

VILLAGE AUTHORITY AND LOCAL INNOVATION TO ACCELERATE RURAL DEVELOPMENT IN INDONESIA: REVIEW OF INDONESIAN ACT NUMBER 6/2014 AND LAW OF GOVERNMENT NUMBER 38/2017

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Innovation Toward Village and City
Development (6)

Abstract

Village is relatively small entity occupied by homogeneous people and tied by local norms and custom as well. In Indonesia, village has autonomus authority to manage and to govern daily activities since Government of Indonesia issued Indonesian Act Number 6/2014 about Village. The law mentions that village can get, search, and spend its village budget to accelerate village development. In practice, use of village budget is questionable due to complex issues in field. One of important things in allocating village budget is aimed to accelerate village development. Therefore, innovation is substantial to develop village sustainably, it comprises a newness of product or process or organization or marketing. Therein, village budget is important to develop fresh ideas to innovation in one or more of innovation types mentioned above. Whereas, innovation is an invention and its commersialisation to market, by which it is promoted by social-economic interest. In Indonesia, local innovation is promoted by Law of Government Number 38/2017 about Local Innovation where village is part of local government. This study is a descriptive-qualitative research method using secondary data. The analysis is content analysis technique with focusing on substance of local innovation and village budget of both laws. Due to this study is literature and act review only, analysis is developed through innovation policy framework. And the significant result is that both laws are appropriate to accelerate village development in Indonesia based on innovation, eventhough capacity of human resource and administrative management at village government level are necessarily considered.

Keywords: Village; Authority; Local Innovation; Rural Development, Indonesia

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1. Introduction

In last decades, rural is geographic area where local people conduct many daily economy activities i.e farming, cattle and poultry breeding, and also mining. Economy activities are part of economy development of rural beside of social and cultural development (Gilaninia, 2015). Nowadays rural becomes a new site for outside people to spend their time in villages. Surely, village tourism is one of alluring destination for urban people to refresh their mind and body. Cultural, natural scenery, religion or historical sites are main allure for urban people to visit rural areas (Sesotyaningtyas and Manaf, 2015; Gao and Wu, 2017). At least, tourism has borne new economy industry due to arrivals of tourist in a rural area (Ma et al., 2015), including development of local economy in a tourism village.

In Indonesia, rural areas have transformed to be tourism village based on natural scenery, eco or green village and local culture (Sesotyaningtyas and Manaf 2015; Ristianti, 2016; Law et al, 2016). In future, advance of information technology (IT) and competitive tourism villages in the world directs rural economy development is not only based on tourism, but also knowledge-based development for rural areas. For instance, a village in Regency of Mojokerto - East Java Province is developed with two ways at once, viz as a tourism and creative village. Most of villagers are capable to make hand-made footwear which is manufactured at home industries scale (Ardhala et al., 2016). It is a new framework for villagers to develop local economy based on creative ideas.

Rural development is the process of increasing the quality in village, by providing a healthy and sustainable ecosystem, it is critical for national development (Gilaninia, 2015). Economy development of rural areas in Indonesia is one of critical issues at national policy by which Government of Indonesia has a special government agency to address rural development issue namely Ministry of Rural, Remote Area Development, and Transmigration. Besides, Government of Indonesia promotes development of rural areas with utilizing advanced science and technology by using new and renewable energies like geothermal, biogas, and wind (Putra and Lelawati, 2014). At future, villagers are expected to arrange self-economy growth through creation of new economy sources like small and medium enterprises (SMEs) in village (Hutabarat and Pandin, 2014).

Institutional support of Government of Indonesia to increase rural economy growth is showed up through promulgation of National Act Number 6/2014 about Village. In this law, Government of Indonesia delivers particular authority to villagers to arrange and carry out many public affairs in dealing with rural development including affair of social activities, democracy system, and economy development. By this law, a village government is present to deliver public services to local people (villagers) according to authority provided by municipality or local government. The most exclusive point of this law is that Act No 6/2014 provides wide space to village government through utilizing village budget allocation derived from budget allocation of local and central government.

Village budget allocation is aimed to build public infrastructures, to subsidy education and health charge, to carry out through social-culture activities, to widen network with outside actors, and to increase economy income through establishment of SMEs at village. The last point, SMEs at village are a local enterprise owned by government of village in jointly operating with villagers. Therein, SMEs at village are called as village-owned enterprise (*BUMDES*) at village level, likewise state-owned enterprises (*BUMN*) at national level. *BUMDES* is one of means to accelerate rural economy development, it is also entity for those who want to learn about enterprises at the lowest level of government level.

In line with acceleration of rural economy development in Indonesia, innovation is essential to develop economy at region (Doloreux & Parto, 2005; Singh and Bhowmick, 2015; Bonfiglio, et al., 2017). Innovation is defined as higher quality and added value for using products either goods or services, by which it is promoted by social-economic interest (Al-Hakim and Jin, 2010; Kuhlmann et al., 2010). Of this reason, Government of Indonesia issues Law of Government (*PP*) Number 38/2017 about Local Innovation where village is part of work field of local government. In this law, local innovation is strongly supported by local ideas initiated and exercised by local government and society to answer existing many problems at local level. This law is a basic guidance for each local government to innovate in a region, including how village government implements new breakthrough to materialize innovative village. Notwithstanding, this law is new to be adopted by local and village governments, but few local leaders at village has innovated in materializing innovative villages like “Innovative Fisherman Village in Kotabaru Regency – South Borneo Province” (Suwandana et al., 2015) and “Creative Village in Mojokerto Regency – East Java Province” (Ardhala et al., 2016).

Both Act No.6/2014 and Law of Government No.38/2017 are important cornerstone to develop economy based on innovation in rural areas. This program can be realized by using of village budget allocation managed by village government together with local people. One of feasible programs attached in both laws is establishment of *BUMDES*, by which local people can directly participate in managing and executing economy programs according to local need at each village. Villagers, village government, local government, as well as related actors must understand substances of both laws. To view of what substances related to rural economy development based on innovation in both laws, study of law review is needed. Therein, this study focuses on substances of both laws, especially articles supporting innovation at rural economy development simultaneously.

2. Theory Framework

Village or Rural Area

Generally, village or rural is the smallest part of region which is formally governed by a head of village. Conceptually, village or rural area is tied with geographical context, “a location with boundaries on a map, or whether it is a *social representation*, a community of interest, a culture and way of life” (du Plessis et al, 2001). Context of Indonesia, rural or village is location where local people live with characteristics of intensely use of local language, low education level, and depended on agriculture as main livelihood. Recently, village or rural areas can be understood as village authority by which is able to govern village affairs comprising security, local policy formulation, and adjudication. One of interesting things of village in Indonesia is that “meeting of villagers together with head of village is the highest authority in formulating and executing many decision about village affairs (Alamsyah, 2011). For discussion, terms of rural and village are interchangeably used in this study.

Innovation

Theory of neo-classical economy growth introduced by Solow is perceived that technology is exogenous, external, and separated from internal organization. It is easily and freely got due to non-excludable goods. In next decades, Arrow criticizes of what Solow’s argument, then he said that technology is endogenous to *learning by doing* as main capital-goods of industry. It is also produced through research and development (R&D) activities which yields newness of existing products. Importance of enterprises to yield new product through R&D activities then

directing to be innovation, Schumpeter pays attention to role of entrepreneurs and their impact on the business cycle. Thereof, economy growth is avoided to be stable, and role of entrepreneurs need to break up economy stagnation through a “creative destruction”. This term is very popular in context of economy mainstream which is called as “innovation” (Wu et al., 2017).

Innovation is defined as broader concept as cornerstone and means in sustainable development than mainly used in just technological innovation. Innovation definition has shifted from neo-classic economy thought as one single dimension of new technology to as process of improvement or change (Ní Fhlatharta and Farrell, 2017). In this context, innovation consists of set of actors, institutions, behaviour, organizations, and strategies which operate through systemic and holistic approach based on Schumpeterian’s idea. Concerning with sustainable development, redefining innovation is necessary, innovation includes efficient goal in utilising natural resources, creation of industrial concepts, products, services, and so on (Kuntze et al., 1998).

Innovation has newness in many dimensions of product (goods and services), marketing method, processing, and organization. Product innovation is introduction of new goods and services or new improvement in using them. Process innovation is new method or means in manufacturing or delivering of innovation products. Marketing innovation is new way in marketing products or significant change in designing, packaging, placing, and promoting products to market. And the last, organizational innovation is implementation of new organizational method in business practice, workplace organization, and external relationship (Manual, 2005).

Rural Development and Innovation

Rural development is way to increase social-economic life for those occupying in rural areas. Economy transition is a trait of rural development through production and productive power. Recently, rural development goal is beyond of fulfilling basic needs like food, education, health, and housing, rather than, it is aimed to open new job and to increase production system (Gilaninia, 2015). Rural development is means for villagers to be accountable for themselves, network and cooperation with multiple actors is necessary to realize it (Ní Fhlatharta and Farrell, 2017). Such a definition that rural development involves socio-economic characteristics and also the structure of the economy and remoteness, it is essential that rural development needs sustainable funding allocation to increase regional performance which is related to innovation (Bonfiglio, et al., 2017).

Rural development is viewed as a process of “big push” from government, initiated by new skilled man or growth of local entrepreneurs (Wu, 2003). Development of local entrepreneurship is construction of system which support entrepreneur and involve the establishment of entrepreneurial communities. Local cultural change in rural area is needed so that local people are feasible to adopt entrepreneurial potency (Radulescu et al., 2014). Again, each rural will evolve and grow differently due to nature of geography like natural resources, topography, supportive climate, public access (OECD, 2014). Therein, rural development based on innovation has distinguished pattern at each other, even within in the same region or local government level.

Thinking Framework

To support innovation at rural areas, innovation policy is needed. Innovation policy is public action that influence set of innovation activities (Chaminade and Edquist, 2010). Nowadays, view of innovation policy has shifted from role of government as single and powerful authority of control, making rules and guidances to as manager of innovation

process through bargaining, negotiating and social contracting between various and related actors (Kuntze et al., 1998). In this study, innovation policies are on rural areas based on existing laws to promote rural development.

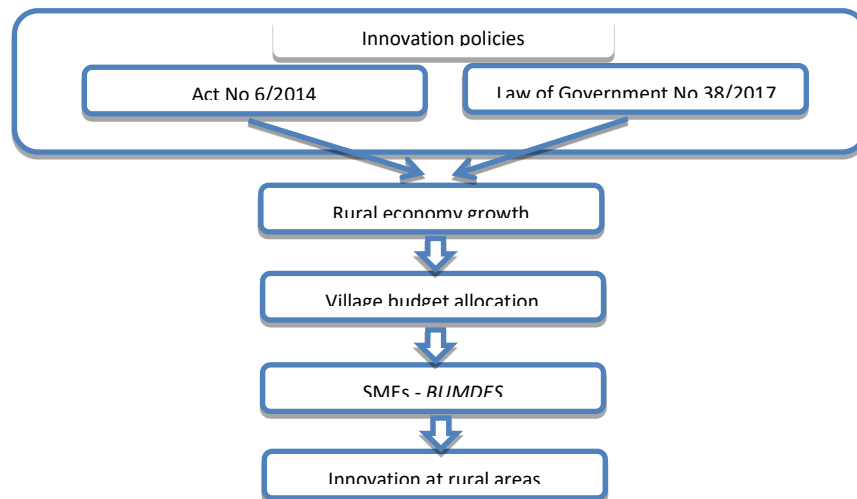


Figure 1. Thinking Framework
Source: authors

Case of Indonesia, both Act No 6/2014 and Law of Government No 38/2017 are as guidances as well as law protection for villagers and head of village to carry out innovation in rural areas through optimizing budget village allocation. This village budget is jointly used by villagers, supported by local and central government to establish SMEs as motor of innovation. In nut shell, both laws are form of innovation policy to create and to operate *BUMDES* in context of rural areas around Indonesia.

3. Research Method

This research is a qualitative-descriptive method by focusing on analysis of substances of National Act No.6/2014 and Law of Government No. 38/2017. Due to this is a desk research, data were merely derived from secondary sources i.e scientific journals and proceedings, books, laws, and related documents/articles. The study was carried out during around 4 months (1 March 2018 – 6 June 2018). Content data analysis is primary analysis technique by which analysis is based on content of articles of laws comprising support for rural economy development based on innovation. Drisko and Maschi (2016) state that content analysis can be interpretive content analysis which interpretate and summarize messages, text, or communication content rather than word counts. Interpretive content analysis shares many features and similarities with qualitative research methods. In line with Drisko and Maschi, authors agree that interpretive content analysis is appropriate to analyze substantial articles of both laws, especially in focusing on innovation achievement at rural areas.

4. Result and Discussion

Government of Indonesia explicitly supports sustainable rural development, even innovation is also spurred to improve villagers welfare. Clearly, National Act No 6/2014 and

Law of Government No 38/2017 are evident of governmental support in promoting innovation in rural areas. Totally, National Act No 6/2014 comprises 122 articles which part of them are relevant to create innovation in rural areas. Essential substances of Law 6/2014 related to innovation are succinctly described below.

Table 1. Substance of Act No 6/2014 Related to Rural Development

Article(s) of Law	Main Substance
18, 23, 24	<ul style="list-style-type: none"> ▪ Village authority comprises function of village government such as implementing village development, mentoring and empowering villagers ▪ Head of village is responsible to operate village government ▪ Principles of village government are law certainty; openness, proportionality, professionalism, accountability, efficiency and effectiveness, local wisdom, heterogeneity, and participative
48, 49,50	<ul style="list-style-type: none"> ▪ Head of village is assisted by village secretariat, regional operator, and technical operator
54, 55, 56	<ul style="list-style-type: none"> ▪ Practice of village governance in formulating village development program held by village government, village representative board (<i>BPD</i>), and villagers
67-68	<ul style="list-style-type: none"> ▪ Village government and villagers are allowable to create and manage village institution, to increase new village income source, to manage village budget. Besides village government must provide good public services to villagers
69	<ul style="list-style-type: none"> ▪ Village regulations are village laws, laws of head of village, law of joint head of village
71-75	<ul style="list-style-type: none"> ▪ Village finance is all items which can be valued through money ▪ Village income sources are village asset, profit of economy activities, crowded funding, special allocation of national income and expenditure budget, result of tax distribution of local government, grant, and others ▪ Village income and expenditure budget consists of income and spending to implement village programs. It is formulated by involving head of village and village representative board. The final budget formulation is stipulated by village law. ▪ Village budget spending is priority to rural development programs ▪ Head of village is responsible to manage village budget
76-77	<ul style="list-style-type: none"> ▪ Village assets are village land, village market, village building, village spring, and so on. Village asset management is run based on principles of public interest, functionality, law certainty, openness, efficiency, effectiveness, accountability, and economy certainty. The main goal is to increase villages welfare and income
78-86	<ul style="list-style-type: none"> ▪ Rural development program is aimed to increase quality of life on villagers as well as to alleviate poverty by means of fulfilling basic needs, public infrastructures development, local economy potency development, and utilise of sustainable natural resources ▪ Rural development program comprises planning, implementation, and monitoring. ▪ Rural development program is arranged in line with middle term development plan either at national and local government level (<i>RPJMN</i> or <i>RPJMD</i>). ▪ Determination of priority, program, activity, and need of rural development involves head of village, village representative board (<i>BPD</i>), and villagers. ▪ Villagers are allowable to monitor use of village budget, and to report of misuse of village budget if found ▪ Rural area development is aimed to accelerate and to improve quality of services, development, economy welfare of local people, use of appropriate technology, and empowering villagers by means of participative approach. ▪ Rural development is supported by information technology access developed by national and local government
87-90	<ul style="list-style-type: none"> ▪ Government of village and villagers are allowable to form village-owned enterprise at SME level (<i>BUMDES</i>). ▪ <i>BUMDES</i> is aimed to develop enterprises based on local wisdom, to empower villagers, and to subsidize poor villagers through grant, gift, or other charity mechanism. ▪ Central and local governments assist development of <i>BUMDES</i> through finance assistance, mentoring and training for local entrepreneurs, and so on.
91-93	<ul style="list-style-type: none"> ▪ Village government is allowable to widen cooperation with another village governments and/or a third party. ▪ Village cooperation is aimed to create added value and competitive activities, to deliver services, empowerment, and development of local people inter-village, and security ▪ Village cooperation can be formally documented through joint laws among village governments ▪ Each village government is allowable to form joint <i>BUMDES</i> to increase local people economy simultaneously. ▪ Village cooperation with third party is conducted to accelerate and increase function of government of village, rural development, and villagers empowerment
94	<ul style="list-style-type: none"> ▪ Village institution is important to support function of government of village, rural development, and villagers empowerment. By village institution, each villagers can be active and participative to plan and carry out rural development, as well as to increase public services at rural areas

Source: Review of Act No 6/2014

Totally, law of Government No. 38/2017 consists of 36 articles. All substances of this law is related to local innovation. Context of study, rural area is part of local government led by local leader either regent or mayor. The selected articles which is directly pertaining with innovative rural development are provided below.

Table 2. Substance of Law of Government 38/2017 Related to Local Innovation

Article(s) of law	Main Substance
1	<ul style="list-style-type: none"> ▪ Local innovation is all newness in delivering functions of local government. ▪ Local autonomy or local area is a unity of local people who are tied with existing laws and norms in special territory, and also which has authority to arrange and to deal governmental affairs based on local people interests in framework system of Republic of Indonesia. ▪ Local government is important to facilitate local innovation
2	<ul style="list-style-type: none"> ▪ Local innovation is aimed to increase performance of local government function to achieve local innovation goals through improvement of public services; empowerment and role of society, and also improvement of competitiveness
3	<ul style="list-style-type: none"> ▪ Local innovation is conducted based on principles of efficiency, effectiveness, improved public services, without emerging conflict of interest, oriented to public interests, openness, according to existing norms, and accountable for the public.
4-5	<ul style="list-style-type: none"> ▪ Local innovation types are like: innovation in governance of local government; innovation in public services, and other innovation types.
6	<ul style="list-style-type: none"> ▪ Local innovation criteria are newness of part or all things, beneficial for the public, no yielding more charge for the public and no trespassing existing laws, area of local authority, replicable or imitable for other regions.
7-15	<ul style="list-style-type: none"> ▪ Comprising local innovation initiatives stemmed from local leader, member of local representative board (<i>DPRD</i>), civil servants, other officials, and communities. In initiating local innovation, it is minimally required: type of local innovation, grand design of local innovation and basical assumption of its change, time to try local innovation, and budget if possible
16-19	<ul style="list-style-type: none"> ▪ Requirements of trying out of local innovation is needed by local government
20-27	<ul style="list-style-type: none"> ▪ Practices, valuation, and reward of local innovation. Two key things in implementing local innovation are positive effect towards increasing performance of local government and public services; as well as it is replicable or imitable for other regions.
28-29	<ul style="list-style-type: none"> ▪ Dissemination and utilising of local innovation. For successfull local government in executing local innovation is suggested as learning centre of other local governments in initiating local innovation
30-31	<ul style="list-style-type: none"> ▪ Local innovation budget which is mentioned on laws of national and local government budget
32-33	<ul style="list-style-type: none"> ▪ Local government supports local innovation practices by providing information technology system, it is to improve performance of local government, to increase public services, and to increase local resources potential

Source: Review of Law of Government 38/2017

Both laws have key substances to promote innovation at rural areas. Each of articles depicts support of Government of Indonesia at macro level, no distinctive direction to guide innovation at rural areas. Although, establishment of SMEs at village level (*BUMDES*) is new breakthrough for implementing innovation programs which are supported either by central and local government budget. Therein innovation is largely feasible to implement in rural areas of Indonesia.

Discussion

Rural development is basically related to maturity of thought and hard work of villagers. It can be materialized through practical action of villagers in increasing their community like self-education, self-help and cooperation with other actors (Gilaninia, 2015). Recently, rural development should be implemented through innovation mechanism instead of tourism sector only. Singh and Bhowmick (2015) reveals that innovation is critical to economy growth and development of rural areas, by which one of ways is creation to new opportunities of opening enterprises at rural areas. Case of Indonesia, at macro arrangement of law, Government of Indonesia has issued National Act No. 6/2014 and Law of Government No 38/2017 as a base for doing innovation policies at rural areas.

As before described, innovation is not only new technology, but it is output of interaction process between actors. Referring to Kuntze et al (1998) and Kuhlmann (2010) that innovation is a system comprising many actors, institutions, organizations, and its interaction within them which is supported finance, laws, and creation of networks supporting innovation. In this context, innovation is not only enterprise and government actor, but also other related actors

aimed to social-economy welfare. Related to act review and innovation theory as well as rural development , both laws consist of key determinants for developing innovation at rural areas.

Table 3. Key Determinants of Innovation Based on Laws at Rural Areas in Indonesia

Act No 6/2014	Law of Government No. 38/2017	Key determinants of innovation in rural areas
Head of village and Government of Village	Local government is key actor to boost local innovation	Leaders who support innovation
Village laws	Local government laws are necessarily needed to promote local innovation ecosystem	Appropriate laws to protect innovation
Principles of village governance	Principles of local innovation: efficiency, effectiveness, improved public services, without emerging conflict of interest, oriented to public interests, openness, according to existing norms, and accountable for the public	Clear practices of innovation stages
Village income and expenditure budget	Local government income and expenditure budget, also supported by national income and expenditure budget are key funding sources in promoting local innovation	Budget which supports innovation
SMEs at villages (BUMDES)	SMEs and local government-owned company (BUMD) are real practice of local innovation	Enterprises as motor of innovation
Wider cooperation inter-villages	Cooperation with many actors in developing local innovation	Innovation through wider network
Village institution	Local government institution is critical in promoting local innovation	Institution which create and support innovation
Increasing social-economy welfare of villagers	Local innovation is aimed to improve social-economy welfare of local people	Innovation as new and higher income for local people

Source: Author's interpretation

Case of both laws, National Act No. 6/2014 which is categorized as "Act", is the highest laws in Indonesian structure of law. It means that it needs to be more detailed in specific regulation, but until now derivative regulation of Act No. 6/2014 has not been official documented by government. While, Law of Government No. 38/2017 is derivative from National Act No. 23/2014 about Local Government to which law of government is a firstly lower law structure of act in Indonesia. As substances of law of government are more detailed than act, it means Law of Government 38/2017 is more implementable than Act No. 6/2014 at practice. One of key substances of law supporting innovation is substance for dissemination of innovation explicitly mentioned in Law of Government 38/2017 which is not mentioned in Act No. 6/2014.

Practically, both laws are beneficial as a guidance to innovation development at rural areas by which key determinants of innovation are present. Notwithstanding, different category between Act and Law of Government at Indonesian structure of law is critical issue that must be solved by Government of Indonesia. At least, Act No. 6/2014 should be quickly detailed like type of law of government in order to equate with structure of law with Law of Government 38/2017. The big challenge is that when Government of Indonesia does not have much time to make derivative laws of national act, the law is not implementable. Nugroho (2014) reveals that formulation process to descend derivative laws of national acts is slow response. Often, conflict of interest and prolonged debate between executive government agencies and house of representative members (DPR) are prominent reason why national act in Indonesia only contains macro articles.

To make more detailed law is prerequisite to answer rural development challenge in Indonesia amidst of competitive economy development around the world. For rural economy development, innovation is a way to leverage social-economy welfare for villagers. Good example of derivative law concerning with innovation at rural areas is *Law of Minister of Research and Technology No 18/M/Kp/IV/2014 about innovation village model*. Clearly that

support of Government of Indonesia in initiating and executing innovative village appears on creation of innovation village model.

At practice stage, innovation at rural areas is implemented by establishing SMEs (*BUMDES*) at rural areas as a main trigger in producing innovative products either goods or services. Both laws are basic guidances which can be used by villagers, government of village, national and local government to accelerate rural development based on innovation. Important to be noted that innovation is not merely new technology, but also inter-relation among actors to yield new things in an appropriate climate to boost village innovation. Support of information technology (IT) is inevitable to create innovation ecosystem at rural areas, especially through establishment of *BUMDES*.

It is notable that allocation of village budget can be used in many ways by government of village, particularly in increasing rural development and socio-economy welfare for villagers. One of proposed programs of this study is how village budget can be prioritized into innovation programs through establishment of *BUMDES*. According to both laws, there is no hindrances to appropriate allocation of village budget in accelerating rural development based on innovation. However, limited capacity of human resource and administrative management at village government level are necessarily considered to establish *BUMDES*.

5. Conclusion

Village authority is strongly boosted through Act No6/2014, likewise local innovation becomes popular term in doing innovative business in rural areas. Both laws are basic guidance to establish SMEs at village (*BUMDES*) in leveraging socio-economy welfare of villagers. Notwithstanding, a big challenge is how Government of Indonesia arranges derivative laws of Act No 6/2014 to be implementable at practice as well as reinforcing Law of Government No 38/2017. Therein, this study proposes to Government of Indonesia to accelerate formulation of derivative laws of Act No 6/2014 in order to accelerate rural development based on innovation in Indonesia. Involving head of village, key bigwig of villagers, local government, enterprises, and academician is necessary to realize it.

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