

EXPLORING THE RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE AND INCOME INEQUALITY: A CASE STUDY

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Article History

Received: 08.10.2024

Accepted: 07.11.2024

Published: 28.11.2024

Abstract: This study aims to analyze the influence of government expenditure on income inequality in Bengkulu Province. The data used is secondary data sourced from the Central Bureau of Statistics. Furthermore, the analysis tool used in this study is multiple linear regressions using panel data during the 2019-2021 periods. The results of this study show that simultaneously the variables village fund, education function expenditure, and economic function expenditure have a positive effect on income inequality in Bengkulu Province at $\alpha = 5\%$. Meanwhile, partially, the Village Fund has a negative and significant influence on income inequality in Bengkulu Province. Good management in infrastructure development and village economic empowerment helps reduce the gap between villages and cities. However, its effectiveness can be improved by focusing on poverty alleviation and job creation. While education function expenditure shows a positive influence on income inequality, even though education spending increases, inequality actually worsens. This is due to the unequal access and quality of education between rich and poor regions. For this reason, education policies must ensure equal access and quality throughout the region. Meanwhile, economic function expenditure does not have a significant effect on income inequality in Bengkulu Province. Suboptimal management and uneven distribution reduce the positive impact. Policies that focus more on empowering the local economy, improving fund management, and distributing benefits more evenly across all levels of society are needed to reduce inequality.

Keywords: Income Inequality, village fund, education function expenditure, economic function expenditure.

Cite this article:

Septriani, S., (2024). EXPLORING THE RELATIONSHIP BETWEEN GOVERNMENT EXPENDITURE AND INCOME INEQUALITY: A CASE STUDY. *ISAR Journal of Economics and Business Management*, 2(11), 74-80.

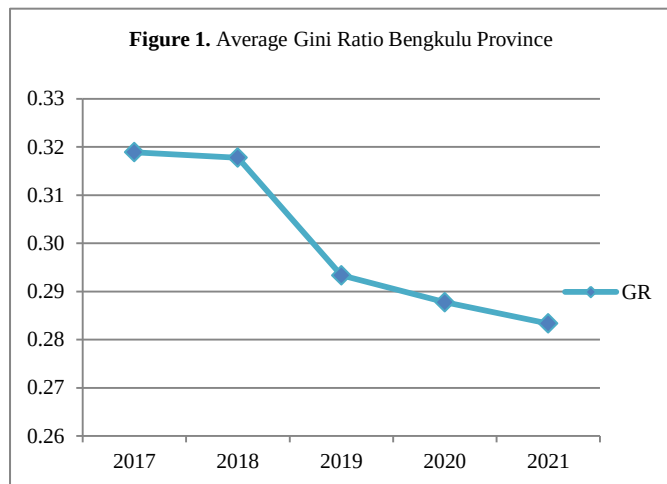
Introduction

Income inequality is one of the main issues in the economy of a country or province, which can create significant social and economic impacts. In Indonesia, including Bengkulu Province, income inequality is still a major challenge in achieving the goal of equitable development and social welfare. This income inequality is often measured using the Gini index, which describes the extent to which income distribution in society is uneven (Boni et al., 2021). Although Indonesia has experienced significant economic growth in recent decades, inequality between regions and between community groups remains high, which is a structural problem in the economy. Bengkulu Province, as one of the provinces with a relatively high poverty rate, shows a striking income inequality. Based on data from the Central Statistics Agency (BPS), Bengkulu has a higher level of inequality compared to the national average, with the Gini index showing a significant inequality trend. The factors that cause this inequality include disparities in access to education, and economic opportunities, which are often related to

government policies at the local level. According to development economics theory, income inequality can be influenced by structural factors, both in terms of supply and demand for production factors.

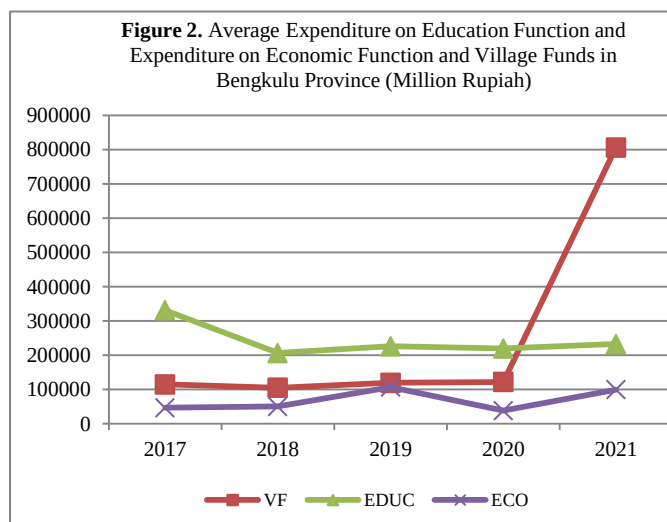
In this context, the allocation of government funds, such as village funds, expenditure on education functions, and expenditure on economic functions, plays an important role in reducing social and economic disparities. Village funds, which are part of the central government's fiscal transfer policy to the regions, are expected to improve the welfare of rural communities by encouraging the development of basic infrastructure and strengthening local economic capacity. Adequate expenditure on educational functions can improve the quality of human resources and improve access to education, which in turn has an impact on reducing income inequality. In addition, spending on economic functions directed at productive sectors such as agriculture, industry, and infrastructure can open up a wider range of jobs, thereby helping to reduce income disparities in more isolated areas. The disparity in income of the Regency/City community in

Bengkulu Province can be seen in Figure 1. Based on Figure 1, it can be seen that the Gini level of the Regency/City Ratio in Bengkulu Province tends to decrease. The decline in this Gini ratio shows an improvement in income distribution in Bengkulu Province. A higher Gini ratio indicates that there is increased inequality across countries and inequality in the share of income between those with high and low incomes (Berman et al., 2016).



Source: Central Bureau of Statistics, Bengkulu Province

As for efforts to reduce income inequality, the government has made a number of policies to improve welfare in each region. These policies include government expenditures such as village funds, expenditure on education functions and expenditure on economic functions. Based on data obtained from the Ministry of Finance, the amount of government expenditure, especially the budget for village funds, expenditure on education functions and expenditure on economic functions always fluctuates and tends to increase from year to year, as seen in figure 1.



Source: Ministry of Finance of Indonesia

Based on figure 2, it can be seen that the government has made a considerable amount of expenditure to overcome the economic problems of Bengkulu Province. It is hoped that this policy will have a positive impact on the regional economy. However, in reality, despite the allocation of village funds and increased spending in these sectors, its impact on reducing income inequality in Bengkulu Province still needs further study. Several

studies show that although village funds have provided benefits in some areas, their impact on reducing income inequality has not been fully maximized due to limited management capacity and imbalances in resource distribution. As the results of the research found by Sari & Abdullah (2017), that village funds are not effective in reducing village poverty, this is because the use of Village Funds is mostly used for the development of rural physical facilities and infrastructure, while the use for community economic empowerment is relatively very little. In addition, the quality of the facilities and infrastructure built is still not good due to the lack of technical skills of managers, both in terms of planning and management. The same applies to education and expenditure of economic function, which in some cases is not followed by an equal distribution of service quality and access throughout the entire area of Bengkulu Province.

Based on the theory of Human Capital. It is explained that education improve the quality of human resources. A better education improves an individual's skills and productivity, which in turn increases their earning potential. Todaro & Smith (2011) states that human capital is a productive investment in human beings that includes abilities, skills, knowledge, and ideas. Jhingan (2016) said that to change economic backwardness and awaken the ability and motivation to advance, it is important to improve the knowledge and skills of the people. In reality, without the improvement of quality and human factors, there can be no progress. Therefore, in this context, education spending serves as an investment that can reduce income inequality by providing more equal opportunities for individuals to improve their skills and obtain better jobs. Expenditure on the education function plays a role in improving the quality of human resources. Better education improves the skills and productivity of the workforce, which can ultimately increase individual incomes and reduce economic inequality. According to Alamanda (2020), Government spending on public education will help address the problem of inequality because education becomes more accessible when the government invests funds, low-income people are more likely to enroll in school. Better education ultimately produces more human capital, and increasing human capital for low-income earners is one way to combat economic inequality.

Meanwhile, spending on economic functions focuses on the development of productive sectors such as agriculture, industry, and infrastructure, also has a significant impact on income inequality. Infrastructure development, such as roads, irrigation, and transportation facilities, can open up market access for local products, improve economic efficiency, and create wider employment. This has the potential to reduce inequality between regions, especially areas that are more isolated and less developed (Aghion & Howitt, 2009).

In inclusive growth theory, the importance of policies to ensure that economic growth can be felt by all levels of society is emphasized. Spending on economic functions, such as investment in infrastructure, empowerment of the small business sector, and development of the productive sector, can create more equitable economic opportunities. Thus, budget allocation for economic functions can reduce income inequality by expanding people's access to employment opportunities and economic resources. Meanwhile, this theory states that the allocation of funds for development in the regions, including village funds, can improve the quality of life of the community and encourage equitable

development. With village funds, basic infrastructure and services in villages can be improved, which in turn creates more equitable economic opportunities. This can reduce income inequality, especially between urban and rural areas.

Research on the influence of village funds, expenditure on education functions, and expenditure on economic functions on income inequality is very important to ensure that public budget allocation can reduce socio-economic inequality. Village fund, education function expenditure, and economic function expenditure are the main instruments in improving community welfare, especially in underdeveloped areas. By understanding how these three factors affect income inequality, we can evaluate the effectiveness of government policies in achieving the goal of equitable development. Village funds play a role in improving rural communities' access to infrastructure and basic services, which can reduce inequality between regions. Meanwhile, expenditure of education function and expenditure of economic function can improve the quality of human resources, which in turn helps create more equitable economic opportunities. This research will provide insight into how much the influence of the allocation of funds is in reducing income inequality. In addition, the results of the study can be the basis for policymakers to formulate more targeted programs. For example, if education spending proves to be more effective in reducing inequality, then the government can focus more on allocating budgets for the education sector in areas with high inequality. It will also help determine government spending priorities, ensuring that funds are used optimally to improve people's welfare. Thus, this research is not only important to evaluate existing policies, but also contributes to policy planning that has a more direct impact on reducing income inequality and improving the overall quality of life of the community.

Method

The basic method used in this study is the quantitative descriptive method. The data used in this study is secondary data in the form of panel data obtained from Bengkulu Province statistics during 2017-2021 and other supporting reports. The data collected are Gini ratio, village funds, expenditure on education functions, and expenditure on economic functions. This study uses analysis, namely panel data regression. The equation model used is:

$$GR_{it} = \beta_0 + \beta_1 \text{Log}VF_{it} + \beta_2 \text{Log}EDC_{it} + \beta_3 \text{Log}ECO_{it} + \varepsilon_{it}$$

Where GR is the Gini ratio, β_0 is the constant, $\beta_1, \beta_2, \beta_3$ is the regression coefficient of village funds, education function expenditure and economic function expenditure, respectively. VF is the Village Fund, EDC is education function expenditure, ECO is economic function expenditure, i is the cross section unit (district in Bengkulu Province), t is the time period (2017-2021), and ε is the error term.

Result and Discussion

In this study, several tests were carried out to determine the best model among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The summary of the test results can be seen in table 1 below.

Table 1. Result of Chow Test, Hausman Test and Lagrange Multiplier Test

Chow Test			
Effects Test	Stat.	df	Prob.
Cross-section F	2.411128	(8,33)	0.0359
Cross-section Chi-square	20.712554	8	0.0080
Hausman Test			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.479006	3	0.9235
Lagrange Multiplier Test			
	Cross-section	Test Hypothesis Time	Both
Breusch-Pagan	3.529118 (0.0603)	1.619545 (0.2032)	5.148663 (0.0233)

Source: Secondary data (processed, 2024)

Based on table 1, the results of the chow test, hausman test and lagrange multiplier test can be seen. Based on the chow test, it can be seen that the probability value of cross section F of 0.0359 is less than α (0.05). This shows that the best model between CEM and FEM is FEM. Furthermore, based on the results of the hausman test, a random cross-section probability value of 0.9235 was obtained, so that the best model between FEM and REM was REM. Then it is necessary to carry out Lagrange multiplier testing to determine the best model between REM and CEM. Based on the results of the Lagrange test, a probability value of Breush-Pagan was obtained of 0.0603, so the best model is the Common Effect Model. The results of the best model regression can be seen in table 2.

Table 2. Result of The Best Model (Common Effect Model)

Variable	Coeff.	S.E	t-stat.	Prob.
C	-0.493010	0.368051	-1.339517	0.1878
LOG(VF)	-0.011792	0.005710	-2.065230	0.0453 *
LOG(EDC)	0.038477	0.012377	3.108762	0.0034 **
LOG(ECO)	0.000354	0.009164	0.038638	0.9694
Signif.codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1				
R ² : 0.2641				
Adjusted R-Square : 0.2102				
F-statistic : 4.90469				
Prob.F-Statistic : 0.005281				

Source: Secondary data (processed, 2024)

Based on the test results in Table 1, the regression equation is obtained as follows:

$$GR_{it} = -0.493010 - 0.011792 \text{LOG}(\text{VF})_{it} + 0.038477 \text{LOG}(\text{EDC})_{it} + 0.000354 \text{LOG}(\text{ECO})_{it}$$

Hypothesis Test

In this study, hypothesis testing was carried out consisting of a determination coefficient test (R²), an F test and a t test. Based

on the results of the determination coefficient (R²) test, the Adj R² value was obtained as 0.2102. This shows that village funds, expenditure on education functions and expenditure on economic functions are able to explain income inequality of 21.02 percent, while 78.98 percent is explained by other variables outside the variables of this study. Meanwhile, based on the F test, an F-statistical value of 4.90469 was obtained with an F-statistical probability of $0.005281 < 0.05$. These results show that simultaneously the variables of village funds, expenditure on education functions and expenditure on economic functions have a positive and significant effect on income inequality at $\alpha = 5$ percent.

Based on the results of the t-test, the t-Statistics of village funds was obtained as 2.065230 (negative value) with a probability value of t-Statistics of village funds of 0.0453. This t-statistics probability number is smaller than $\alpha = 5\%$ or $\alpha = 0.05$, so H_0 is rejected and H_1 is accepted. These results show that the village fund has a negative and significant effect on income inequality at $\alpha = 5\%$. Then the t-Statistics of expenditure on education functions is 3.108762 (with a positive value) with a probability value of t-Statistics on expenditure on education functions of 0.0034. This t-statistics probability number is less than $\alpha = 5\%$, so H_0 is rejected and H_1 is accepted. These results show that expenditure on education functions has a positive and significant effect on income inequality at $\alpha = 5\%$. Meanwhile, in the variable of economic function expenditure, a t-Statistical value of 0.038638 (positive value) was obtained with a probability value of t-Statistics of economic function expenditure of 0.9694. The t-statistics probability number is greater than $\alpha = 5\%$, so H_0 is accepted and H_1 is rejected. These results show that expenditure on economic functions has no effect on income inequality at $\alpha = 5\%$.

Discussion

Based on the results of the t-test, partially, village funds have a negative and significant effect on income inequality in Indonesia at $\alpha = 0.05$. This is indicated by the probability of t-statistic (0.0453) being less than $\alpha = 5\%$. These results show that village funds have a negative and significant effect on income inequality in Bengkulu Province. Effective management in building infrastructure, empowering local economies, and improving access to basic services such as education plays an important role in reducing income inequality. In Bengkulu Province, the allocation of village funds that are right on target has had a positive impact on improving the welfare of rural communities, opening up greater economic opportunities, and reducing the gap between villages and cities.

Although Village Funds can have diverse impacts, analyses based on economic theory and empirical data suggest that an increase in Village Funds can lead to a decrease in the Gini Ratio with several underlying mechanisms. One of the most powerful theoretical bases in explaining the positive influence of Village Funds on reducing inequality is the theory of income redistribution. Government policies that allocate funds to underprivileged groups or regions can help reduce socio-economic inequality. The Village Fund serves as an instrument of fiscal redistribution, where the central government transfers most of the state revenue to villages to be used in community development and empowerment. Based on several research results, it shows that there was a negative influence between Village Fund Allocation (VFA) poverty levels

Septriari (2023a), Fadila et.al (2023), Ritonga et.al (2021), Yacoub (2022); Sigit and kosasih (2020).

With the increase in the Village Fund, more resources are allocated for the development of basic infrastructure and economic empowerment in the village (Handra et al., 2017); (Adam et al., 2024); (Kadafi & Sudrahman, 2020). This provides an opportunity for disadvantaged villages to improve access to public facilities such as roads, bridges, clean water, and electricity, markets, and educational facilities, opening up greater economic opportunities for rural communities. Better infrastructure allows villages to better connect with markets and improve the efficiency of production and distribution of goods and services. Based on the data, the villages that received more Village Funds experienced significant infrastructure improvements, which helped them access the market more easily. For example, the construction of better village roads makes it easier for farmers to sell their produce to a wider market, potentially increasing their income. This increase in economic access reduces inequality between villages, as well as between rural and urban areas and in turn lowers income inequality and improves the quality of life of rural communities. This better quality of life contributes to an increase in people's incomes, especially those who were previously marginalized. The use of village funds is directed to development and empowerment activities of village communities, especially in terms of improving the quality of life of the community and reducing poverty (Anshari et al., 2023). When income in villages increases evenly, income inequality between rich and poor groups, both on a village scale and as a whole, will decrease.

Based on the inclusive growth theory, it is explained that economic growth that occurs evenly and inclusively can help reduce inequality. Village funds play a role in facilitating economic growth in rural areas by increasing people's access to economic opportunities. Funds used for basic infrastructure development or for local economic empowerment projects can increase the capacity of village communities to create jobs, open new businesses, and increase productivity in the agricultural and non-agricultural sectors

Empirical data show that areas that receive more Village Funds tend to experience an increase in local economic activity Dwitayanti et al. (2020), such as the development of micro enterprises, increasing agricultural production, and expanding access to markets. When rural communities have higher and more equitable incomes, inequality between villages and cities and between income groups will decrease. When the Village Fund is well managed, with a focus on the poor and disadvantaged areas, a more equitable increase in income can be achieved, which contributes to a decrease in social and economic inequality. As shown by research conducted by Riyanda et al. (2022), Village funds have not been effective enough in overcoming the problem of poverty. Therefore, the management of village funds must be improved by focusing more on programs that help develop the economy of village communities, especially those related to poverty alleviation and job creation.

Furthermore, based on the results of the t-test, partially, expenditure on the education function has a positive and significant effect on income inequality at $\alpha = 0.05$. This is indicated by the probability of t-statistic (0.0000) being less than $\alpha = 5\%$. These results show that expenditure on education functions has a positive

and significant effect on income inequality. Although government spending in the education sector in the 2017-2021 periods increased, it turns out that the Gini Ratio or income inequality in Bengkulu Province has actually increased. The results of this study are in line with the results of research found by Voto & Ngepah (2024), that public education spending increases income inequality while its squared spending reduces it in the long run. Government investment in education increases the level of human capital, which supports a knowledge-based economy and economic growth (Lucas, 1988). This reduction is done through the accumulation of human capital, which increases productivity and economic growth, thereby reducing income inequality (Samanta & Kayet, 2020).

These results seem contradictory because education is usually considered an important instrument in reducing inequality. However, a number of economic and social factors affect the outcome of education spending. Based on economic theory, the increase in government spending in the education sector is not always directly proportional to the decrease in inequality. As Zhang Xiaofang et al. (2021) argue, the relationship between education spending and inequality depends on the quality of governance. The development of Human Capital Theory has instilled optimism about the influence of education investment on income inequality. With education recognized as a powerful long-term mechanism for balancing income and income distribution, researchers have placed significant emphasis on empirical validation of the role of education in reducing inequality in income distribution in the long term.

In human capital theory, it is said that investment in education can improve individual skills, which in turn will increase their productivity and income. According to the notion of human capital, an individual may increase their income via education, such that the presence of such education will increase human productivity. Despite this, one of the main ways that the public raises their level of education is through the implementation of educational reforms that are overseen by the government. According to research conducted by (Marlin et al., 2022) and (Atmanti, 2005), (Septriani, 2023b) human development index is impacted by the function of education. This improvement in HDI will eventually affect the income inequality. In this case, increasing government spending in the education sector is expected to improve the quality of education, produce a more skilled workforce, and in turn reduce income inequality.

Based on the results of this study, although education spending is increasing, unequal access to quality education between rich and poor regions remains a problem. In many underdeveloped or rural areas, the quality of education received by poor children is often lower compared to children in urban areas. This can be caused by the lack of adequate educational facilities, the lack of qualified teachers, and limited access to technology that supports education. Data from the Central Bureau of Statistics shows that although the average school participation rate has increased in various regions, the inequality between rich and poor regions in terms of access to education is still high. In urban areas, parents with higher incomes can send their children to better private schools, while in rural areas and disadvantaged areas, more limited educational facilities cause children in those areas to not have equal opportunities. As a result, despite increased spending on education, educational inequality between richer and poorer regions persists, which contributes to rising income inequality.

In addition, although there are efforts to increase education spending, most of these improvements are often focused on the construction of educational facilities (Septriani, 2023b); (Septriani, 2023c); (Septriani et al., 2023). In addition, low-income communities are often unable to access higher education that is relevant to the needs of the increasingly developed job market. As a result, they remain trapped in low-skilled, low-wage jobs, which exacerbates income inequality. Although primary and secondary education is more widely accessible, high-wage jobs are more likely to be dominated by those with access to higher education and specialized skills.

The increase in government spending in the education sector between 2017-2021 does not always have an impact on reducing income inequality. This is because the increase in education spending is not always balanced with equal access and high quality of education throughout the region. Therefore, the government needs to focus not only on increasing the education budget, but also on policies that ensure that quality education is equally accessible to all levels of society.

Furthermore, based on the results of the t-test, expenditure on economic functions partially has no effect on income inequality at $\alpha = 0.05$. This is indicated by the probability of t-statistic (0.0000) greater than $\alpha = 5\%$. Although this economic function expenditure should be able to reduce income inequality, in the case of Bengkulu Province, there are several factors that cause economic function expenditure to have no significant effect on income inequality. First, although there is spending in the economic sector that aims to encourage infrastructure development and productive sectors, budget management in some regions is not optimal. Then spending on infrastructure, quality and distribution is still relatively unbalanced. In fact, this economic function expenditure is an expenditure that is used to create jobs, build public facilities and infrastructure, and is directed to improve the community's economy.

In addition, although expenditure of economic function can have an impact on economic growth, its impact on income inequality largely depends on which sector the spending is allocated to. More spending allocated to sectors that do not directly create jobs or increase the incomes of the poor will have a limited impact on inequality. Furthermore, despite the increase in economic function expenditure in Bengkulu Province, factors such as suboptimal management, uneven distribution of expenditure, and dependence on certain sectors that are vulnerable to external factors, explain why economic function expenditure does not have a significant effect on reducing income inequality. Therefore, in order for expenditure of economic function to function more effectively in reducing inequality, policies that are more focused on empowering the local economy, improving the quality of fund management, and distributing benefits more evenly to all levels of society are needed.

Conclusion

Based on the results of the analysis, it can be concluded that the Village Fund has a negative and significant influence on income inequality in Bengkulu Province. Effective management in building infrastructure, empowering local economies, and improving access to basic services such as education plays an important role in reducing income inequality. With the right

allocation of Village Funds, it can improve the welfare of village communities and wider economic opportunities. However, the effectiveness of the Village Fund in reducing income inequality can be improved through better management and a focus on poverty alleviation and job creation. On the other hand, expenditure on education functions in Bengkulu Province has a positive effect on income inequality in Bengkulu Province. This is due to the unequal quality and access to education between rich and poor areas, as well as the limited facilities and quality teaching staff in disadvantaged areas. Meanwhile, expenditure on economic functions does not show a significant influence on income inequality in Bengkulu Province. Therefore, to increase the effectiveness of expenditure of economic function, policies that focus more on empowering the local economy, improving fund management, and distributing benefits more evenly across all levels of society are needed.

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