

## THE IMPACT OF VILLAGE FUND ALLOCATION ON THE ECONOMIC OF BENGKULU PROVINCE, INDONESIA

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**Abstract:** *This study aims to determine whether the fiscal policy of the Indonesian government related to the allocation of village funds has an impact on the problem of poverty and unemployment in Bengkulu Province. This study used secondary data sourced from the Indonesian Ministry of Finance and the Central Statistics Agency. The type of data used is panel data with the research period, namely 2015-2022 and the number of observations, namely 9 districts in Bengkulu Province. Furthermore, this study used panel data regression. The results of the analysis show that the allocation of village funds significantly negatively affects district poverty in Bengkulu Province. In addition, the allocation of village funds significantly also has a negative impact on district unemployment in Bengkulu Province. However, the effect of village fund allocation on unemployment and poverty is still relatively low. Therefore, to optimize the use of village funds in poverty and unemployment alleviation, the allocation of village funds should be used for productive things so that they can improve the community's economy.*

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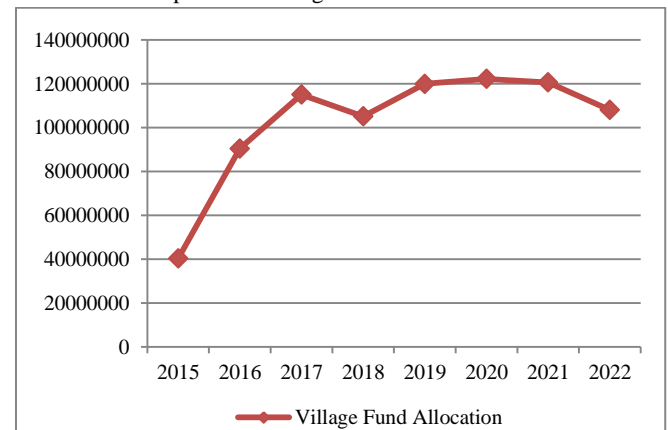
### Introduction

In the current government system, villages have a strategic role in helping the implementation of local government development (Riyani and Sumardjoko, 2016). As a concrete step, the local government supports village governments in implementing village autonomy in their areas. With this autonomy, it is hoped that village governments will be able to encourage capacity building and independence as well as participation of rural communities in order to achieve community welfare. As for the authority of the local government, it is to regulate the proportion of village development budgets or village finances. According to Law Number 6 of 2014, village finance is a right and obligation that can be assessed with money and everything in the form of money and goods related to the implementation of village rights and obligations. Although in reality, there are still many villages that have not been able to optimize village financial management.

According to Law Number 6 of 2014 Article 2, one of the sources of village income is the allocation of village funds which are part of the balancing fund received by districts/cities. Village Fund Allocation (VFA) is a fund sourced from the Regional Budget (APBD) which is allocated with the aim of equitable distribution of financial capacity between villages to fund village needs in the context of governance and implementation of development and community services. Currently, the Indonesian government has distributed Village Fund Allocation (VFA) to all villages in Indonesia. Bengkulu Province is one of the provinces that receives Village Fund Allocation (VFA) which can be categorized as quite large with the amount of Village Fund Allocation (VFA) which always increases every year. The amount

of village funds received by Bengkulu Province during 2015-2022 can be seen in the following chart.

**Graph 1.** Average Village Fund Allocation (VFA) Districts/Municipalities in Bengkulu Province in 2015-2022



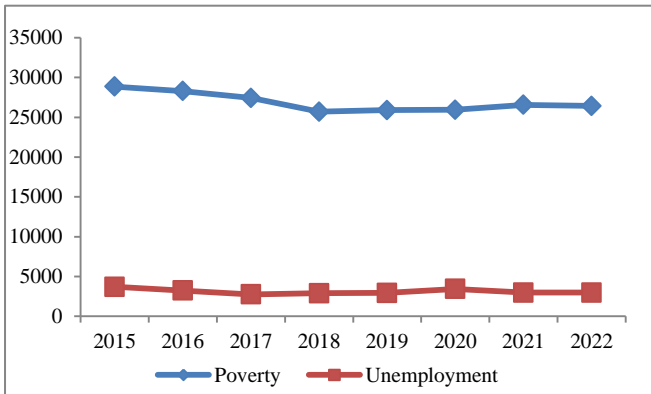
Source : Directorate General of Financial Balance, Ministry of Finance (data processed)

Based on Graph 1.1, it can be seen that the size of the Village Fund Allocation (VFA) of Bengkulu Province always increases every year. Village Fund Allocation (VFA) is a form of government expenditure to facilitate development in rural areas. This Village Fund Allocation (VFA) policy will accelerate the economic development of a region because it will increase regional investment to buy production factors such as production equipment, road construction and other socio-economic facilities (Afrilianto, 2017). With the increasing investment, it will certainly have an impact on improving the community's economy. As for

some indicators to see aggregate economic performance, it can be measured by the development of unemployment and poverty rates.

According to BPS Bengkulu in the Report on People's Welfare Indicators of Bengkulu Province (2022). There are several indicators that can be used to see the welfare of the people of Bengkulu Province based on unemployment and poverty rates. Judging from the number, the poverty rate and unemployment rate in Bengkulu Province in the 2015-2022 period tend to increase as shown in Graph 2 below.

**Graph 2.** Average Number of Poor and Unemployed Districts/Municipalities in Bengkulu Province in 2015-2022



Sumber : BPS Provinsi Bengkulu (diolah, 2023)

Graph 2 shows that the poverty and unemployment rates in Bengkulu Province always fluctuate and tend to decrease from year to year. The success shown by each district / city in managing existing resources has not fully impacted the economic life of rural communities. This can be seen by the high rate of poverty in villages which causes economic inequality between villages and cities. Speaking of poverty, Bengkulu Province is among those that have a relatively large number of poor people even though economic growth is quite high.

With the provision of village funds, it is hoped that it will create community welfare. As stated by Afrilianto (2017), in essence, the Village Fund Allocation (VFA) policy is a series of efforts and policies that aim to improve people's living standards through job creation, equalizing community income distribution, improving regional economic relations and through shifting economic activities from the primary sector to the secondary and tertiary sectors. In other words, the direction of economic development is to strive for people's income to rise, accompanied by the best possible distribution so as to increase regional economic growth. Based on the problems previously described, the researcher intends to further examine how much influence or impact the Village Fund Allocation has on poverty and unemployment.

**Methods**

This study is a quantitative descriptive research that attempts to analyze the effect of Village Fund Allocation (VFA) on poverty and unemployment. The objects in this study are all districts in Bengkulu Province that received village funds during 2015-2022. This study uses 2 dependent variables, namely poverty and unemployment and 1 independent variable, namely Village Fund Allocation (VFA). The data used in this study is secondary data in the form of panel data consisting of time series data and cross

section data. The data is obtained from statistics of Bengkulu Province during 2015-2022 as well as other supporting reports. This study was analyzed using panel data regression analysis. The panel data regression model or equation in this study is:

$$LOGUNEMP_{it} = \beta_0 + \beta LOGVFA_{it} + \epsilon_{it} \dots\dots [1]$$

$$POV_{it} = \beta_0 + \beta_1 LOGVFA_{it} + \epsilon_{it} \dots\dots [2]$$

Information:

- UNEMP is Unemployment
- VFA is Village Fund Allocation
- POV is Poverty Rate
- $\beta_0$  is Intercept/Constant
- $\beta_1$  is variable regression coefficient Village Fund Allocation
- i is unit cross section (Provinces of Indonesia)
- t is period of time (2015-2022)
- $\epsilon$  is Error term

**Results and Discussions**

In this study, the Random Effect Model model was used. This is because the number of time series used in this study is less than the number of individuals in the study. The regression results of the Random Effect Model model in this study are seen in the following table:

**Table 1.** Regression Results of Random Ephefect model

Variable	Model 1 (UNEMP)		Model 2 (POV)	
	Coeff.	Prob.	Coeff.	Prob.
C	11.75131	0.0000	50.67740	0.0000
VFA	-0.206094	0.0094	-1.927757	0.0000
R-Square	0.091206		0.279222	
Adj.RSquare	0.078223		0.268925	
F-statistic	7.025125		27.11726	
Prob (F-Stat)	0.009931		0.000002	

Source : data processed (2023)

Based on the results of the regression random effect model, the regression equation is obtained as follows:.

$$UNEMP = 11.75131 - 0.206094VFA \dots\dots [1]$$

$$POV = 50.67740 - 1.927757VFA \dots\dots [2]$$

**Hypothesis Test**

Based on the regression results obtained from Table 1, it can be seen that the value of t-Statistics Village Fund Allocation (VFA) is -2.669853, t-This statistic is negative which means that Village Fund Allocation (VFA) negatively affects unemployment in Bengkulu Province, while the probability value of t-Statistics unemployment is 0.0094. The probability number t-This statistic is smaller than  $\alpha = 5\%$  or  $\alpha = 0.05$ , so  $H_0$  is rejected and  $H_1$  is accepted. By considering the value of t-Statistics and Probability t-Statistics, it can be concluded that partially Village Fund Allocation (VFA) has a negative and significant effect on unemployment in Bengkulu Province at  $\alpha = 0.05$ . As for model 2, based on the regression results obtained from Table 1, it can be seen that the value of t-Statistics Village Fund Allocation (VFA) is -5.213519, t-This statistic is negative which means that Village Fund Allocation (VFA) has a negative effect on poverty in Bengkulu Province, while the probability value of t-Statistics poverty is 0.0000. The probability number t-This statistic is smaller than  $\alpha = 5\%$  or  $\alpha = 0.05$ , so  $H_0$  is rejected and  $H_1$  is accepted. By considering the value of t-Statistics and Probability t-Statistics, it can be concluded that partially Village Fund Allocation (VFA) has

a negative and significant effect on poverty in Bengkulu Province at  $\alpha = 0.05$ . As for model 2, based on the regression results obtained from Table 1, it can be seen that the value of t-Statistics Village Fund Allocation (VFA) is -5.213519, t-This statistic is negative which means that Village Fund Allocation (VFA) has a negative effect on poverty in Bengkulu Province, while the probability value of t-Statistics poverty is 0.0000. The probability number t-This statistic is smaller than  $\alpha = 5\%$  or  $\alpha = 0.05$ , so  $H_0$  is rejected and  $H_1$  is accepted. By considering the value of t-Statistics and Probability t-Statistics, it can be concluded that partially Village Fund Allocation (VFA) has a negative and significant effect on poverty in Bengkulu Province at  $\alpha = 0.05$ .

Furthermore, in model 1 obtained an R-square value of 0.0782. This shows that Village Fund Allocation (VFA) is able to explain unemployment of 7.82 percent, while 92.18 percent is explained by other variables outside the research variables. While in model 2 (see Table 1), the R-square value is 0.2689. This shows that Village Fund Allocation (VFA) is able to explain poverty by 26.89 percent, while 73.11 percent is explained by other variables outside the research variables. Furthermore, in model 1 obtained an R-square value of 0.0782. This shows that Village Fund Allocation (VFA) is able to explain unemployment of 7.82 percent, while 92.18 percent is explained by other variables outside the research variables. While in model 2 (see Table 1), the R-square value is 0.2689. This shows that Village Fund Allocation (VFA) is able to explain poverty by 26.89 percent, while 73.11 percent is explained by other variables outside the research variables.

## Discussion

Based on the t test, F test and coefficient determination test ( $R^2$ ) each have obtained the results. Based on the t test, a t-Statistic value of -2.669853 (negative value) is obtained with a probability of 0.0000 and with a coefficient of -0.206094. This shows that partially Village Fund Allocation (VFA) has a negative and significant effect on unemployment in Bengkulu Province at  $\alpha=0.05$ . This means that when the Village Fund Allocation (VFA) increases, unemployment in Bengkulu Province will decrease and vice versa when the Village Fund Allocation (VFA) decreases, the unemployment of Bengkulu Province will increase. This result is in accordance with the hypothesis that states that there is a significant influence of Village Fund Allocation (VFA) on unemployment in Bengkulu Province.

The results of this study are in line with Lubis (2020), village funds have a negative and significant effect on unemployment. Buhaerah (2021) said that village funds are very effective in reducing unemployment in villages, especially during the pandemic. The increase in rural poverty and unemployment is lower than in cities during the pandemic and this is due to village funds. According to John F. Due theory (in Prasetya, 2012), where government fiscal policy through government spending will expand employment and reduce unemployment. However, the results of this study are different from the findings of Yacoub (2022) who found that village funds have a positive effect on unemployment.

Although village funds have a negative effect on unemployment, the effect of village funds is relatively low in reducing unemployment in Bengkulu Province. In fact, based on Permendagri Number 37 of 2007 article 19, states that one of the

objectives of the Village Fund Allocation (VFA) is to overcome poverty and reduce inequality. One of the efforts to reduce the number of poverty is by reducing unemployment or creating jobs in the community. However, in this case, unemployment in Bengkulu province is still relatively high. This is because most of the village funds are used for the construction of rural physical facilities and infrastructure, while the use for community empowerment is still relatively small. In addition, the quality of facilities and infrastructure built is still not good because there is still a lack of technical management capabilities both in terms of planning and management. In addition, according to Mahfud (2009), most of the use of Village Fund Allocation (VFA) is directed more towards building physical facilities and infrastructure and adding welfare to village equipment in the form of retirement funds, allowances and the like and some for routine activities.

According to Sukirno (2006), the impact of unemployment will reduce people's income which ultimately reduces the level of prosperity achieved by a person. The decline in people's welfare due to unemployment will certainly increase their chances of being trapped in poverty because they have no income. If unemployment in a country is very bad, there will be political and social chaos that always prevails and will have a negative impact on people's welfare and prospects for economic development in the long run. High unemployment is an economic problem because it wastes valuable resources. Unemployment is also a big social problem as it results in great suffering for unemployed workers who have to struggle with reduced incomes. If unemployment is high, difficult economic circumstances overflow and affect people's emotions and family life (Samuelson and Nordhaus, 2004). Therefore, the Bengkulu Provincial government must use the Village Allocation Fund (VFA) for productive things.

Meanwhile, based on the t test, F test and coefficient determination test ( $R^2$ ) each have obtained the results. Based on the t test, a t-Statistic value of -1.927757 (negative value) is obtained with a probability of 0.0094. This shows that partially Village Fund Allocation (VFA) has a negative and significant effect on poverty in Bengkulu Province at  $\alpha=0.05$ . This means that when the Village Fund Allocation (VFA) increases, poverty will decrease and vice versa when the Village Fund Allocation (VFA) decreases, poverty in Bengkulu Province will increase. This result is in accordance with the hypothesis that there is a significant effect of Village Fund Allocation (VFA) on poverty in Bengkulu Province.

This research is in line with research conducted by Fadila et.al (2023), Yacoub (2022), Daniswari (2022), Ritonga et.al (2021), Sigit and kosasih (2020), Sunu and Utama (2019), Azwardi and Sukanto (2014), Putra (2018), Dewi and Irama (2018), which found that there was a negative influence between Village Fund Allocation (VFA) poverty levels. However, the influence of village funds in overcoming poverty in Bengkulu Province is still relatively low. This can be seen from the high level of poverty in Bengkulu Province. Based on data from the Central Statistics Agency, during the 2015-2022 period, the poverty rate in Bengkulu Province averaged 20 percent. Currently, Bengkulu Province is also still the seventh poorest province in Indonesia (BPS, 2023). As found by Septriani et al. (2020), that the highest regional expenditure in Bengkulu is dominated by employee spending. This employee plan includes mandatory spending. So that it does not

have an impact on poverty reduction in Bengkulu Province. Actually, there are many budget policies issued by local governments, such as social protection spending, but even this expenditure has not had an impact on poverty reduction in Bengkulu Province, this is because the majority of programs carried out in social protection are poverty mitigation in the short term (Septriani, 2023). Most of the shopping carried out by the Bengkulu Provincial Government comes from the Central Government (Pasaribu, 2020).

In the case of research conducted by Mutiarin and Hariyanto (2015) found several factors inhibiting the realization of village funds in overcoming poverty due to the quantity and quality of human resources who still need training to increase human resource productivity in managing the allocation of village funds. In addition, according to Hernowo (2010), in the realization of the allocation of village funds should be adjusted to economic activities in the area, so that village funds will be more targeted in overcoming poverty problems. In addition, the lack of optimal management of Village Fund Allocation (VFA) is also caused by low human resources of village officials and lack of coordination on the management of Village Fund Allocation (VFA) allegedly become obstacles in the process of managing Village Fund Allocation (Thomas, 2013).

The existence of this village fund allocation is inseparable from one of the government's policies, namely fiscal policy. Research on the Impact of Village Fund Allocation (VFA) on the Economy has been conducted by Prasetyanto (2012), the results of his study show that it is able to improve fiscal and regional economic performance, able to reduce the number of poor people and increase the gross regional domestic product of the agricultural sector. According to Karimah, et.al (2005), the contribution of village fund allocation to poverty reduction has not been optimal because village fund management has not been able to increase community empowerment in village fund management. Furthermore, Karimah, et.al (2005), said that some stakeholders have also not carried out their roles optimally, only the village head dominates in managing village funds. In addition, according to Aziz (2016), there are doubts about the benefits of village funds for poverty due to inadequate capacity and capability of village governments. According to Sigit and Kosasih (2020), there are three aspects that must be improved in village fund management policies, namely the formulation aspect, the aspect of strengthening supervision and the aspect of increasing innovation in the use of village funds. In addition, most of the use of Village Fund Allocation (VFA) is directed more towards physical activities (construction of physical facilities and infrastructure) and the addition of welfare of village equipment in the form of retirement funds, allowances and the like and some for routine activities (Mahfud, 2009).

Therefore, with the knowledge of the results of this study, it should be one of the evaluation materials for the government to always improve the performance of regional and village apparatus in order to effectively realize the allocation of village funds, so as to overcome poverty in each district in Bengkulu Province. The large number of poor people can be an indicator of the level of welfare in an area. Saputra and Mudakir (2011), poverty can be one of the benchmarks for socio-economic conditions in assessing the success of development carried out by local governments, where poverty can have a negative impact, both economically and

socially. In addition, according to Todaro (2006). If the poverty line increases and humans are unable to meet their basic needs, it will create a vicious cycle where it will be seen from low real income that will result in low demand so that investment will also be low and can reduce productivity.

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