannot withdraw funds before the specified maturity date. These various savings products are expected to encourage people to develop an interest in saving, which can certainly improve the economic resilience of individuals and families.

3. Method

This research was conducted at a Village Bank located in Sengguruh Village, Kepanjen District, Malang Regency. This location was chosen based on the consideration that Sengguruh Village Bank has successfully achieved assets of approximately 5 billion rupiah within four years of its establishment. This research focused on assessing whether Sengguruh Village Bank's progress has had a tangible impact on the community in Sengguruh Village. The research period was May 2025.

This research used a qualitative approach, focusing on the role of Village Banks in helping communities escape poverty. The data used included primary and secondary data. Primary data were collected through observation, documentation, and in-depth interviews with residents who use Village Bank services and Village Bank managers. To ensure data validity, data triangulation was conducted, findings were double-checked with informants, and detailed descriptions were included in the research results. The analysis technique used the Miles and Huberman model, known as interactive analysis. Secondary data came from internal Village Bank documentation and Sengguruh Village Government reports, including data on the number of customers from year to year, the amount of loans disbursed, and data on the number of social assistance recipients.

4. Result And Discussion

Sengguruh Village is a village in Kepanjen District, Malang Regency, East Java Province. It covers approximately 126 hectares, with a geographical area consisting primarily of agricultural land and residential areas. Administratively, Sengguruh Village consists of 3 neighborhood units (RW) and 24 neighborhood units (RT), led by a village head assisted by other village officials.

The population of Sengguruh Village in 2024 was 3,830 (BPS Malang Regency, 2025), with the primary livelihoods of the community being farmers, daily laborers, small traders, and micro-entrepreneurs. Most residents have a secondary or lower level of education. Poverty rates remain high, as evidenced by the large number of residents receiving government social assistance programs such as the Family Hope Program (PKH) and Direct Cash Assistance (BLT).

4.1. Sengguruh Village Bank

Sengguruh Village Bank was established through a village meeting in 2020, coinciding with the establishment of the Village-Owned Enterprise (BUMDes). This establishment was motivated by the community's need for a more accessible, transparent, and trustworthy financial institution, and aimed to explore village potential through business units. Sengguruh Village Bank's funds come from village capital participation and community savings, so its existence is not solely managed for business purposes but also involves direct community participation. This reflects the principles of mutual cooperation and village independence in building a local financial system.

In terms of services, Sengguruh Village Bank offers a variety of savings and loan products tailored to the community's needs. Available savings products include: SIBUM (BUMDes Savings) for regular savings; SIPENDIK (Education Savings) for school tuition; SITABA (Qurban Savings) for savings for qurban (anniversary sacrifice) and major Islamic holidays; and fixed-term deposits with higher interest rates. All these savings products come with bonuses or profit-sharing according to Sengguruh Village Bank's regulations.

In addition to savings, Bank Desa also provides loan products aimed at rural communities, particularly small and medium-sized businesses. Loans are provided in the form of microcredit with easy requirements, low interest rates, and fast disbursement. Loan funds are generally used for business capital, such as opening a



shop, increasing inventory, producing crafts, or supporting online businesses. With easier access to loans, people can expand their businesses without being trapped by high interest rates from loan sharks.

The growth in customer numbers shows a very positive trend. Since its inception in 2020, Bank Desa Sengguruh has had 341 customers, increasing sequentially from 2021 to 2024 to 526; 769; 963; and 1,015; reaching 1,268 customers in May 2025. This growth indicates growing public trust in Bank Desa Sengguruh's services.

In terms of performance, Bank Desa Sengguruh continues to show consistent progress each year, both in terms of increasing customer numbers and increasing cash flow. The loan collection rate is also relatively good, averaging 3.85%, demonstrating Bank Desa's ability to maintain disciplined loan repayments by customers. Overall, Bank Desa Sengguruh has become a crucial pillar in supporting the rural economy through inclusive, trustworthy financial services that support local interests.

4.2. Impact of Services on Accessibility of Business Financing and the Needs of Village Communities

Sengguruh Village Bank provides broad and inclusive access to business financing for the community. These services have been proven to strengthen the position of village communities, particularly micro-entrepreneurs, in developing their businesses through easily accessible capital injections. Based on interviews with informants and field observations, the Village Bank plays a significant role in reducing structural barriers that have prevented them from obtaining financing. Sengguruh Village residents reported that the loan procedure at the Village Bank is very easy and simple. Customers only need to bring identification (such as a photocopy of their ID card), fill out a form, and undergo a brief verification process by an officer. This process is considered faster and more user-friendly than formal financial institutions, which often require complex paperwork and lengthy processing times.

The Village Bank's location in the center of the village and close to residential areas also contributes to high accessibility. Its location in the core area of Sengguruh Village eliminates the need for residents to travel long distances to the city or sub-district center to access banking services. This is especially advantageous for those with limited mobility or who lack adequate transportation access. The Village Bank's geographical proximity provides convenience and comfort, allowing residents to quickly apply for loans, save money, and consult directly with officers without significant obstacles. This situation makes Village Banks more inclusive and accessible to all levels of society, including vulnerable groups and small businesses in the village.

Interviews with community informants indicate that loan funds from Village Banks are used for various business purposes, from purchasing raw materials and equipment to business expansion. Several informants stated that before receiving capital from Village Banks, they had limited business capacity. After receiving financing, economic activity increased, directly impacting income. Customers' daily and monthly incomes increased along with improved production capacity and business competitiveness. In addition to productive businesses, customers use loan funds for consumption and repayment of old debts, particularly from informal institutions such as loan sharks or daily loans. This reflects the reality of rural communities, where consumptive and productive needs are often inseparable.

One of the advantages of Village Banks is their low interest rates. According to customer informants, compared to daily loans or loan sharks, Village Banks are far more humane and less burdensome. This encourages people to shift from informal institutions to safer and more sustainable financing systems. Village Banks have succeeded in building public trust as financial institutions that support the poor. The impact of financing from Sengguruh Village Bank is very real in increasing access to capital for rural businesses. Simple procedures, strategic locations, and flexible systems mean that communities are no longer dependent on loan sharks or other informal financial institutions. Community businesses have experienced significant growth, increasing their incomes. The existence of the Village Bank not only creates inclusive financial access but also serves as an instrument for microeconomic development at the village level.

Sengguruh Village Bank not only plays a role in supporting business financing but also directly assists the community in meeting various household needs. Based on in-depth interviews with informants, it was found that the majority of loan funds received are not only used for business capital but also for consumption, children's education, health, and other household needs. One informant, a tailor, said that when he had no income because his sewing machine broke down, he used a loan from the Village Bank to repair the machine and purchase daily necessities. This illustrates the real conditions of rural communities, where productive

(business) and consumptive (family) needs are often inseparable. This flexibility in the use of funds is an advantage of the Village Bank compared to other financial institutions, as communities can adjust the use of funds to meet their real needs without strict administrative pressures. Financial services are easily accessible and tailored to the conditions of the village community. This makes the Village Bank a crucial instrument in community-based economic development and family empowerment in rural areas.

4.3. Challenges Faced by Village Banks in Carrying Out Their Functions

Sengguruh Village Bank's contribution to supporting community economic empowerment also faces a number of challenges that impact the effectiveness of its services. These challenges reflect the real conditions of local financial institutions, which are still developing, particularly in terms of resources, community understanding, and operational sustainability. Based on interviews with management and field observations, these challenges can be categorized into five main aspects: limited capital, low community financial literacy, the risk of bad debt, limited human resources, and suboptimal training and business mentoring.

1. Limited Operational Capital

As an institution established and funded by the village government, the Village Bank faces the challenge of limited capital. As a result, the institution's capacity to disburse financing to the community is limited. If loan demand exceeds available capital reserves, many community applications must be postponed.

2. Low Public Financial Literacy

Most village residents still have limited understanding of financial management, business planning, and risk management. This situation results in the ineffective use of loan funds and the risk of problems with installment payments.

3. Risk of Bad Debt

The impact of low financial literacy, coupled with uncertain economic conditions (such as crop failures or market downturns), creates the risk of late payments and even bad debts. Village Banks address this by adopting a family-like approach and renegotiating installments.

Limited Human Resources

The Village Bank's workforce is still relatively small and limited, with only four employees. Existing staff often have to juggle multiple functions, such as service, verification, collection, and education. This situation risks compromising service quality, especially as the number of customers continues to grow.

4. Suboptimal Business Assistance and Training

Although the Village Bank has provided business capital, there has been no structured and sustainable training or business assistance program. Customers are left to manage their funds independently without being equipped with managerial skills or business development strategies.

The various challenges faced by Sengguruh Village Bank indicate that the institution's success is still overshadowed by operational and social constraints. Limited capital, human resources, and community literacy are serious challenges that require special attention from village governments and external partners. Nevertheless, a personalized approach and flexible service strategy have enabled Village Banks to remain resilient and trusted by the community as financial institutions that address the real needs of villagers.

4.4. The Role of Village Banks in Reducing Poverty and Increasing Community Income

Sengguruh Village Bank plays a crucial role as a community-based financial institution that encourages rural communities to grow economically and escape poverty. The services provided, particularly in the form of financing and savings, have been proven to increase household income and foster more independent economic behavior. Research shows that the Village Bank has a significant impact on: i) Increasing income through productive businesses; ii) Encouraging financial literacy and an independent lifestyle.

1. Increasing income through productive businesses

Customer informants stated that financing from the Village Bank helped them develop their businesses and increase their income. The capital obtained was used to purchase merchandise, repair production equipment, open small shops, and develop livestock. This statement is supported by data from the Village Bank management, which also explains that the majority of loans disbursed are used by the community for business capital, particularly micro, small, and medium enterprises. Data from the Village Bank management shows an annual increase in the number of customers, from 341 customers in 2020 to 1,268 customers in May 2025. Observations indicate that several small businesses in Sengguruh Village are thriving.



2. Encouraging financial literacy and independent living

Village Banks also encourage people to save and plan their family finances. Several informants have education savings for their children and have begun to adopt the habit of setting aside business income for savings or future needs. Village Banks offer SIPENDIK (education savings) products, which facilitate savings for future education financing in a planned manner. Observations revealed that a number of parents use SIPENDIK as a regular savings instrument for educational needs. The increase in the number of users of this product indicates that the community is becoming financially educated through the existence of Village Banks. The existence of Village Banks also fosters household economic independence and changes community consumption behavior to be more productive. With the support of village governments and increased institutional capacity, Village Banks have great potential to become a successful model for empowerment-based village financial institutions.

3. Helping communities escape the clutches of loan sharks

Village Banks help communities escape the clutches of "titil banks," or loan sharks, who charge high interest rates. This is reinforced by statements from the Village Bank management, who have emphasized since its inception that one of the goals of establishing this institution is to reduce the community's dependence on high-interest daily loans, which are still widely practiced by the community, especially the underprivileged. People from poor families (who are indicated as recipients of the Family Hope Program) are helped by Village Bank services to maintain the sustainability of their household finances, without having to worry about the burden of illegal loan interest. The presence of Village Banks provides a safer, legal, and affordable financing alternative through a microcredit scheme with low interest and simple requirements. This demonstrates that Village Banks play a crucial role in the economic transition process of poor households towards a more stable condition, even though income changes are still gradual. The inclusive, non-discriminatory services and family approach offered by Village Banks serve as social capital that strengthens the community's trust, especially for vulnerable groups, in local financial institutions. Village Banks function not only as village financial institutions, but also as a socio-economic protection instrument capable of breaking the chain of community dependence on daily banks and loan sharks in rural areas.

4.5 Reconstruction of the Theoretical Model

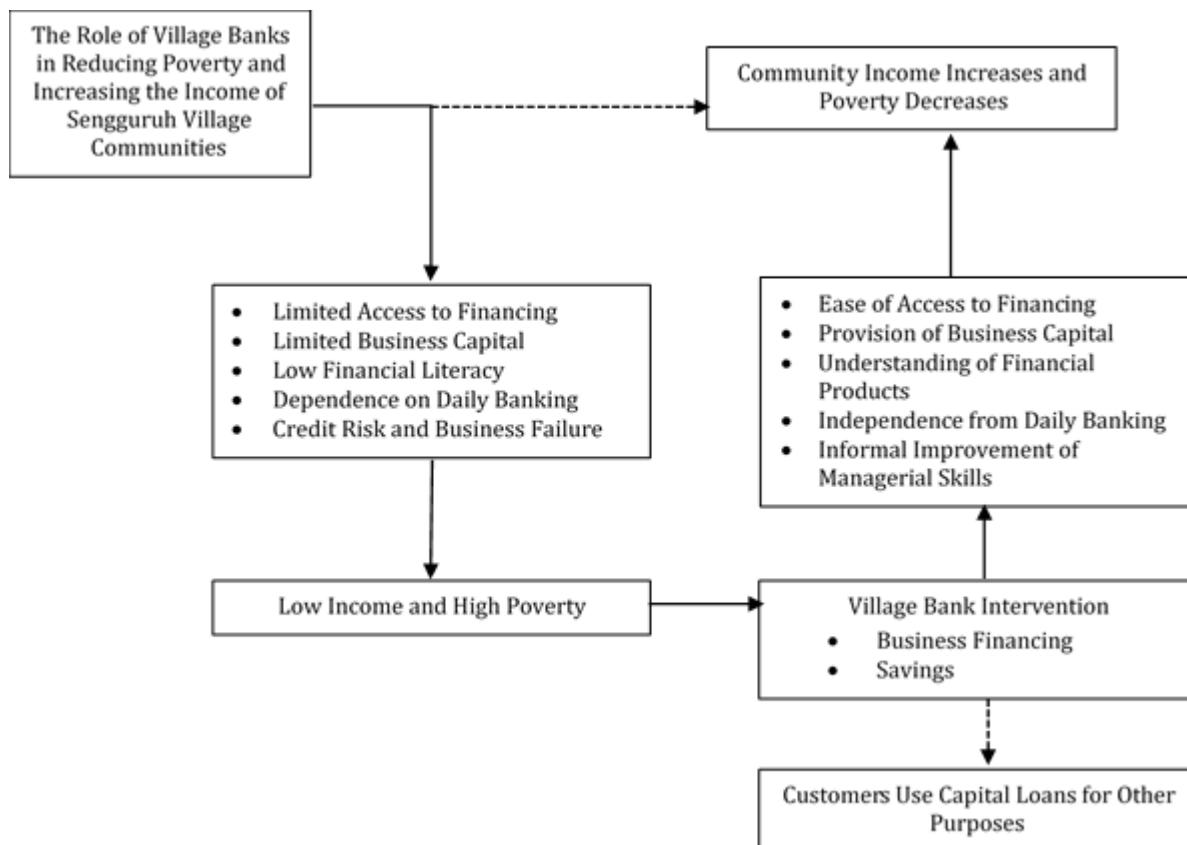


Figure 2. Reconstruction of the Theoretical Model

Based on the results of field research in Sengguruh Village, the research team developed a theoretical model that reconstructs the relationship between services provided by the Village Bank and poverty reduction and income improvement for village communities. This model was developed by integrating empirical evidence found in the field with theories of economic development and community empowerment. This model illustrates the transformation process from the community's initial conditions, then Village Bank interventions, and socioeconomic transformation.

1. Initial Community Conditions

The initial conditions of the Sengguruh Village community, before the Village Bank was established, faced many problems, including: i) limited access to formal financing; ii) limited business capital; iii) low financial literacy; iv) dependence on daily banking; and v) credit risk and business failure. They experienced difficulties in obtaining capital loans, were not accustomed to saving, had low levels of financial literacy, were dependent on "daily banking," and faced high levels of credit risk and business failure. As a result, many residents still have low incomes and high poverty rates.

2. Village Bank Interventions

The presence of Village Banks offers access to business financing and savings services. Village Banks provide easy financial access tailored to the needs of local communities. Furthermore, their family-friendly and flexible service approach is a distinct strength of this institution. However, customers often do not utilize their business capital loans appropriately, resulting in stagnant business outcomes despite receiving financing from Village Banks.

3. Socioeconomic Transformation

After interventions such as facilitating access to business financing, providing business capital, improving understanding of financial products, and improving informal managerial skills, significant changes were observed in several aspects. After interventions such as facilitating access to business financing, providing business capital, improving understanding of financial products, and improving informal managerial skills, significant changes were observed in several aspects:

- Average monthly income increased.
- Dependence on daily banking decreased.
- Economic independence grew, enabling communities to run their own businesses with better planning.
- Welfare increased, reflected in the more stable fulfillment of basic needs, education, and consumption.

This theoretical model demonstrates that the role of Village Banks in increasing access to financing and community empowerment can create significant changes in the economic lives of village residents. With its community-based strategy and family-oriented approach, the Village Bank is a transformative instrument that connects the theory of empowerment and economic development with practical practices at the village level. This model is expected to serve as a benchmark for similar institutions in other regions facing similar challenges.

5. Conclusion

Village Banks provide easily accessible financial access for rural communities. Financial services include productive financing, consumer financing, and savings services. Utilization of financial services has supported various types of micro-enterprises, such as trading, livestock farming, sewing, and online shopping, while also ensuring the fulfillment of household needs. The presence of Village Banks can free communities from dependence on daily banking.

Challenges faced by Village Banks include several obstacles, such as limited human resources, low financial literacy, late installment payments, and suboptimal business mentoring activities. However, Village Banks can overcome these obstacles with a persuasive and family-oriented approach. The Village Bank in Sengguruh Village plays a role in increasing income and economic independence for the community through financial services, both financing and savings products. The Village Bank's interaction with the community encourages accelerated financial literacy, enabling the community to manage their finances in a more planned and



efficient manner. With its family-oriented approach, inclusive services, and flexible financing, Sengguruh Village Bank serves as a transformative instrument in strengthening the economic independence of rural communities and supporting sustainable empowerment processes.

This study yields several recommendations, including: Bank Desa Sengguruh should strengthen financial literacy and provide regular business mentoring to enable entrepreneurs to develop their businesses optimally. Bank Desa Sengguruh should increase its operational staff in line with the growing number of customers.

Acknowledgments

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