

# Village Fund Allocation on Economic Growth, Human Development Index and Poverty

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**Abstract**— The Economic performance of a region can be seen from the Gross Regional Domestic Revenue or economic growth. The economic growth of the regions has an important role in creating prosperity, increasing the standard of living and providing employment. Village fund Allocation is a stimulant fund to encourage and finance village government programs that are supported by community participation in carrying out government activities, development and community empowerment. Although Village fund Allocation in the past 4 years has tended to fluctuate, the human development index increases and poverty fluctuates. Thus, the main objective of this research is to analyze the impact of Village fund Allocation on economic growth, human development index and poverty in Bima Regency. The Analytical method used is a quantitative research method using the Warp PLS statistical tool. The result of the analysis shows that the variable allocation of village funds has a positive effect on economic growth, the human development index while does not affect poverty.

**Keywords**— village funds, human development index, poverty, economic growth

## I. INTRODUCTION

The public sector accounting in Indonesia is growing rapidly in the implementation of regional autonomy policies and fiscal decentralization which focuses on local and village governments. This era of regional autonomy and fiscal decentralization leads to increase competitiveness in each regional and village government. Village is the smallest territory in the Republic of Indonesia and so the village is covered within the responsibility of the Republic of Indonesia. The village is a legal community unit that has juridical boundaries and has the authority to regulate and manage the interests of local community based on the origin of local customs that are recognized and formed in national government system and are in city/district area according to Decree No. 23 of 2014 concerning Village Government [1].

The development policy strategy implemented by the government of Indonesia improves equitable development of results through cross-sectoral development policy in rural areas. This should open up opportunities for regional and village governments to take responsibility for their respective regional interests. Regional autonomy is a

solution to the problems that occur because of the problem of disparity (inequality) of good development between the central government and the regions [2].

Statistically, the level of poverty that occurred in Bima regency has decreased from year to year. In 2015 decreased by 16.10%, in 2016 by 15.31%, while in 2017 and 2018 it dropped to 15.10% and 15.01%, respectively. Also, the level of disparity in human development in Bima regency is relatively high. The human development index in Bima Regency for the last 4 years was 63.46% in 2015, 64.15% in 2016, 2017 in 65.01% and 65.46% in 2018. This indicates that the human development index of Bima Regency is in the range of moderate to high. Indeed, the data indicated that Bima Regency has increased economic growth, however, it has not been able to overcome the level of development gap between one region and another, both between districts and cities in one province [3].

Economic growth must be able to significantly reduce the number of poor people and further accommodate low inequalities or equal income distribution. Economic growth is a process of increasing per capita output in the long run [4]. Based on this explanation, it can be said that the ongoing development in Bima Regency in that period was exclusive but not inclusive development.

According to United Nation Development Programme, the development of several countries is an exclusive development. It means that development only takes into account the aspects of growth but ignores employment, poverty alleviation, and the environment so that sometimes there is a close proximity among high economic growth, high levels of unemployment and poverty, and environmental damage as a result of the development process [5]. Lin Y J et al. conducted research in China, the finding indicates that a key factor for economic growth in China is fiscal reform in line with rural reform [6]. This research is directly proportional to research Lai in Taiwan that the success of development strategies in Taiwan is largely determined by the development of the industrial sector in rural areas [7]. To achieve equitable growth and economic development, Indonesia must start from the countryside. This claim is based on several reasons. First, the majority of Indonesians live in rural areas. Second,

although fiscal decentralization began in 2001, the data show several fundamental problems in the country, such as poverty, low education, poor health, inadequate facilities and infrastructure, exist in rural areas. Therefore, as soon as possible, reforms need to be built in consideration that the village area has a strategic position in the Republic of Indonesia. It can be said that if the rural area is advanced then the region and country must be the same. Thus, it is no exaggeration to say that rural areas are the spearhead of regional and national development [8].

Village development is a community movement in promoting development based on awareness to improve to a better life and a decent life. Most of Indonesian people or residents live in rural or remote areas. With the population and natural conditions increasing and abundant, the village government will get assets through a government program that is the Village Allocation Fund (ADD) based on Law No. 6 of 2014 concerning Villages [9]. To exercise their authority in regulating and managing government and the interests of the people, villages need a source of income. Village income is a vital resource for village administration.

The philosophy of the village fund is to improve welfare and equity of village development through improving public services in the village, promoting economy, overcoming the development gap between villages and strengthening community as the subject of development. The existence of village funds is expected to increase regional development because the village government receives an allocation of funds that will be used for capital development costs. The Bima Regency Government has 18 sub-districts and 191 villages, a strategic area, abundant natural resources and the majority of the people make a living in agricultural sector. The allocation of village funds in Bima Regency has begun in 2015 whose allocation was intended as a stimulus fund to encourage the financing of village government programs. The amount of village fund allocation distributed to the government of Bima Regency is a very large, as can be seen in Table 1 below.

TABLE I. Village Allocation Funds in Bima Regency (in million)

Years	Village Allocation
2015	54,246,373
2016	121,722,136
2017	155,258,138
2018	156,526,147

Source: [3]

Regional development is a means to increase the capability of local governments to carry out their government in physical development in the form of advice and infrastructure [10]. Regional governments in funding development activities for the benefit of the community use capital expenditure. Capital expenditure is allocated by local governments to fund development activities aimed at the public interest. This activity resulted in the construction of various public facilities such as roads, bridges,

telecommunications, electricity, school buildings and hospitals, markets and various other public facilities that could be utilized by the community [4]. Capital expenditure and allocation of village funds have different funding sources, but both can encourage economic growth. Increased economic growth is expected to reduce poverty and improve people's welfare.

This research is motivated by research Prasetyo that examines the impact of village fund allocation in the era of fiscal decentralization on regional economies in Indonesia [8]. The results indicate that village fund allocation was able to improve regional fiscal and economic performance, able to reduce the number of poor people and increase the gross regional domestic product of the agricultural sector. In this research the implementation of village fund allocation is regulated in Government Regulation No. 72 of 2005, only 60% of local governments in Indonesia implemented it [11].

The present research aims to examine whether the allocation of village funds affects economic growth, human development index and poverty in Bima Regency. Theoretically, this research contributes to realizing development outcomes through the allocation of village funds which constitute inclusive development, since in inclusive development the meaningful development goals are not only pursuing economic growth but also oriented towards job creation to reduce unemployment, poverty, and income distribution gaps between community groups. Practically, the results of this research are expected to be used as material for consideration by the government in formulating policies on the implementation of village fund allocations and Capital Expenditure in order to support the Economic Growth of Bima Regency by reducing poverty and increasing the human development index.

Agency theory is a concept that explains the relationship between principals and agents, one of which is rooted in economic theory, decision theory, sociology, and organizational theory. Principal-agent theory analyzes the contractual arrangement between two or more individuals, groups or organizations. One party (principal) makes a contract either implicitly or explicitly with the other party (agent) so that the agent will do the work as desired by the principal (in this case the delegation of authority occurs). With this contract, problems that often occur with agents will be minimized [12]. Concerning this research issue is that the central government is seen as the principal and the regional government as an agent, and legislation implicitly constitutes a form of contract between the principal-agent.

Based on the Minister of Homeland Affairs Regulation No. 37 of 2011 regarding Village financial management guidelines, it is stated that the village financial management guidelines in Article 18 that the village fund allocation comes from the Regency/City budget sourced from the Central and Regional Financial Balance Funds received by the Regency/Cities for villages of at least 10% (ten percent) as Village Fund Allocation [13]. Village fund allocation is a budget used by the village government to empower the community and implement development that is managed directly by the village and the community [8]. Capital expenditure is a component of development expenditure for regional expenditure. Capital expenditures

are allocated by local governments to fund development activities for the community. This activity resulted in the construction of various public facilities such as roads, bridges, telecommunications, electricity, school buildings and hospitals, markets and other public facilities that will be used by the community [4].

According to Kuznets in [4] economic growth is defined as improving the ability of a country to provide economic goods to its population. Djojohadikusumo in [4] also defines economic growth as the process of increasing the production of goods and services in the economic activities of society. Economic growth is a process of increasing the production capacity of an economy that is realized in the form of an increase in national income.

Poverty is a problem in development characterized by unemployment and underdevelopment which then escalates into inequality. The poor are generally weak in their ability to work and have limited access to economic activities so they are left behind by other communities that have higher potential. The Human Development Index (HDI) is an index to explain the way people access development outcomes and earn income, health, and education. Capital expenditure is important to maintain the welfare of its people, but capital expenditure is not the end of human development. Capital expenditure is used to improve human capabilities and the way people use these abilities.

According to [14], economic growth will affect people's wealth. Increased income in the community is characterized by an increased allocation of income for primary, secondary and tertiary consumption. According to Prasetyo the Indonesian economic growth model is an economic model that focuses on stimulating improvement in people's income through accelerating the growth of an economic sector efficiently and dynamically without taking into account the negative impacts on the wider community such as depletion of natural resources, damage to resources and environment [8]. Considering this matter, it is necessary to have an appropriate development plan and taking environmental capacity into account.

II. RESEARCH METHOD

This research is quantitative research with variables covering the allocation of village funds, economic growth, human development index and poverty. This research uses secondary data which was collected through literature and document research. The data were obtained from the website of the central bureau of statistics of Bima Regency and the official website of Village Ministry. The sample in this research was 4-year data from 2015 to 2018, the sampling technique used was saturated sampling. The statistical tool used is SEM-PLS with statistical tests using WARP PLS 3.0 (Partial Least Square) [18]. The hypothesis in this research is as follows:

- H1 : Village fund allocation has a Positive impact on economic growth in Bima Regency
- H2 : Village fund allocation has a positive impact on the human development index in Bima Regency

- H3 : Village fund allocation has a positive impact on poverty in Bima Regency

III. RESULTS AND DISCUSSION

A. Hypothesis Testing

Hypothesis testing is performed to determine the effect of exogenous variables on endogenous variables. The exogenous variable in this research is the allocation of village funds while the endogenous variable is economic growth, human development index and poverty. Testing is done by looking at the value of beta ( $\beta$ ) between variables and p-value. The results of hypothesis testing using warp pls 3.0 are shown as follows

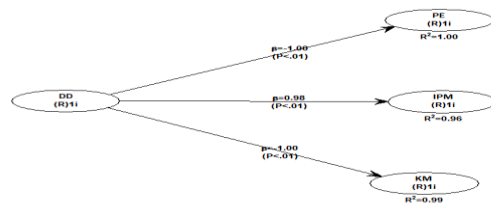


Fig. 1. Results of Hypothesis Test Using Warp Pls 3.0

B. The Impact of Village Fund Allocation on Economic Growth in Bima Regency

The allocation of village funds is funds sourced from the central government, which are given to develop villages. The higher the village funds provided, the higher the level of village development. Increasing this level of development can improve the economic activities of the community in Bima Regency. Therefore, the higher the village funds, the higher the economic growth of the area. This opinion indicates that the allocation of village funds has an important role in regional economic growth. Following Law No. 6 of 2014, regarding Villages, a budget allocation for villages is originated from the central budget which is carried out fairly and evenly to make an effective village-based program. Prasetyo proves that the allocation of village funds can improve regional fiscal and economic performance and can reduce the number of poor people and increase the gross domestic product of the agricultural sector [8]. While Ashari proved the role of the allocation of village funds in the development of physical infrastructure in Kelinjau Ilir village is still small [12]. This shows that when the allocation of village funds is properly allocated, it will increase economic growth as well as increasing the human development index and reduce poverty.

Based on the results of the test, the allocation of village funds affects economic growth in the Bima Regency. This can be seen from the value of beta  $\beta$  of 1.00 with p-value <0.01 which is smaller than alpha ( $\alpha$ ) 0.05. Therefore, the hypothesis of the allocation of village funds to economic growth in the Bima Regency is accepted. It shows that the allocation of village funds in the district of Bima has been able to increase economic growth, this finding supports the researches conducted by Markusen, Prasetyo and Ashari

which say that the allocation of village funds can increase economic growth [3], [8], [13],

The welfare of the community is reflected in the conditions of the community which can be seen from the living standard of the people [14]. Human development index is an indicator used to see the long-term development to measure success in building the quality of human life. In 2015, the Bima regency HDI reached 63.46%. This shows that the region's human development has increased but is still in "moderate" status. Economic growth shows an increase in people's income from time to time. Therefore, economic growth will affect the welfare of the people. Research by Sasana shows that economic growth has a significant influence and has a positive relationship with community welfare in the regency/cities in Central Java Province [14].

Based on the test, the allocation of village funds affects the human development index in Bima Regency. This can be seen from the value of beta  $\beta$  of 0.98 (positive) with a p-value  $<0.01$  which is smaller than alpha ( $\alpha$ ) 0.05. Therefore, the hypothesis of the allocation of village funds to the human development index in Bima Regency is accepted. This indicates that the allocation of village funds in Bima Regency has been able to increase the human development index. This finding supports the research conducted by Markusen and Ashari in which they state that the allocation of village funds can increase the human development index [3], [13].

#### C. *The Effect of Village Fund Allocation on Poverty in Bima Regency*

According to Dewi et al., poverty is a situation in which household income is too low to meet basic needs [15]. They have difficulty in buying food, homes, and clothes for daily use. This situation is driven by income inequality. To be more specific, poverty occurs because of income inequality that occurs in a country. Thus, poverty reduction is one of the development goals.

Based on this study, the allocation of village funds does not affect poverty in Bima Regency. It can be seen from the value of beta  $\beta$  equal to -1.00 (negative) with a p-value  $<0.01$  which is smaller than alpha ( $\alpha$ ) 0.05. Therefore, the hypothesis of the allocation of village funds to poverty in the Bima Regency is rejected. This indicates that the allocation of village funds in Bima regency has not been able to reduce poverty. This finding is in line with research conducted by Dianti which states that the allocation of village funds cannot reduce poverty and contradict the research conducted by Dewi et. al which says that village fund allocation can reduce poverty [15], [16].

#### IV. CONCLUSIONS AND SUGGESTIONS

The allocation of village funds influences economic growth. It is shown that the village has been able to use the allocation of village funds effectively to support village development and the allocation of village funds has been able to increase the human development index which can be seen from the development of village infrastructure, educational institutions and health services that have been built in every villages. However, the allocation of village funds does not affect poverty. This is likely due to the program carried out by the village government still

prioritizes infrastructure development that does not increase the community empowerment. The research implicates the need for an evaluation by the central government related to the allocation of village funds so that it can run effectively. Evaluation in this case can be done through socialization of government regulations and human resources training. This evaluation may reduce the potential misuse of village funds. Effective and efficient implementation of village funds will support village development which increases welfare and decreases poverty. In this research there are limitations, namely 1) this research is still general and it is expected for further researchers to examine each village in detail, 2) add other indicators such as unemployment variables and the Gini index of each Regency, 3) government regulations must be clear so that the village government can understand the allocation of village funds.

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