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CAN VILLAGE FUNDS STRENGTHEN ECONOMIC GROWTH IN INDONESIA?

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ABSTRAK

This research aims to determine the influence of village funds on economic growth in Indonesia. This study differs from previous research by including DAU, Physical DAK, DBH, ADD, and Social Protection Expenditure as control variables for the 2019–2023 period. This research was conducted using quantitative methods through panel data regression in order to analyze the data. The research found that Village Funds as the main independent variable have a very significant positive influence on the dependent variable, namely economic growth (GRDP). This study suggests that Village Fund transfers should continue, because these funds play an important role in encouraging economic growth in Indonesia.

Tujuan penelitian ini adalah untuk menelaah seberapa besar pengaruh penyaluran Dana Desa terhadap peningkatan pertumbuhan ekonomi di Indonesia. Sebagai pembeda dari riset-riset sebelumnya, penelitian ini menggunakan sejumlah variabel kontrol, yakni Dana Alokasi Umum (DAU), Dana Alokasi Khusus Fisik (DAK Fisik), Dana Bagi Hasil (DBH), Alokasi Dana Desa (ADD), serta pengeluaran pemerintah dalam bentuk Belanja Perlindungan Sosial. Data yang dianalisis mencakup periode tahun 2019 hingga 2023. Pendekatan yang digunakan bersifat kuantitatif dengan metode analisis regresi data panel, yang bertujuan untuk menggambarkan hubungan empiris antarvariabel secara lebih akurat. Temuan penelitian memperlihatkan bahwa Dana Desa sebagai variabel utama berkontribusi positif dan signifikan terhadap pertumbuhan ekonomi yang tercermin dalam indikator Produk Domestik Regional Bruto (PDRB). Berdasarkan hasil tersebut, disarankan agar kebijakan transfer Dana Desa terus dipertahankan serta diarahkan secara lebih efektif untuk memperkuat basis ekonomi lokal dan memperluas dampak kesejahteraan masyarakat di wilayah pedesaan.

1. INTRODUCTION

Currently, national development has placed villages in a strategic position, this refers to Law Number 6 of 2014 concerning Villages. One of the national development priority targets is the delegation of various financial resources to villages, including Village Funds originating from the APBN and Village Fund Allocation, financial assistance, and PDRD revenue sharing from each regional government according to their area, as well as the potential for extracting existing Village Original Income (PADes) (Asmawati & Basuki, 2019). Besides that, Herdiana (2019) believes villages are the subject of development through various policy elements to strengthen village institutions through all their potential and the desired development direction to become an advanced and independent village.

Law Number 6 of 2014 concerning Villages represents the constitutional embodiment of the provisions stated in Article 18 paragraph (7) and Article 18B paragraph (2) of the 1945 Constitution. This legislation aims to strengthen the delivery of public services at the village level to hasten the attainment of social welfare, stimulate local economic growth to minimize regional development inequality, and enhance the capacity of village residents so they can function as key agents in the nation's development process. Therefore, villages are given strengthened functions and authority and given village financial resources as capital for implementing village development (Arina et al., 2021). Furthermore, the Government has made village and rural area development policies one of the national priority agendas. The policy direction and strategy for development of villages and rural areas for 2015 - 2019 includes, among other things, overcoming poverty in villages, fulfilling SPM following the geographical conditions of villages, strengthening village government and village communities, and developing the economy of rural areas to encourage village-city linkages (Darmawan, 2018). Village Funds with significant nominal amounts as a source of village income is expected to catalyze village development programs, which in turn will impact increasing national economic growth (Prasetyo & Dinarjito, 2021).

In accordance with the Village Law, village governments currently possess seven primary sources of revenue that serve as potential capital for advancing local governance and development initiatives. These revenue streams consist of: (a) village-generated income obtained from business ventures, asset utilization, community participation, cooperative undertakings, and other legitimate local earnings; (b) funding derived from the State Budget (APBN); (c) a designated share of regional tax and levy revenues collected by regencies or municipalities; (d) an allocation of village funds sourced from the balancing funds distributed to regencies or cities; (e) fiscal transfers originating from provincial and district or city budgets; (f) voluntary and non-obligatory contributions or donations from external parties; and (g) other recognized and lawful forms of village income. Moreover, the portion of Village Fund financing from the APBN accounts for 10 percent of the total transfer budget, which is disbursed progressively in several stages.

Article 72 paragraph (2) of Law Number 6 of 2014 stipulates that the allocation of funds mentioned in paragraph (1) point b—originating from the State Budget (APBN)—is drawn from central government expenditure and implemented through development programs that are village-focused to ensure equitable and efficient distribution. The explanatory note of this provision adds that the allocation of funds from the APBN is determined based on the total number of villages, with consideration given to variables such as population scale, land area, poverty incidence, and the degree of geographical difficulty faced by each village.

In its implementation, through Government Regulation Number 60 of 2014, the Government further regulates the mechanism for allocating and distributing village funds from the APBN, where the allocation of village funds is calculated based on these variables in certain weights (30% of the population, 20% of the area, 50% of the poverty rate). Meanwhile, geographic difficulty is a multiplying factor in the weighting results of all variables. With certain considerations, the formula was then revised to emphasize the element of equality through the basic allocation, which is still set at 90%.

Considering the background described earlier, this research is conducted with the objectives to: (a) explain the correlation between village fund allocation and Indonesia's economic growth, and (b) examine how village funds contribute to the country's economic expansion.

To achieve these objectives, the study employs DAU, Physical DAK, DBH, ADD, and Social Protection Expenditure as control variables, utilizing secondary data from the 2019–2023 period. The findings are anticipated to offer comprehensive evidence regarding the role of village funds in promoting economic growth across Indonesia.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Village Funds

Before the village funding policy through Law Number 6 of 2014, the government, through certain ministries/institutions, had allocated funds to villages through various programs and activities implemented by vertical offices in the regions or through regional governments (such as the PNPM Program). With the Village Law, various village-based K/L programs and activities were consolidated into one through the Village Fund.

To maintain the continuity of several activities at the village level that have been running through various existing programs and ensure that Village Funds can be utilized optimally for village development activities, Government Regulation Number 60 of 2014 regulates that Village Funds are prioritized for funding development activities and empowering village communities. As for village government administration needs, these can be met through Village Fund Allocation sourced from the district/city APBD.

The allocation of village funds, particularly in the areas of development and community empowerment is further detailed through an annual Ministerial Regulation issued by the Ministry of Villages. This regulation serves as a reference for village administrations in determining the types of programs and activities eligible for funding. Through this framework, the government aims to ensure that village fund utilization contributes directly to community development efforts, particularly in enhancing economic conditions and improving residents' overall well-being.

After three years of enforcing Law Number 6 of 2014 on Villages, the government has taken steps to refine its implementation. To strengthen the effectiveness of the policy, an assessment of the 2015 Village Fund program was conducted. The findings from this evaluation prompted the revision of several technical and operational regulations derived from the law. These updated provisions are intended to serve as reference guidelines for ministries and government agencies connected to village affairs, as well as for provincial, district/city administrations, and village authorities in performing their respective roles and responsibilities.

In 2016, Government Regulation Number 8 of 2016 was issued concerning the Second Amendment to Government Regulation Number 60 of 2014 concerning Village Funds sourced from the APBN which was then followed up with the issuance of Minister of Finance Regulation Number 49/PMK.07/2016 concerning Procedures for Allocation, Distribution, Use, Monitoring and Evaluation of Village Funds.

The policy changes are mainly related to the problem of distributing Village Funds by simplifying the distribution provisions from three stages to two stages. The aim of simplifying distribution provisions is so that Village Funds can be immediately received and used in villages. In 2015, the Village Funds were distributed by the Central Government (RKUN) to the Regency/City Government (RKUD) and from the Regency/City Government to the Village Account through 3 (three) distribution stages, namely: Stage I in the Second Week of April at 40%; Phase II in the second week of August was 40%; and Phase III in the second week of October at 20%. Government Regulation Number 8 of 2016 and Minister of Finance Regulation Number 49 of 2016 then simplified it into two stages, namely: Stage I in March at 60%; and Phase II in August at 40%.

Concerning the formulation and distribution of Village Funds, the interpretation of Article 72 paragraph (2) of Law No. 6 of 2014 on Villages indicates that financial resources allocated from the State Budget (APBN) to villages are designed to progressively reach ten percent of the total Regional Transfer funds, calculated in addition to those transfers. The step-by-step implementation of this fiscal target is elaborated in the roadmap for Village Fund realization as stipulated in Government Regulation No. 60 of 2014, which was later amended by Government Regulation No. 22 of 2015 regarding Village Funds financed through the State Budget.

According to the roadmap, in the 2015 budget year the government has budgeted Village Funds of IDR 20.76 trillion or 3.2% of Transfers to Regions, where on a national average each village receives IDR 280 million. In 2016, the Government has budgeted Village Funds to be IDR 46.9 trillion, or 6.4% of Transfers to Regions, where the national average each village receives IDR 628 million.

Since the implementation of Law Number 6 of 2014 concerning Villages, the number of villages has increased. At the beginning of the Village Fund allocation, the number of definitive villages was 74,093. In 2016, the number of definitive villages increased by 661 villages to 74,754 villages. In the third year, 2017, the number of definitive villages increased by 200 villages to 74,954 villages.

2.2. Economic growth

Economic growth refers to efforts aimed at enhancing a region’s production capacity, resulting in increased output, typically measured through Gross Domestic Product (GDP) at the national level and Gross Regional Domestic Product (GRDP) at the regional level (Feriyanto, 2020). GDP functions as a key macroeconomic indicator to assess a country’s economic performance (Agu et al., 2022), while GRDP is employed to gauge economic activity across provinces, districts, and municipalities. Conceptually, GRDP forms part of the overall GDP, indicating that developments at the regional scale can influence national outcomes and vice versa. GRDP provides insight into a region’s economic condition over a specific period, either at current prices or constant prices. It represents the total added value generated by all business entities or the cumulative worth of final goods and services produced within a particular region.

GRDP is categorized into two types: (i) GRDP at current prices and (ii) GRDP at constant prices (Ayuningtyas et al., 2023). The former reflects the value of goods and services using the prices of the reporting year, while the latter adjusts values based on a fixed base year to account for inflation, providing a clearer view of real economic growth (Siregar et al., 2020). GRDP at current prices helps assess economic capacity, structural changes, and sectoral shifts (Raza, 2022), whereas constant GRDP allows for analysis of year-over-year real growth without the distortion of price fluctuations. Additionally, GRDP can be used to evaluate inflation through the calculation of the GRDP deflator or implicit price index. The measurement of GRDP can be approached through three methods: the production approach, the expenditure approach, and the income approach. Using the expenditure approach, GRDP is derived from the total final demand, which includes: (1) household and non-profit institutional consumption, (2) government consumption, (3) gross fixed capital formation, (4) changes in inventories, and (5) net exports (exports minus imports). According to Cuaresma et al. (2014), indicators of successful economic performance include sustained economic growth, structural transformation, and reduced income disparities across populations, regions, and sectors. In this context, economic development is often pursued through the continuous enhancement of GDP or GRDP over time.

Aspects of regional economic growth are an important factor in determining the size of central government transfers to regions. Regarding growth, regions that have a high level of economic growth should receive a smaller DAU allocation. However, even though convergence between regions can be resolved (with DAU transfers), regional government performance may differ. Regions that have better growth rates have relatively better levels of readiness to face decentralization. Experience and capability in financial management are strong basic capital for increasing regional independence in the era of fiscal decentralization. Granting autonomy to this region will more quickly spur national economic growth. Bohte and Meier (2000) compared economic growth in centralized government with decentralized government. These two researchers found that faster and higher economic growth occurred in decentralized government.

Fiscal decentralization, one of which is through the distribution of Village Funds, has a very important role in the economic growth of a region. The reasons are as follows: 1) According to Brodjonegoro and Martinez-Vazquez (2005); 2) Local governments are given greater authority to invest and spend in various productive sectors; 3) Local governments are able to provide public goods and services for local communities because local governments are more sensitive to local economic conditions. Greater authority in terms of autonomy from the central government, local governments are more flexible to make efficient allocations of various local potentials in accordance with public needs (Balaguer-Coll et al., 2010) ; and 4) The public is empowered and given space for the public to participate in development (Helling et al., 2005).

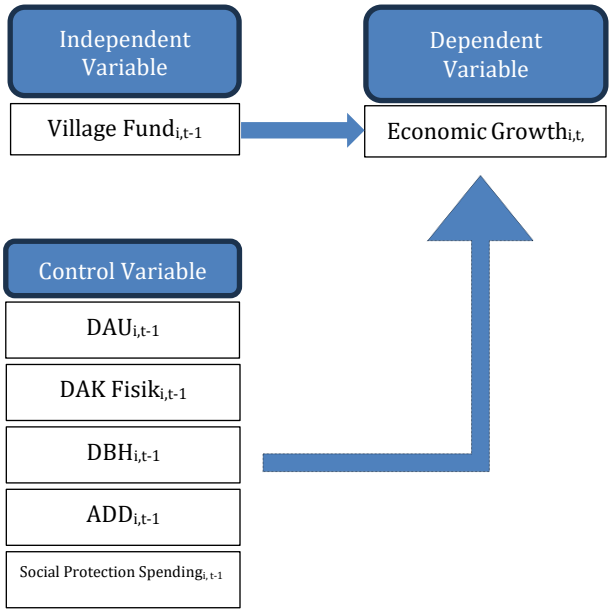
2.3. Theory of stakeholders

According to stakeholder theory, government programs should be designed to maximize benefits for local communities. In the context of Indonesia, this implies that the Village Fund (Dana Desa) should be allocated to programs that reflect the needs and interests of rural populations. One example of an effective use of the fund is capital expenditure on infrastructure development, which can help stimulate economic growth in rural areas. There was study to examine the influence of the Village Fund on capital spending and the Human Development Index (HDI). Its research found that the Village Fund has a positive impact on both infrastructure investment and improvements in HDI (Ernawati et al., 2021; Widhya & Nyoman, 2021).

According to stakeholder theory, government programs should primarily address the needs of external communities. In this regard, the Village Fund (Dana Desa) should be allocated to infrastructure development that can stimulate improvements in regional economic performance. Karim et al. (2024) analyzed the influence of the Village Fund on Gross Regional Domestic Product (GRDP) across municipalities and districts in Indonesia. Similarly, Afrainti and Din (2024) demonstrated that the Village Fund could significantly moderate the relationship between capital expenditure and regional economic performance. Based on this empirical understanding, Village Funds have an influence on national economic development. Accordingly, we propose the hypothesis: the distribution of the Village Fund in Indonesia contributes to improved regional economic performance.

Accordingly, this research aims to investigate the extent to which Village Fund allocations distributed from 2015 to 2023 have contributed to Indonesia's economic expansion. The study seeks to achieve a novel objective that has not been examined in previous literature—specifically, to identify and interpret the direct causal linkage between Village Fund disbursement and national economic performance. The conceptual model illustrating this relationship is shown in Figure 1. This inquiry is anchored in the framework of government accounting and draws upon stakeholder theory to clarify how fiscal transfers to villages can influence regional economic development. From a policy perspective, the outcomes of this study are expected to provide valuable insights for central authorities, particularly the Ministry of Finance, in reviewing the effectiveness of the Village Fund distribution system and enhancing strategies that foster inclusivity and equitable economic impact across regions.

Figure 1 Conceptual Framework of Research



Source: Research Analysis (2024)

3. RESEARCH METHODS

This study adopted the positivist paradigm as its underlying philosophical stance to support the attainment of the research objectives. Within this paradigm, objectivity is regarded as essential to uncovering the truth, which is pursued through the identification, explanation, and prediction of relationships among key variables (Potter & Levine-Donnerstein, 1999). Based on this worldview, a quantitative research methodology was applied to operationalize the assumptions and construct a representation of empirical reality.

To implement the quantitative approach, this research utilized secondary data sourced from the financial reports of local governments in Indonesia. The sample included all districts and municipalities in Indonesia that received allocations from the Village Funds issued by the Indonesian Ministry of Finance during the 2019-2023 period. To ensure the reliability and validity of the data, all secondary data were sourced from official government publications, namely the Directorate General of Fiscal Balance (DJPK) and the Central Bureau of Statistics (BPS). These sources are considered authoritative and are regularly audited for accuracy and consistency. Additionally, data completeness was cross-checked to minimize missing or inconsistent information, ensuring that the final dataset is both reliable and representative of the target population of local governments in Indonesia.

The final dataset comprising 434 local government-year samples was established. The 2019 to 2023 period was selected due to the noticeable upward trend in Village Fund allocations starting in 2019. This upward trend in funding is expected to have a more pronounced impact on local economic growth, making this period particularly valuable for examining the effects of Village Fund allocations on economic development at the local government level. The detailed process of sample selection is presented in Table 1.

Table 1 Sample Selection Process

Selection Criteria	Total
Initial samples (all districts and cities in Indonesia province that received the Village Fund from 2019-2023)	543
Excluded:	
provinces with missing data from 2019-2023	34
cities with missing data from 2019-2023	75
Final samples	434

Source: Research Analysis (2024)

The order to determine the influence of Village Funds on Indonesia's Economic Growth was carried out using a quantitative analysis method based on available secondary data. The independent variable used is Village Funds, which are supported by control variables consisting of DAU, DAK Fisik, DBH, ADD, and Social Protection Spending, while the dependent variable is Economic Growth. This research uses multiple linear regression analysis using Stata tools. Multiple linear regression analysis with panel data using three types of model approaches, namely pooled least squares,

fixed effects, and random effects. The appropriate model is determined through the Chow Test, Hausman Test and Lagrangian Multiplier. Next, the accuracy of the selected model will be tested by testing classical assumptions.

The one-year difference between the independent and control variables and the dependent variable is based on the understanding that the impact of Village Funds, DAU, DAK Fisik, DBH and ADD on Economic Growth does not occur directly in the same budget year but in the following year. The data analysis method uses panel data multiple regression analysis, where panel data regression is a type of regression test that has its characteristics, namely that there is a combination of time series data and cross-sectional data (Nachrowi, 2018), which can be described through the following equation:

$$Y_{i,t+1} = \alpha + \beta_1 X_{1i,t} + \beta_2 X_{2i,t} + \ldots + \beta_n X_{ni,t} + e_{i,t}$$

Information:
$Y_{i,t}$ = dependent variable
$X_{1i,t}$ = independent variable
i = ith entity
t = t-th period

The aim of estimating the multiple linear regression model is to predict the parameters of the regression model, namely the constant value (α) and regression coefficient (βi). The constant is usually called the intercept, and the regression coefficient is usually called the slope (Park, 2011). Panel data regression has the same objective as multiple linear regression: predicting intercept and slope values. Using panel data in regression will produce different intercepts and slopes for each entity and each period (Paul, 2011). The influence of Village Funds on economic growth is built through the following equation model:

$$PDRB_{i,t} = \alpha + \beta_1 DD_{i,t-1} + \beta_2 DAU_{i,t-1} + \beta_3 DAK\ Fisik_{i,t-1} + \beta_4 DBH_{i,t-1} + \beta_5 ADD_{i,t-1} + \beta_6 SPS_{i,t-1} + \beta_7 PDRB_{i,t-1} + \varepsilon$$

Where $PDRB_{it}$ is the economic growth in district or municipality i at time t, and $DD_{i,t-1}$, $DAU_{i,t-1}$, etc., represent the lagged values of the Village Fund and control variables, as described earlier. The inclusion of lagged independent variables is intended to capture the delayed effects of these factors on economic growth.

We ran a three-panel model selection test for the Model. After that, we run the procedure proposed by Gauss-Markov to ensure that our model has the best unbiased linear estimator (Drygas, 2012). We use the selected model, which fits the Gauss-Markov condition, to test the direct effect of Village Funds on GRDP in the Model. To prove the direct effect, we estimate that the Village Fund coefficient in the model is positive and significant.

4. RESULTS AND DISCUSSION

Based on Table 2, descriptive statistical data can be explained for all research variables for 2019-2023, where the data comes from 34 provinces, 93 cities and 416 districts. The Village Fund variable, one of the most important independent variables, has an average value of 25.6322, with the lowest range being 23.7779 and the highest being 27.1647. Meanwhile, the GRDP variable is the dependent variable, and has an average value of 29.7171, with the lowest range being 25.6831 and the highest being 33.2112.

Tabel 2 Summary of Descriptive Analysis Results

Description	Average Value	Std. Dev.	Minimum	Maximum
LN_PDRB $_{it}$	29.7171	1.1856	25.6831	33.2112
LN_DD $_{it-1}$	25.6322	0.6296	23.7779	27.1647
LN_DAU $_{it-1}$	27.1577	0.3745	26.3269	28.4009
LN_DAKF $_{it-1}$	25.2509	0.4519	22.9399	26.4801
LN_DBH$_{it-1}$	24.7012	1.1970	22.5334	28.9822
LN_ADD$_{it-1}$	25.0121	0.4162	24.2104	26.7563
LN_SPS$_{it-1}$	23.6087	0.5232	21.5458	25.5795

Source: Research Analysis (2024)

The Chow Test is first applied, as indicated in Table 3, to determine the most appropriate model to use between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). The result of the Chow Test is 0.0000, leading to the rejection of the null hypothesis (H_0) since the probability is less than 5%. Following this, the Hausman Test is conducted to decide whether to use the Fixed Effect Model (FEM) or the Random Effect Model (REM) (Humta & Şahin, 2023). The result of the Hausman Test is also 0.000, which results in the rejection of the null hypothesis (H_0). Thus, the final model selected is the Fixed Effect Model (FEM) (Ramdan et al., 2020).

Table 3 Model Fit Test Results

Test	Description	Model 1	
Chow	CEM vs FEM	0.0000	FEM
Hausman	REM vs FEM	0.0000	FEM
Conclusion			**FEM**

Source: Research Analysis (2024)

Table 4 summarizes the classical assumption tests conducted in the analysis. The results of the Multicollinearity Test indicate that no correlation coefficients exceed 0.8, meaning there is no multicollinearity issue. Next, the Homoscedasticity test yielded a result of 0.0000 (rejecting H0 since the probability is less than 5%), indicating a problem with heteroscedasticity. To address this issue, a Fixed Effects Model (FEM) was estimated using Weighted Generalized Least Squares (WGLS) (Baum & Korn, 1994).

Furthermore, the No Autocorrelation test also resulted in 0.0000 (rejecting H0 because the probability is less than 5%), suggesting autocorrelation problems. To mitigate this issue, the FEM model was estimated using WGLS along with Autoregressive models that included Lag Variables from the dependent variable (Cinquetti et al., 2011).

Finally, the normality test produced a result of 0.0000 (rejecting H0 since the probability is less than 5%), indicating that the normality assumption is not satisfied. However, it is worth noting that research involving a sample size greater than 30 will typically follow a normal distribution, following the Central Limit Theorem (CLT) (Ghozali, 2005).

Table 4 Gauss-Markov Test Results

Test	Model	Treatment
No Multicollinearity	√	-
Homoscedasticity	X	GLS Weight
No Auto-correlation	X	GLS Weight and Autoregressive
Normality	X	CLT

Source: Research Analysis (2024)

According to Table 5, the Village Fund variable (DDit-1) has a coefficient of 0.0245. This indicates that for every 1% increase in DDit-1, the average Economic Growth (GRDPit) will rise by 0.0245%. This finding aligns with earlier research by (Otheliansyah & Yasni, 2021), which concluded that Village Funds have a significant positive impact on economic growth.

Regarding the control variables, both the General Allocation Funds (DAUit-1) and the Profit-Sharing Funds (DBHit-1) show a significant positive influence, with coefficients of 0.0690 and 0.0364, respectively. This is consistent with previous studies conducted by (Abrar, 2018), (Rahmah & Zein, 2016), (Ferdiansyah et al., 2018), and (Badjra et al., 2017). In contrast, other control variables such as DAKFit-1, ADDit-1, and SPSit-1 exhibit a significant negative influence. Specifically, for every 1% increase in DAKFit-1, ADDit-1, and SPSit-1, the average GRDP decreases by 0.0430%, 0.1937%, and 0.0141%, respectively. The negative impact of ADD and Physical DAK on GRDP may result from inefficient fund management and delayed implementation. These funds are often allocated to non-productive or administrative activities rather than sectors that directly stimulate economic output. In many cases, Physical DAK supports infrastructure projects with long-term benefits, which do not immediately enhance short-term growth. Similarly, ADD may be used for routine expenditures instead of productive programs. Limited local government capacity, weak planning, and slow budget realization further reduce the effectiveness and multiplier effect of these fiscal transfers on regional economic performance (Chitiga-Mabugu & Monkam, 2013).

Table 5 Partial T-Test Results

Variable	Model ($PDRB_{it}$)		
	Coef.	T-Stat	
DD_{it-1}	0.0245	0.0000	***
DAU_{it-1}	0.0690	0.0000	***
$DAKF_{it-1}$	-0.0430	0.0000	***
DBH_{it-1}	0.0364	0.0000	***
ADD_{it-1}	-0.1937	0.0000	***
$BPerlinsos_{it-1}$	-0.0141	0.0000	***
$PDRB_{it-1}$	0.9844	0.0000	***
Cons	3.3791	0.0000	***
Adj R^2		0.9654	
Prob (F)		0.0000	***

Source: Research Analysis (2024)

Overall, the adjusted R^2 value is 0.9654, indicating that the independent variables—Village Funds, General Allocation Funds, Profit Sharing Funds, Physical Special Allocation Funds, Village Fund Allocations, and Social Protection Spending —are capable of explaining 96.54% of the variation in the dependent variable, GRDP. The remaining variation is attributed to other factors not included in the model. The strong adjusted R^2 outcome may be due to the persistence of the GRDP adjusted R^2 effect from the prior year.

Table 6 illustrates that Village Funds (DD_{it-1}) directly contribute to Economic Growth (GRDP).

Tabel 6 Hypotheses Test Results

Test	Conclusion
H_1: The Direct Effect of DD_{it-1} on $PDRB_{it}$	Confirmed

Source: Research Analysis (2024)

Based on the data presented in Tables 6 and 7, our prediction that Village Fund transfers will positively influence economic growth across all districts and provinces in Indonesia has been statistically validated. This indicates that an increase in Village Fund allocations will stimulate economic growth throughout the country. The positive relationship between Village Funds and economic growth exemplifies how stakeholder theory can be applied to maximize benefits for village communities in Indonesia, addressing the needs of various stakeholders (Permatasari et al., 2024).

According to Hendrawati and Pramudianti (2020), stakeholder theory emphasizes the significance of considering the interests of all parties involved, including the private sector, public institutions, and civil society organizations. Each stakeholder within the public sector has unique interests, and it is the government's responsibility to balance these interests to ensure that all parties benefit from public policies and programs (Iskandar, 2017). In this context, Village Funds can be seen as a mechanism to harmonize the interests of diverse stakeholders in villages throughout Indonesia (Pradesa & Agustina, 2020).

One example of how Village Funds can be utilized is to support infrastructure development through a cash-intensive program designed by the central government. This initiative aims to enhance accessibility to remote areas throughout Indonesia by providing capital for infrastructure improvements (Chib et al., 2008). When infrastructure development is accelerated, residents in remote areas can sell their products to consumers in large urban centers within the province, and vice versa (Tan & Amri, 2013). Village Funds have significant potential to increase capital expenditure in villages across Indonesia by offering financial resources for the construction, maintenance, and improvement of various infrastructure projects, including village roads, bridges, and irrigation canals (Digdowiseiso & Afriyanto, 2023).

To promote cleanliness and public health, it is essential to ensure access to clean water sources and adequate sanitation. Throughout Indonesia, both urban and rural areas have access to Village Funds, which can be utilized to establish and maintain water distribution systems, wastewater treatment plants, and sanitation facilities (Bormasa & Nirahua, 2020; Ichwani et al., 2022). This development will lead to improved living conditions, a reduction in waterborne diseases, and an overall healthier population. Village Funds can provide financial resources for the infrastructure related to water distribution systems, wastewater treatment plants, and sanitation facilities (Allu et al., 2023). In addition to developing facilities and infrastructure, Village Funds can also be used to empower local communities. This empowerment will enhance access to higher qualifications and foster human resource development in villages across Indonesia (Hasyyati & Sahara, 2020; Kania et al., 2021). Furthermore, Village Funds can be allocated to build and equip health facilities, such as clinics, thereby improving healthcare delivery and promoting better health outcomes (Donabedian, 1989).

Village funds are designed to improve the welfare of people in rural areas, particularly local communities. By supporting infrastructure development such as paving roads, building bridges, and constructing irrigation systems. These funds can create jobs, stimulate local businesses, and enhance the overall quality of life (Elmer & Leigland, 2013; Tahir, 2018). For instance, improving transportation infrastructure can facilitate the movement of goods and services, encouraging trade and economic activity (Abrar et al., 2020; Banister & Berechman, 2001; Lakshmanan, 2011). When the interests of local communities are prioritized, village funds can significantly contribute to socio-economic development and improve living standards (Ashar & Agustang, 2020). These funds can be utilized to enhance existing road networks and construct new roads to better connect remote areas, thereby improving transportation access (Fau, 2016). This development can increase connectivity in rural regions, facilitating the movement of goods, services, and people, which in turn encourages economic growth and regional integration (Fau, 2016).

Improvements to roads and bridges can enhance logistics efficiency, reduce transportation costs, and broaden market access (Wiederer, 2018). Such advancements can attract investment, promote entrepreneurship, and generate economic growth (Hausmann & Rodrik, 2003; Patrick, 1966). Furthermore, businesses can benefit directly from infrastructure projects by engaging in construction, maintenance, and operational roles (Gann & Salter, 2000). Stakeholder theory highlights the importance of involving the business sector in decision-making processes, recognizing their interests as key considerations (Reynolds et al., 2006). By addressing the needs and interests of various businesses in rural areas, village funds can enhance their effectiveness and efficiency, thereby supporting overall regional development (Kiram, 2020).

5. CONCLUSIONS

The findings of this study demonstrate that Village Funds have a significant and direct effect on Gross Regional Domestic Product (GRDP) in Indonesia. This conclusion is based on the results of significance testing of model parameters, which incorporated several control variables to strengthen the analysis. The control variables include the General Allocation Fund (DAU), Revenue-Sharing Fund (DBH), Physical Special Allocation Fund (DAK Fisik), and Social Security Expenditure (SPS). Collectively, these fiscal instruments exert a statistically significant simultaneous influence on regional economic growth, as represented by the GRDP indicator.

When analyzed individually, Village Funds, which serve as the main independent variable in this study, show a strong and positive relationship with GRDP. This result implies that the distribution and utilization of Village Funds contribute to enhancing local economic activities, particularly through infrastructure development, community empowerment, and increased public consumption at the village level. These outcomes align with the objectives of fiscal decentralization, which aim to stimulate growth by channeling resources directly to local governments.

However, the analysis also reveals that some control variables, including Physical DAK, DAU, and SPS, exhibit a significant negative effect on GRDP. This suggests that the management and allocation of these funds may not yet be fully effective in promoting short-term economic growth. In several cases, Physical DAK tends to be invested in long-term infrastructure projects whose economic benefits are realized gradually, while DAU and SPS are often absorbed by routine administrative expenditures and social assistance programs that do not immediately generate productive output. Such conditions indicate that although these fiscal transfers are crucial for regional development, inefficiencies in planning, delayed disbursement, and limited absorption capacity may reduce their short-term contribution to regional economic performance.

6. IMPLICATIONS AND LIMITATIONS

The results of this research affirm that Village Fund transfers remain an essential fiscal instrument for promoting regional economic growth and strengthening rural development. These funds have played a pivotal role in stimulating economic activity, creating employment opportunities, and supporting community-based initiatives at the village level. Nevertheless, to optimize their contribution to economic performance, it is crucial for village governments to enhance transparency, accountability, and efficiency in fund management. Strengthening governance practices will ensure that fiscal resources are properly allocated and utilized in accordance with local development priorities, thereby improving the welfare and productivity of rural communities.

Furthermore, there is a need to reformulate the proportion of Village Fund allocation, particularly by increasing the share directed toward productive infrastructure investments—such as facilities that support agriculture, small industries, and market access. Redirecting a larger portion of funds to these sectors would generate stronger multiplier effects and sustainable income sources for local economies. In contrast, excessive allocation to administrative or non-productive spending may reduce the long-term growth impact.

For future studies, it is recommended to include additional control variables and extend the analysis period to capture broader and longer-term dynamics. Such an approach will provide a more comprehensive understanding of how Village Funds influence economic growth and how improved allocation strategies can maximize their developmental impact.

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