



Does Village Fund Have an Impact Toward Economic Growth?

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Article Information Abstract

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Indonesia Village Fund policy aims to foster local democracy and rural development through direct funds allocation. During the last seven years (2015-2022), the government has provided Village Fund 400,1 trillion rupiahs (278,3 billion dollars) and continues to increase every year. Numerous studies discover the Village Fund impact on economic conditions but are limited to village scale. The study is focus on the first period of Village Fund implementation (2015-2019), to recommend strategies for better second period. This study intends to analyze the impact of the Village Fund on a macro scale, point on the economic growth of a region, specifically on disadvantaged regions. The study conducted through quantitative methods used the panel data approach. The data covers 413 districts from 2015 to 2019. The result shows that the Village Fund has a significant effect, but less effective because the value of the effect on GDP is inelastic and lower than other variables. Improving infrastructure, accessibility and the production source certainly have an impact on regional income. The effect of Village Fund in disadvantaged regions is greater than in non-disadvantaged regions, which indicates growth acceleration in disadvantaged regions because the coefficient value is more elastic.

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INTRODUCTION

As a developing country, Indonesia is designed to be an upper-middle-income country by 2025. The vision is reflected in the National Long-Term Development Plan (RPJPN) 2005-2025. The economic aspect plays an essential role to support the vision. Economic elements such as economic growth, income equality, and institutional stability have a strong position on the development process (Erlando, Riyanto and Masakazu, 2020; Chia et al., 2022). Indonesia's economic growth is on average 5.07% per year during 2018-2019. It decreased to -2.17% in 2020 and increased to 5.05 in 2021. The number of economic growth necessarily accompanied by productivity and job creation, as shown in Gross Domestic Product of Region (GDPR). Regional development is regarded as an important point to encourage national development. Regional policies and redistribution contribute to vast social and economic side, particularly the improved inequality aspect within the development process (Wardenburg and Brenner, 2020). Regional development has an important role in welfare development, improvement in living standards and availability of decent employment. The development is not only in urban areas but also in rural areas.

There is a paradigm shifting in village development by the Law Number 6 of 2014 concerning Villages, where villages are placed as development subject. Villagers through the existing structure have full authority to carry out village development. This paradigm is shifting from the concept of "building a village" where the village as an object to "village builds", where the village as a subject of development. Village has opportunity to manage its own territory and maximize its potential independently. This is in line with *Nawa Cita*, priority programs by the President of the Republic of Indonesia in 2014-2019, to build Indonesia from the periphery by strengthening regions and villages within the framework of a unitary state.

Law Number 6 of 2014 mandates the government to allocate Village Funds. The

objective is to support the implementation of village duties and governance for village development in all aspects in line with the village authority. The Village Fund is annually allocated from the State Budget and disbursed to each village as one of the village income. Other studies show that the allocation for village budget can reduce the number of poor people and create community welfare (Azwardi and Sukanto, 2014). The previous study concerning Village Fund and regional development have been discussed by researcher. The effect brought a significant influence to the capital enhancement and empowerment process to rural communities (Amin and Widaninggar, 2019).

Village fund is a government policy and support the democratic process in local level. The Village budget allocation policy integrates and optimizes the entire budget allocation scheme from the government to the villages. Village Fund have an impact on increasing GDPR because of the community participation in the village development process. Local democracy through policy and budget support are important to actualize rural development (Kallert et al., 2021). Affirmation of local budget policy enhance the development of local democracy in the village. For example, the village development planning is carried out with transparency principle and community deliberation. The village budget allocation is expected to improve village public services, alleviate poverty, advance the village economy, overcome the development gap between villages and strengthen village communities as the subject of development (Ministry of Finance, 2017).

The government through the State Budget (APBN) in 2015 began allocating budget in the form of Village Fund which were transferred through the Regency/City's Regional Revenue and Expenditure Budget. Thirty percent of Village Fund finances village administration and the remainder is used for village development, communities, and empowerment. District or city allocates Village Fund by main inquiries: population size (30%), area (20%) and poverty rate (50%).

The publication of the Economic Review and Fiscal Policy (TEKF) in 2021 shows that the Village Fund allocation continues to increase. From 2015 to 2018, the realization of Village Fund was recorded at 187.19 trillion rupiah. In 2017, the number of Village Fund distributed to 74,910 villages reached 60 trillion rupiah and in 2018 with the same amount of 60 trillion rupiah to 74,957 villages, this allocation increased 39.24 trillion from 2015. In 2019 the village budget allocation was 70 trillion rupiah, in 2020 was about 71 trillion and in 2021 was 72 trillion.

Increasing village budget allocation annually has an impact for village development, directly on economic growth and indirectly on improving the quality of life of the village community. The first period on five years of Village Fund implementation (2015-2019), data recorded significant development results such as the construction and repair of village roads, the establishment of Village-Owned Enterprises (*BUMDes*), retention basin (*embung*), clean water units, village maternity clinic (*Polindes*) and other infrastructure.

Village Fund have been considered in reducing poverty. Rural poverty is a major problem in the development process in rural areas and most of the poor live in rural areas (Sartika, Balaka and Rumbia, 2016). The previous finding states that the economic growth is significantly affects poverty reduction (Widyastuti and Nusantara, 2022). Data from the Ministry of Village (2020), Development of Disadvantaged Regions, and Transmigration shows a decline in open unemployment (TPT), especially rural TPT in the five years (2015-2019) after the Village Fund have been distributed. Rural TPT has reached the position of 4.93% (Urban TPT 7.31%) which is the highest value and in 2019 is at the lowest position of 3.92 % (Urban TPT 6.29%).

In line with the decline in the unemployment rate, in 2019 (September 2019 position) the percentage of poor population in the village is 12.60%, a decrease of 1.49% from the number in September 2015. In 2015 the village poverty rate reached 14.09% which was the

highest point in five last year (2015 - 2019). Besides that, based on the *IDM (Indeks Desa Membangun)*, the number of underdeveloped villages is decreasing from year to year. The Ministry of Villages determines the village development status *IDM* consisting of the lowest to the highest indicators, namely, extremely underdeveloped villages, underdeveloped villages, developing villages, developed villages and independent villages. Recorded number of underdeveloped villages decreased by 12,741 villages from 32,870 villages in 2015 to 20,129 villages in 2019. Whereas developing villages experienced an increase of 16,071 villages from as many as 22,659 in 2015 to 38,730 villages in 2019 and villages with independent village status which increased from 173 villages in 2015 to 844 villages in 2019 (Ministry of Village, 2020).

Utilization of Village Fund that succeeded encourage the development of the village deals with major challenges. The evaluation of the distribution and use of the Village Fund Phase 1 in 2016, shows that there is a delay and low absorption of the Village Fund, which among others is caused by the use of Village Fund outside the priority field, the use of funds is not supported by adequate evidence and outside expenditure village budget, and others (Ministry of Finance, 2016). Moreover, there are issues of inequality where development has been Java-centric, and the Village Fund allocation to disadvantage and non-disadvantage regions have a significant differences.

The disadvantaged region is the region where the territory and community are less developed compared to other territories on a national scale based on Village Ministry Regulation on Village, Disadvantaged Area and Transmigration Number 3 of 2016. The disadvantaged region seen has a close relation to the Village Fund. The Village Fund assumed to support the regional development status. The development process of the village is integrated into regional development.

The Village Fund is expected to be a solution for the government to reduce poverty through community empowerment and village

development, regarded less effective to its implementation. In some districts, the allocation of Village fund to strengthen the regional economy in rural areas, has a very low impact on strengthening the economy of the villagers, with constraints on local politics that do not support community economic empowerment (Ignatius and Fidelis, 2021).

Though Village Fund have a low impact on economic empowerment, numerous studies found that the village budget policy initiatives has a positive effect on finished construction value (Akbar and Sihaloho, 2019). Village Fund initiative that gives positive impact to the infrastructure, will increase the economic growth (Badre, 2015). The other study finds the increasing sign of a village development through the Village Fund distribution to infrastructure aspect and the local business improvement (Sutikno and Suliswanto, 2018). Village Fund enhance a significant impact to the aspect of physical development and community (Muslihah, Siregar and Sriniyati, 2019). Furthermore, the village budget escalate the expenditure per capita of the rural community (Joetarto, Setiawan and Farida, 2020). This study unravels the reason behind expenditure growth. The increasing expenditure value found in the village with better infrastructure quality that to those area with minimum conditions of infrastructure. Moreover, the expenditures per capita rates is higher in regions with low poverty rates that to the high poverty rates regions.

According to the author's knowledge, no comprehensive work was dedicated to the impact of Village Fund for economic growth in the region. For this reason, the implementation of the Village Fund needs further study. This study aims to analyze whether the Village Fund has a significant effect on the economic growth of a region, specifically to find the significant differences between disadvantaged and non-disadvantaged regions particularly on accelerated growth in disadvantaged regions through Village Fund.

RESEARCH METHODS

This study aims to analyze the influence of Village Fund on GDP growth in a region, especially the influence of Village Fund on disadvantaged and non-disadvantaged regions. The research method used is a qualitative approach through descriptive and quantitative analysis through causal relationships between variables used.

The study is focus on the first period of five years Village Fund implementation. The type of data is secondary data in the form of a data panel, with period 2015 to 2019 adjusting to the National Mid-Term Development Plan and cross section of 413 regions consisting 122 categories of disadvantaged regions and the remaining non-disadvantaged regions. To perceive the impact of Village Fund on the GDP, a data panel method with a basic model was used:

$$LnGDP_{it} = b_1LnDD_{it} \dots\dots\dots (1)$$

Where, b_1 is the coefficient that describes the impact of village funds on the GDP. The next analysis was to include panel data regression model using the following equation:

$$LnGDP_{it} = b_0 + b_1LnDD_{it} + b_2LnPM_{it} + b_3LnIPM_{it} + \epsilon_{it} \dots\dots\dots (2)$$

Where, GDP represents Growth Domestic Product of Region (million Rupiah), DD is Village Fund (million Rupiah), PM is Poor Population (million people), and IPM is Human Development Index. b_0 is a constant, 1... 3 is the value of the variable coefficient, ϵ is the residual value outside the model, i is the cross section (413 regions), and t is the time series (2015-2019).

To find out the difference in the impact of the Village Fund on GDP between disadvantage regions and non-disadvantage regions, the same model was used, as follows:

$$LnGDP_{zt} = b_0 + b_1LnDD_{zt} + b_2LnPM_{zt} + b_3LnIPM_{zt} + \epsilon_{zt} \dots\dots\dots (3)$$

Where z is the cross section from 122 disadvantage regions.

$$\ln GDP_{jt} = b_0 + b_1 \ln DD_{jt} + b_2 \ln PM_{jt} + b_3 \ln IPM_{jt} + \varepsilon_{jt} \dots\dots\dots(4)$$

Where *j* is the cross section from 291 non-disadvantage regions.

The data source is based on BPS and Ministry of Village. The criteria for determining whether the model can describe empirical data are using Probability (0,000) < Alpha (α, in this study α is set at 5%).

In the panel data method, there are several types of econometric models, namely Pooled Least Square (PLS), Fixed Effect Model (FEM), and Random Effect Model (REM). There are several tests that must be done in determining whether the model is PLS, FEM or REM. Chow test to determine whether FEM or PLS and Hausman Test to determine whether REM or FEM and LM Test to determine whether PLS or REM. Statistically, this analysis can be measured by a series of tests, consisting of a coefficient of determination (R²) and a simultaneous significance test (F statistic test and T statistic test).

RESULTS AND DISCUSSION

The total budget for Village Fund reaches 257 trillion rupiah over 5 years and has never decreased every year. The details of the village budget for the past 5 years are 20.67 trillion rupiah (2015), 46.98 trillion rupiah (2016), 60 trillion rupiah (2017), 60 trillion rupiah (2018), and 70 trillion rupiah (2019). Village budget allocations are used for village development and community empowerment. Village Fund improves quality of life of village communities by building some infrastructures, such as the construction of 959,569 clean water facilities, 240,587 units of sanitation facilities (*Mandi Cuci Kakus*), 9,692 village maternity clinic (*Polindes*) units, 50,854 early childhood education units (PAUD), 24,820 health center (*Posyandu*) units, and drainage 29,557,922 (Ministry of Village, 2020).

Oversee disadvantage and non-disadvantage regions, the provision of Village Fund does not show significant different values. Even from 2015 to 2019 the provision of Village Fund on average is greater for districts in the non-disadvantage regions. In 2019, on average, non-disadvantaged regions received Village Fund of 173,1 billion rupiah, while districts that included disadvantaged regions only received Village Fund of 149.48 billion rupiah.

The provision of Village Fund is not specifically for disadvantage and non-disadvantage regions but still focus on the number of villages. Although the proportion of disadvantaged villages is far greater than non-disadvantaged villages, it does not mean that non-disadvantaged regions do not have disadvantaged villages. This concept which causes the average of non-disadvantage regions receive Village Fund allocation is much higher than the disadvantage regions.

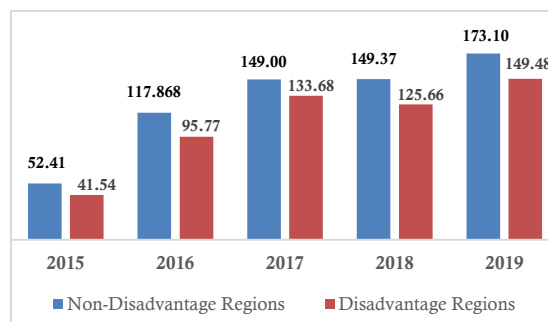


Figure 1. The Average Amount of Distribution of Village Fund in Disadvantage and Non-Disadvantage Regions (Billion Rupiah)
Source: Ministry of Finance, 2015 – 2019

The average GDP of disadvantaged regions is much lower than non-disadvantaged regions. Over the past 5 (five) years there has been an increase in GDP in disadvantaged regions from 5.6 trillion to 7.2 trillion in 2019. This increase was also followed by non-disadvantage regions so that the average difference between tertiary and non-disadvantage regions has not shown significant changes.

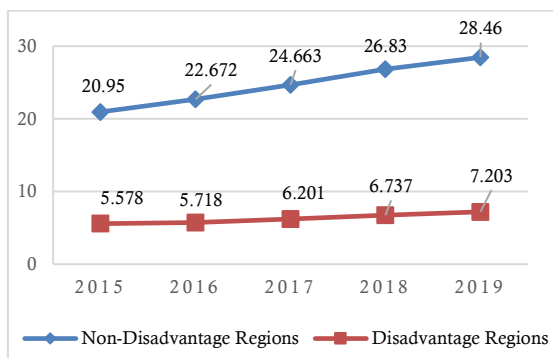


Figure 2. The Average of GDP in Disadvantage and Non-Disadvantage Regions (Billion Rupiah) Source: Statistic Indonesia, 2020

GDP will intersect with poverty, where regions with high GDP will have low poverty rates. The study by Susilowati and Hadi prove that the higher the GDP will reduce poverty of the region (Susilowati, Susilowati and Hadi, 2017). If it is seen that the average poverty rate of disadvantaged regions is still much higher compared to the average regional poverty level of non-disadvantage regions. Figure 3, illustrates the poverty rate 2015-2019 in disadvantaged regions reached more than 20% while in non-disadvantage regions on average only 10.28-11.89% in 2015-2019. Figure 3 also shows that both disadvantage and non-disadvantage regions experienced a decline in poverty from 2015-2019.

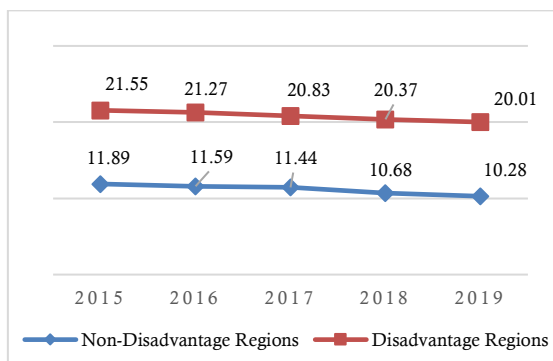


Figure 3. The Average of Poverty in Disadvantage and Non-Disadvantage Regions (Percentage) Source: Statistic Indonesia, 2020

From the condition of existing infrastructure, in the non-disadvantaged regions, most villages have paved roads, or only 24.12% of the main roads are still hardened or others. Whereas in the disadvantaged regions, only

46.61 percent of villages have paved roads, the rest are hardened or still in the form of soil.

Table 1. Infrastructure and Accessibility Disadvantaged Regions and Non-Disadvantaged Regions Conditions

| Aspect | | Non-Disadvantage Regions | Disadvantage Regions |
|--|----------|--------------------------|----------------------|
| Percentage of villages with the widest type of main road surface | Asphalt | 75.88 | 46.61 |
| | Hardened | 12.20 | 19.49 |
| | Soil | 3.27 | 19.76 |
| | Others | 8.65 | 14.14 |
| Average Distance from the Village Office to Supervising District Office (km) | | 36.02 | 76.20 |
| Average distance from the village to the center of basic education services | | 0.26 | 2.71 |
| Percentage of Household Electricity Users | | 97.77 | 77.46 |

Source: Podes, 2019 (Processed)

In terms of accessibility and infrastructure, there is differences where the non-disadvantage regions are classified as far better compared to the most remote regions. For example, in terms of the average distance of village officials to the center district government for the average disadvantaged regions, each village should take 76.20 km while for non-disadvantage regions only 36.02 km.

In terms of road quality, there is a quality gap between villages in disadvantaged region and non-disadvantaged region. In villages in non-disadvantaged region, most of the roads are paved (more than 75%) but in disadvantaged region only 46.61% of villages have paved roads. In non-disadvantaged region, only 3.27% of villages still have soil type roads, while in disadvantaged region 19.76% of villages still have soil types.

Significant differences are also seen in access to electricity and the basic education. In underdeveloped region, only 77.46% of households have access to electricity, while in non-disadvantaged region, access to electricity has reached 97.77% while for access to basic

education in non-disadvantaged region the average distance between villages and the nearest basic education is only 0.26 km, while in disadvantaged region it still takes 2.71 km.

From table 1, it can be concluded that the gap in village conditions in disadvantaged and non-disadvantaged regions is still very high. This gap can be seen in terms of road infrastructure, government access, access to basic education and access to electricity.

Contrary to infrastructure and accessibility, from the side of disaster-prone areas, disadvantaged regions are not always included as a disaster-prone area, even for some cases such as floods and landslides. Furthermore, from the aspect of conflict that occurs, the percentage of villages in the disadvantaged regions is still far greater than the non-disadvantage regions. In 2018 the average percentage of non-disadvantage villages that experienced conflict is only 2.7%, in contrast to disadvantaged regions is 6.08%.

Table 2. Percentage of Villages with Disaster Prone and Conflict Conditions in the Past Year

| Aspect | Disadvantage Regions | Non-Disadvantage Regions |
|---------------|----------------------|--------------------------|
| Landslide* | 5.00 | 7.23 |
| Floods* | 12.31 | 13.89 |
| Flash Floods* | 0.95 | 1.24 |

| Aspect | Disadvantage Regions | Non-Disadvantage Regions |
|-----------------------------------|----------------------|--------------------------|
| Earthquake* | 16.94 | 5.67 |
| Tsunami* | 0.29 | 0.07 |
| Sea Tidal Wave* | 2.24 | 1.03 |
| Whirlwinds/ Whirlwinds/ Typhoons* | 3.74 | 4.50 |
| Volcano Erupts* | 0.08 | 0.44 |
| Forest and Land Fires* | 1.69 | 2.11 |
| Drought Land* | 4.05 | 4.01 |
| Conflict** | 6.08 | 2.71 |

Source: *Podes (2019), **Podes (2018).

This research uses three models, namely (i) using data from disadvantage region only; (ii) using data non-disadvantage only; and (iii) cover all data. In the research model used, both the model using all districts, the disadvantaged and non-disadvantaged regions can be seen that the probability value of Chow Test refers to a value of 0.0000 which is smaller than α of 5 percent. It means the model to be taken is a FEM. Based on the Hausman Test which can be seen in Table 3 where the probability value is 0.0000 which is smaller than α of 5% which means that the FEM is better than the REM.

Table 3. The Result of Chow and Hausman Test

| Best Model Selection Test | Chi-Square Probability | | |
|---------------------------|---|------------------------------|----------------------------------|
| | Covered Disadvantage and Non-Disadvantage Regions | Covered Disadvantage Regions | Covered Non-Disadvantage Regions |
| Prob Chow test | 0.0000 | 0.0000 | 0.0000 |
| Prob Hausman test | 0.0000 | 0.0000 | 0.0000 |

Table 4. Statistical Test Result

| Best Model Selection Test | Model | | |
|---------------------------|---|------------------------------|----------------------------------|
| | Covered Disadvantage and Non-Disadvantage Regions | Covered Disadvantage Regions | Covered Non-Disadvantage Regions |
| R-squared (R^2) | 0.9998 | 0.9994 | 0.9996 |
| Prob > F-stat | 0.0000 | 0.0000 | 0.0000 |

Note: Significance at 5% Level.

Source: Data Processed, 2019

All models of this study use the FEM model approach with an R^2 value of 0.999. This illustrates that 99% of the diversity of the dependent variable can be explained by the diversity of independent variables. The value of the model approaches the value of 1, which means that in the model the diversity of the dependent variables has been able to explain well the diversity of the dependent variables.

In Table 4, it can be seen that the F-statistical probability value in the entire district model shows a value of less than 5%, it shows that the independent variables used in the three models together can explain the dependent variable. The results are also the same as the other two models where in the model of

disadvantaged regions and non-disadvantaged regions have a F-statistical probability value of less than α 5 % which means that the independent variables used in the three models together can explain the dependent variable.

The estimation results in Table 5 show that the independent variables that have a significant effect on GDP growth at the 5 % real level are village fund allocation. Variable with the greatest influence on GDP growth is HDI (Human Development Index) with coefficients of 5.71 in the overall model and 4.67 and 7.08 in the model of disadvantaged regions and non-disadvantage regions. Village fund variables have significant effect on GDP with coefficient less than 0.1.

Table 5. The Results of Estimating the Impact of Village Fund on GDP

| Variables | Chi-Square Probability | | |
|-------------------------------------|---|------------------------------|----------------------------------|
| | Covered Disadvantage and Non-Disadvantage Regions | Covered Disadvantage Regions | Covered Non-Disadvantage Regions |
| LOG (Village Fund) | 0.0503* | 0.0557* | 0.0428* |
| LOG (Percentage of Poor Population) | -0.1629* | -0.0390* | -0.1232* |
| LOG (Human Development Index) | 6.3719* | 5.4305* | 7.4810* |
| Constant | -17.231 | -14.136 | -21.898 |

Notes: significance at 5% level

Source: Data Processed, 2019

Based on the estimation results, it can be seen that the provision of Village Fund has a significant and positive effect on GDP both in the models of all regions or in separate models in disadvantaged regions and non-disadvantaged regions. These results prove that Village Fund are quite effective in increasing GDP. In addition, improving infrastructure, accessibility and the source of production will certainly have an impact on regional income. The realization of village budget has an impact on village infrastructure improvement as well as enhance economic achievement, although it has not been able to fully improve welfare indicators (Wibowo, Mulya and Mujiwardhani, 2019; Kurniawan, 2021). Other study reveals that the village budget allocation has leverage the economic indicators in underdeveloped areas (Otheliansyah and Yasni, 2021).

The variable that generates greatest impact to GDP is HDI. HDI is influenced by education, health and economic indicators. Therefore, the Village Fund have to focused on supporting improvements to these indicators. Through increasing expenditure allocations of village budget on education, health, and community empowerment activities to improve their economy. This suggestion is corresponding with the village minister's regulation on the use of village budget which is updated/renewed every year. The latest is in the Minister of Village Regulation Number 8 of 2022 concerning the priority of using the Village Fund in 2023. The regulation states several significant interventions for instance improve the quality of human resources for villagers, increasing overall community involvement in the development and empowerment of rural communities, as well as

expanding access to health services (Ministry of Village, 2022). Village Cash for Work (*PKTD*) is one of practices where the village budget is allocated to provide work for the poor and marginalized. The program began in 2018 and in line with Village Ministry regulation. The program support productivity of villagers by utilizing local resources, labor, and technology to provide additional income and improve community welfare. Cash for work schemes empower marginalized communities and creates income by using natural community-based resources (Widhiasthini et al., 2021).

The coefficient of Village Fund of less than 1 indicates that the value of elasticity is inelastic, which means an increase in Village Fund will increase less than the GDP of less than 1%, meaning that the increase is actually lower than the budget raised. This was allegedly caused by the existence of several Village Fund frauds that occurred.

The reasons behind the poor village development are influenced by a low quality of human resources and the mental capabilities of the apparatus to accomplish their responsibility (Tindi, 2015). The management of Village Funds in Indonesia has the potential for fraud which is quite worrying in every process (Sepetro, Wahyuningsih and Sunrowiyati, 2017; Walukow, Kalangi and Pinatik, 2017). Study of Indonesia Corruption Watch (ICW) regarding Corruption Case Action Trends, the most vulnerable sectors were corrupted, namely the village budget which included Village Fund Allocation (*ADD*), Village Fund (*DD*), and village income (*PADes*) (Kusuma, Suyanto and Hendri, 2021). Corruption in the Village Fund has increased from year to year. ICW data shows that from 2015 to 2018 there were 181 cases of Village Fund corruption and a loss value of Rp 40.6 billion. During 2019 there were 46 cases of Village Fund corruption that cost the state up to Rp 32.3 billion, where the perpetrators were village heads and village officials (Arfiansyah, 2020; Fauzanto, 2020).

Some forms of misappropriation will certainly have an impact on reducing the village budget allocation for local development. Therefore, the village government, especially the

village head, must have a clear vision and mission to carry out development in his village (Lituhayu, 2019). In addition, the active involvement of the community and other stakeholders in the process of planning, implementing, and monitoring the village budget is necessary.

The local budget allocations need to be directed to initiative that can strengthen human resource development. Training and assistance to the community and the local government needs to be carried out to increase their capacity in managing Village Fund. The capacity building support for community will provide space for community participation in development process. Utilization of Village Fund allocation broadens the community involvement in village development for instance the case of Tanjung Sidupa Village, Pinogaluman District, North Bolang Mongondow Regency (Takaliuang, Tulusan and Sondakh, 2015). The result of other studies stated that active community participation will support community empowerment, the relevancy for IT training to optimize the quality of human resources, and the importance of the assistance process during the implementation of activities (Mas'ud and Maesaroh, 2020; Udjiyanto et al., 2021).

Another finding in this study is that the elasticity between the disadvantaged regions model and the non-disadvantaged regions. In the disadvantaged regions model the resulting coefficient value is slightly larger, namely 0.055, whereas in the non-disadvantaged regions model the coefficient is 0.042. This is felt to be quite good because this difference in elasticity indicates that Village Fund used in disadvantaged regions have more impact on GDP compared to districts in non-disadvantaged regions. Based on this, the acceleration of development in disadvantaged regions can certainly occur. The use of the village budget is prioritized to the development of basic infrastructure to improve access and quality of basic services as well as community development to improve the quality of human resources. The novelty in this research is to find the impact of the Village Funds to regional development by focusing on first period of Village Fund implementation.

CONCLUSION

In the last five years the use of the Village Fund in Indonesia has resulted in upgrading infrastructures such as roads, reservoirs, irrigation and others. However, those has not had a major impact on increasing GDP. the Village Fund has a significant effect, but less effective because the value of the effect on GDP is inelastic and lower than other variables. The small influence is partly due to the misuse that occurs in the implementation process. The effect of Village Fund in disadvantaged regions is greater than in non-disadvantaged regions, which indicates growth acceleration in disadvantaged regions.

The effectiveness of the Village Fund can be increased, through: 1) Widen the use of Village Fund for human resource development. The village fund needs to develop human resource capacity. It is useful when villages in disadvantaged and non-disadvantaged regions already have access in any sector, the village community could utilize the fund for empowerment activity that prompt GDP value. 2) Extend Cash for Work (PKTD) program with the proper supervision 3) Evaluate the fraudulent actions of the Village Fund and enhance the system 4) Strengthen the role of Village Facilitators for disadvantaged regions to accelerate village development.

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