



When Tourism-Driven Development Challenges Sustainable Tourism: Governance Fragmentation and Institutional Capacity in Borobudur

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Abstract. Tourism-led development is being widely used as a national economic strategy, although its ability to deliver sustainable outcomes at the local level is challenged. Borobudur is a National Tourism Strategic Area (KSPN) and super-priority attraction in Indonesia that illustrates this contradiction, as large-scale infrastructure investment outruns local governance capabilities. This study uses a qualitative multiple case study design based on 22 in-depth interviews at the national, regional and village level in three tourism villages, Candirejo, Karangrejo and Wanurejo, to understand how tourism-led development influences sustainable tourism outcomes in this heritage destination. Three structural tensions emerge: regulatory ambiguity in the classification of homestays that limits inclusive economic participation; fragmented multi-level governance that weakens institutional coherence; and uneven institutional capacity that leads to differentiated development trajectories across villages. Taken together these point to the fact that tourism driven development does not automatically lead to sustainable tourism; the outcomes are fundamentally controlled by governance coherence and local institutional preparation. This paper contributes by conceptualising tourism-driven development as a process dependant on governance coherence and institutional capacity, suggesting a transition from infrastructure-led to capacity-oriented initiatives for more inclusive and resilient legacy tourism.

Keywords: tourism-driven development, multi-level governance, institutional capacity, sustainable tourism, heritage destination.

1 Introduction

Tourism is an important part of modern development strategies, especially in emerging economies seeking economic diversification, job creation and regional competitiveness [1, 2]. In addition to its economic advantages, tourism is increasingly promoted as a means to sustainable development, including inclusive economic benefits, enhanced community cohesion, and contributions to the preservation of cultural and heritage treasures [3]. Yet the pursuit of sustainable tourism is uneven as rapid development

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often favours growth-oriented outcomes over longer term social and institutional sustainability.

In this context, governments have positioned tourism as a service sector that acts as a catalyst for development. Tourism development initiatives are frequently integrated into national planning frameworks, supported by focused public investment, policy prioritisation, and institutional transformation. Although these policies aim to expedite development, they simultaneously create significant tensions among economic expansion, community involvement, and heritage preservation, especially in culturally sensitive areas [4].

In Indonesia, tourism has been designated as a national priority through the declaration of National Tourism Strategic Areas (*Kawasan Strategis Pariwisata Nasional*, KSPN). The government's "10 New Bali" project designates specific destinations as premier development zones aimed at accelerating regional redevelopment and drawing foreign tourists [5]. These initiatives are supported by extensive infrastructure programs, inter-ministerial collaboration, and new institutional frameworks designed to enhance destination competitiveness. This swift state-led development prompts critical enquiries on its alignment with sustainable tourism principles, especially with equitable benefit distribution, community involvement, and institutional sustainability.

Borobudur stands out among these priority areas. As a UNESCO World Heritage site and one of Indonesia's most iconic cultural landscapes, Borobudur represents the dual imperative of tourism development and heritage conservation. In the past decade, the region has experienced substantial transition due to investments in infrastructure, homestay development, façade standardisation, and visitor management systems [5]. The creation of a specialised tourism body has implemented new governance structures aimed at enhancing cooperation and attracting investment.

Although these measures have enhanced physical accessibility and destination visibility, their ramifications for sustainable tourism, especially at the local level, remain little comprehended. The rise of Borobudur as a premier tourism destination has led to intricate governance dynamics involving various stakeholders: national ministries, regional governments, tourism authorities, village institutions, and community-based organisations. This complex governance framework leads to overlapping responsibilities, disjointed coordination, and inconsistent institutional capability at various levels. As a result, although physical growth is prominently evident, little focus has been directed towards assessing whether local institutional frameworks are adequately prepared to facilitate inclusive, participative, and sustainable tourist results [6, 7].

Previous studies on tourism governance in Indonesia have predominantly concentrated on stakeholder engagement and participatory procedures [9, 6]. Nevertheless, there has been minimal empirical focus on explaining the relationship between tourism-driven national development policies and differing local institutional capacities in influencing sustainability results in cultural locations. The disparity is notably pronounced in Borobudur, where rapid expansion coincides with conservation objectives, community aspirations, and complex governance frameworks. To comprehend how tourism-driven development results in sustainable outcomes, it is essential to focus on both policy aspirations and the alignment between governance frameworks and local institutional capabilities.

This paper examines Borobudur as a case of multi-level governance to analyse how variations in institutional capability among village contexts influence the sustainability of tourism development. To this end, the study seeks to answer the following research questions: How does governance fragmentation and uneven institutional capacity affect the sustainability of tourism development at the local level? The research examines three communities in the Borobudur area: Candirejo, Karangrejo, and Wanurejo. This research seeks to enhance the understanding of how the alignment of governance and institutional capacity influences tourism-driven development outcomes by analysing various trajectories within a single strategic destination.

2 Governance Fragmentation and Institutional Capacity in Tourism Development

Tourism has been increasingly recognised as a strategic sector in national development agendas, especially in emerging economies aiming for economic diversification, spatial rebalancing and global competitiveness [2, 3]. Tourism-led development, in this context, is a policy approach that mobilises tourism as a primary development tool, shaping infrastructure investment, regulatory reform, spatial planning and institutional restructuring, to foster broader socio-economic transformation. Previous authors demonstrate that tourism-led development is often embedded within national flagship programmes that identify specific destinations as priority zones with fast-tracked funding, special governance arrangements and branding strategies [4, 8]. Such prioritization often requires cross-ministerial coordination and the establishment of special authorities or task forces to streamline decision-making and accelerate implementation [5].

Heritage destinations have been major venues for tourism-led development due to their symbolic capital, global visibility, and presumed economic potential. This is the case for the redevelopment of historic districts in Xi'an (China), Angkor (Cambodia), and Cusco (Peru), where national governments have invested heavily in infrastructure upgrades, visitor management systems, and tourism zone regulation to enhance global positioning [3, 9]. Similarly, UNESCO-listed sites in Southeast Asia have been incorporated into national tourism acceleration programs that combine conservation mandates with economic growth targets [10].

However, empirical research increasingly shows that when tourism is promoted as the main driver of development, the outcomes of implementation vary widely depending on the consistency of governance and institutional capacities at different levels [7, 6]. Rapid sectoral prioritisation can put pressure on institutions, cause uncertainty in regulation and result in uneven paths of development, especially in destinations with different strengths of organisational structure and administrative readiness of local governance bodies [8].

Development led by tourism in heritage settings is a dual requirement of economic development and cultural conservation, where governments have the responsibility to promote growth in visitors while maintaining authenticity of heritage and balancing

expectations of the community. The state plays a double role as developer and regulatory protector, causing a complex governance situation that requires strong coordination and institutional alignment [2, 4]. These dynamics are especially relevant to Borobudur, Indonesia, where tourism has been declared a national strategic priority within the KSPN and super-priority destination framework. As a UNESCO World Heritage Site and flagship tourism zone, Borobudur represents an initiative led by the state to harness assets of heritage for regional economic transformation. However, as tourism-driven development unfolds across multiple administrative levels and village contexts, questions emerge regarding whether accelerated policy ambition aligns with institutional and governance capacity embedded at the local level. It is in this tension between national development strategy and localized institutional readiness that the present study grounds its analysis.

3 Methodology

This study adopts a qualitative multi-case study design to examine how tourism-driven development interacts with governance architecture and institutional capacity in Borobudur. Three villages: Candirejo, Karangrejo, and Wanurejo were purposively selected to capture variation in institutional maturity, development models, and degrees of engagement with national tourism programs. This variation-based selection enables a comparative analysis of how tourism-driven development interacts with differentiated local governance configurations within the same strategic destination.

Candirejo represents a relatively mature community-based tourism model, supported by cooperative governance arrangements that promote a more consistent and equitable distribution of tourism benefits. Karangrejo takes a more infrastructure-driven development trajectory, where state-led investments (e.g., the development of Balkondes) have catalysed tourism development but also raise questions about the alignment between physical infrastructure and local management capacity. Wanurejo is somewhere in between, with a mixture of community-based initiatives and an increasing reliance on events and accommodation services, and it offers an important point of departure to explore the varying impacts of tourism development in different local contexts and the extent to which some villages are better able to deliver inclusive economic benefits and to sustain social cohesion than others that face challenges such as dependence on external intervention, weak institutional capacity and unequal participation in the tourism system.

In order to gather a variety of institutional perspectives, 22 in-depth interviews were conducted at various levels of governance. Each interview lasted between 45 and 90 min and was audio-recorded with the consent of the respondent. The interviewees explored issues such as policy execution, governance coordination, regulatory obstacles, institutional capacity and perceived development outcomes. Stakeholders were divided into three groups, including government actors, community-based institutions, and private sector players, representing the Borobudur destination's multi-level, multi-actor governance structure. All interviews were transcribed verbatim and subjected to thematic analysis.

4 Results

The interview findings reveal three interrelated tensions: (1) regulatory ambiguity surrounding homestay formalization and taxation, which constrains inclusive economic participation; (2) fragmented coordination across governance levels, which weakens institutional coherence and collective action; and (3) uneven institutional capacity, resulting in differentiated development trajectories across villages. The following sections discuss each theme more deeply.

4.1 Ambiguity of Regulation and Limited Economic Participation

A dominant tension emerging from the data is the ambiguity of regulation, especially the classification and taxation of homestays. While national tourism programs actively promote homestay development as part of destination acceleration strategies, implementation at the local level reveals inconsistencies in the way homestays are defined, regulated and monitored. As one policy actor stated, “Homestay should mean the owner lives there. But in practice, some are more like commercial guesthouses.” This indicates a mismatch between policy definitions and the evolving market dynamics of the destination. This ambiguity has significant implications for economic governance and sustainability.

At the district level, officials reported difficulties in differentiating community-based homestays from commercial accommodation units, making enforcement of regulations and fiscal accountability more complex. As one local government representative put it, “We have a problem distinguishing genuine homestay from commercial lodging.” The lack of clear regulatory boundaries leads to inconsistent application of taxation mechanisms and licensing procedures, which may disadvantage some actors while allowing others to operate in regulatory gray areas.

At the village level, local actors pragmatically navigate this ambiguity. “If we register as homestay, the process is easier but the market expects something closer to a hotel,” said a homestay owner. These are not cases of willful non-compliance, but adaptive strategies in response to a gap between policy frameworks and market dynamics. This suggests that regulatory ambiguity is not merely a technical problem, but rather reflects deeper institutional misalignment between development aspirations and operational realities.

4.2 Fragmented Multi-Level Governance and Weak Institutional Coherence

The second key tension emerging from the findings relates to the fragmentation across governance levels. The designation of Borobudur as a National Tourism Strategic Area and super-priority destination has led to a complex governance landscape involving central ministries, a tourism authority, district governments and village-level institutions. While formal governance arrangements are in place, empirical evidence suggests that coordination is based on partial synchronization rather than full integration of planning and implementation processes. Regional government actors reported little involvement in centrally initiated programs, suggesting a disconnect between policy formula-

tion and local implementation. As one district representative noted, “Sometimes programs come directly to the village. We are notified, but not always involved in early planning”. This reflects a top-down mode of implementation that circumvents intermediate governance levels, potentially undermining institutional continuity and policy coherence.

In addition, overlapping mandates between the tourism authority and district administration have created parallel lines of responsibility, further complicating governance arrangements. As one local actor stated, “The authority has its own area and agenda, while we manage the wider region”. This layering of institutions creates ambiguity around roles and responsibilities, reduces the effectiveness of coordination mechanisms and generates gaps in accountability across scales of governance. At the village level, such fragmentation is also reflected in the limited continuity from infrastructure provision to post-development support. Local actors reported receiving physical assistance, but not enough follow-up in areas such as marketing, capacity building and long-term management. As one homestay owner put it, “We got renovation support, but marketing and management were left to us.” This suggests a disjuncture between development inputs and institutional support systems needed to sustain tourism activities.

4.3 Uneven Institutional Capacity and Differentiated Sustainability Outcomes

The third key tension relates to uneven institutional capacity across villages and the resulting differentiated development trajectories and sustainability outcomes. The development triggered by tourism was introduced through a national policy framework uniformly, but its translation at the local level varies significantly as a function of existing institutional conditions and governance arrangements. Candirejo has a relatively high level of institutional maturity thanks to its consolidated cooperative system. This is reflected in strong organizational coordination and integrated value-chain management. “Everything is coordinated through the cooperative, guides, homestays, transport. We have our mechanism already”, said a cooperative representative. Such institutional embeddedness enables a more stable circulation of tourism benefits, supports collective decision-making, and increases the capacity to sustain local economic activities over time. In this way, economic gains are distributed more systematically, which contributes to more inclusive and resilient forms of tourism development.

On the other hand, institutional consolidation has been weaker in villages that have adopted more infrastructure-led development trajectories. In Karangrejo, for example, physical development was fast, but parallel organizational readiness was absent. As one respondent said, “The building was built fast but the management was not ready yet.” This indicates a mismatch between infrastructure development and institutional capacity, which restricts the village’s capacity to effectively manage tourism and reap the benefits of tourism in the long run. Wanurejo is an intermediate case, where elements of community-based tourism coexist with an increasing reliance on event-based demand. Some level of organizational coordination exists, but tourism activities are episodic rather than structurally embedded. As one Pokdarwis leader noted, “When there is a big event, occupancy rises. Otherwise, it is quiet.” This suggests a form of economic

dependency that lacks stability, raising concerns about the sustainability of income streams and long-term planning capacity.

5 Discussion & Conclusion

The purpose of this paper is to explore the process of tourism-led development in a strategically designated heritage location. The findings reveal three interrelated tensions: regulatory ambiguity, governance fragmentation, and uneven institutional capacity, together demonstrate that tourism-driven development produces spatially uneven rather than uniformly sustainable outcomes. This section explores these findings in relation to the study topics and against the backdrop of wider discussions in sustainable tourism and governance literature.

The first tension, regulatory uncertainty in homestay classification and taxes, is emblematic of a wider pattern of institutional strain in tourism-dominated development environments, where rapid sectoral growth outpaces the development of regulatory regimes. This conclusion is consistent with [6] who argues that overlapping mandates and unclear regulatory boundaries in decentralised governance systems cause implementation gaps that manifest in periods of fast policy reform. The refinement of local regulatory systems has not kept pace with national tourism development in the instance of Borobudur, resulting in grey zones that inhibit inclusive economic involvement. From a sustainability perspective, this ambiguity limits the formalisation of local firms, generates uncertainty in income production and impedes equitable participation in tourism markets.

At the same time, the results demonstrate that the effects are uneven throughout the communities. In more organised environments (e.g., Candirejo) local players produce informal normative frameworks that partly fill regulatory gaps. This, in turn, suggests that institutional capacity mediates the effects of regulatory ambiguity: communities with better organisational structures are more capable of adaptation and stabilisation of their operations, while less-organized communities are more vulnerable to the risks of unclear regulation [2, 7]. This intricacy makes a purely critical reading of regulatory ambiguity difficult and supports the study's main argument that sustainability outcomes are not solely driven by policy design, but by the interaction between regulatory frameworks and local institutional capability. Here, household formalisation is less a technical policy instrument, and more a disputed area in which economic opportunity, fiscal governance and regulatory power are continuously negotiated across levels of governance. This leads to the second tension of governance fragmentation which underscores the embeddedness of these regulatory difficulties within wider multi-level governance dynamics.

Our data suggest that fragmentation is more than the normal coordination failures, demonstrating a temporal misalignment between the pace of development and that of the evolution of governance. Governance infrastructure in terms of roles, mandates and coor-dination processes has not kept pace with the fast physical and policy-driven transformation. This reinforces the rising ideas that sustainable tourist governance depends

not just on institutional architecture but also on the sequencing and timing of interventions [11, 8]. A prominent symptom of this fragmentation is the circumvention of intermediate layers of governance in centrally sponsored programs. This leads to a sort of scalar compression whereby national aim is directly linked to village-level implementation without sufficient mediation at the regional scale. This limits the ability of district players to align national initiatives with local interests, undermining institutional continuity. The role of the Borobudur Authority Agency further shows the extent to which institutional layering can result in fragmentation, with parallel mandates establishing many lines of authority with little options for integration. But the findings also demonstrate that deficiencies in governance can be partially compensated by the strength of local institutions. The experience of Candirejo is an example of the cooperative-based governance, where the village may run with a certain degree of autonomy and can overcome the lack of coordination with its own mechanism. But this is to be read as an adaptive response and not as a structural solution. It further supports the thesis that sustainable tourism governance involves not only the existence of multi-level organisations but also coherence, sequencing and capacity alignment across governance scales [5].

The third tension, uneven institutional capability, is the fundamental explanatory mechanism for linking regulatory uncertainty and governance fragmentation to differentiated sustainability outcomes. While the national policy inputs were comparable, such as investment in infrastructure, homestay programs and destination branding, the development paths of the three villages were markedly different depending on local institutional conditions. This adds to the literature on institutional capacity [12, 8], demonstrating that capacity is not simply an internal organisational trait but a relational element that determines how external interventions are absorbed, perceived and sustained at the local level. Villages such as Candirejo that have created cooperative or collective governance processes are better positioned to develop inclusive, stable and flexible tourism systems. Crucially, these variations are not only in economic benefits, but also in larger dimensions of sustainability, especially in the setting of a UNESCO cultural site. Weak institutional capacity means weak ability to enforce conservation rules, regulate visitor flows, and protect heritage integrity. This emphasises the fact that institutional capacity is crucial not just to the sustainability of the economy but also to the stewardship of cultural and environmental resources. In this perspective, building institutional capacity should be understood not only as a development priority, but as a key element of heritage protection in fast-changing tourism locations.

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