



Are Village Fund and Village-Owned Enterprises Crucial in Eradicating Poverty in Indonesia

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Abstract—This study aims to examine the village funds and village-owned enterprises in reducing poverty in Indonesia. The village fund has been rolled out since 2015 by the government of the Republic of Indonesia. The data used is panel data by combining time series data and panel data from 2015 to 2021. The population of this study consists of all villages in 23 districts/cities in Aceh propinse, with the total of 6.497 villages, using panel regression as an analytical tool. The result of this study showed that although village funds and village-owned enterprises do have effect in reducing the number of poor people in rural areas, however, the impact of village fund is more significant compared to village-owned enterprises. In this case relevant stakeholders should be able to increase the capacity of village fund managers through internship programs, mentoring and capacity building for managers. Multi-stakeholder cooperation is highly recommended in empowering village-owned enterprises as a source of village original income. The limitation of this study is it does not distinguish the type of business from each existing business owned by the village. Therefore, the future research needs to evaluate the type of business in a village-owned enterprise.

Keywords: poverty; village fund; village-owned enterprises

I. INTRODUCTION

Village fund is a policy issued by the government of the Republic of Indonesia guided by law number 6 of 2014. This fund aims to increase the prosperity of village community including to reduce poverty by giving the authority to the village to manage the budget in order to improve the economy and welfare of the community (Republic of Indonesia, 2014). With the budget, the village has the opportunity to develop the community's economy by training and marketing the community products, developing livestock, agriculture or community plantations, developing tourist areas, and establishing BUMDes. By using the village fund to this sort of village development planning, rural communities can improve their economy and are able to lift themselves out of poverty.

The Ministry of Villages and

Disadvantaged Regions of the Republic of Indonesia recorded that from 2015 to 2019, the village fund has built 201.899 km village roads, 1.181 km bridges, 9.329 village markets, 48.953 wells, 4.265 reservoirs, 31.376 km drainage, 60.274 irrigation, 53.002 of early childhood education facilities, 10.101 village health polyclinics, and 26.271 integrated service centers. Furthermore, it has also constructed 198.244 earth retaining systems, provided 5.605 additional boats and 966.350 clean water units with 260.039 public toilets, establishing 38.140 village-owned enterprises (BUMDes), and 21.118 sports facilities. The use of village fund within five years is allocated to support economic activities and improving the quality of life of rural communities. As it has been mentioned before that this village fund is really expected to be able to improve the welfare of the community (Ministry of villages and underdeveloped regions of the Republic of

Indonesia, 2020).

One of the main objectives of village fund is to reduce poverty in rural areas since it is more dominant in rural communities. Poverty is measured by comparing individual income to the income needed to cover standard need, in this case, a person is considered poor if her income or consumption is below that standard (Haughton & Khandker, 2012). Poverty is measured based on the concept of the ability to meet basic needs. By using this approach, poverty is seen as an economic inability to meet basic food and non-food needs from the expenditure side (BPS, 2021).

In Indonesia 27,55 million people are living under poverty line. The percentage of poverty in urban areas in 2020 reached 7,88% while the percentage of poverty in rural areas was 13,20%. This percentage clearly shows that the poverty rate in rural areas is much higher (BPS, 2021). Aceh is the poorest province in Sumatera Island, and the sixth poorest province in Indonesia (BPS, 2021). The number of villages in this province is 6.497 which spread over 23 regencies/cities. The total population in this area is 5.33 million people with the poverty rate reaches 15,3% of the total population.

With the existence of Law Number 6 of 2014 concerning on villages, the Indonesian government makes a significant evolution by giving higher authority to plan and use the village fund to the lowest regional government, namely the village level (Faoziyah & Salim, 2020). This law is also the legal basis for the Indonesian government to allocate village funds sources from the State Revenue and Expenditure Budget (APBN) which is intended for villages to finance governance, development, community development, and village community empowerment. The village fund is one of efforts of government to support village development through a financing scheme that is regulated and implemented directly by the village government, involving village institutions to manage the fund (Yusuf, Umanailo, Putri, Ely, & Darma, 2019).

Basically, the purpose of village funds is to encourage an inclusive economy with more equitable distribution of income. Another thing along with the village fund is the authority to regulate, manage, and organize village resources for community economic development through the establishment of Village-Owned Enterprises (Syafingi et al., 2020). However, village fund is not significant in overcoming income inequality in Indonesia.

The elasticity of income inequality is higher after the implementation of village fund transfers. Rural poverty tends to decrease every year, but the change in elasticity is lower after the implementation of village fund transfers (Arham & Hatu, 2020).

The use of village fund in Indonesia has been more focused on infrastructure development, although at the same time, village fund for community economic empowerment in rural areas is still deficient (Nugroho et al., 2022). The same also goes to women's empowerment in which the allocation of village fund for this activity is still far from reaching the expected number. In this case, Masrizal et al. (2019) revealed that the allocation of village funds for women's empowerment was only 10 percent from the total of 90 villages in Banda Aceh.

There are several ways of how village fund can reduce poverty. Several regions have experiences different poverty levels during the existence of this village fund. This is influenced by several factors including the management of village funds, the readiness of human resources and the level of community participation. The difference in the management of Village Funds in Kalirejo Village and Demangrejo Village lies in the spirit and contribution of the village community to Village Fund management activities (Oktavia & Wihastuti, 2020).

According to Imawan & Purwanto (2020), the amount of village fund has no correlation with poverty reduction, due to the lack of equity and perception in several sectors. The development of facilities, infrastructures, and empowerment programs for rural communities are currently increasing, nonetheless, the distribution and utilization of village fund is still far from optimal. Despite the importance of village-owned enterprises in improving the rural economy, evidence on the impact of village funds and village-owned enterprises (BUMDes) in developing countries is still limited.

The previous studies that conducted about village fund reveals some results. The results study conducted by Imawan & Purwanto (2020) showed that the development of the village facilities, infrastructure, and community empowerment program currently increased, but the village fund still has a problem with its equalisation and utilisation of the fund. In addition, the results study of Saragi (2021) showed that over five years, the village fund dramatically increases. Moreover, this growth is along with the slight decline in

poverty.

The purpose of this study is to examine the impact of village fund and village-owned enterprises in poverty alleviation in Indonesia, particularly Aceh, since only a few studies found to evaluate this program.

II. CONCEPT AND HYPOTHESIS

Based on the theories described and some of the results of previous research, the following hypotheses can be determined:

H₁: Village fund (DD) has a positive and significant effect on poverty.

H₂: Village-owned enterprises (BUMDES) has a positive and significant effect on poverty.

H₃: Village fund (DD) and village-owned enterprises (BUMDES) have a positive and significant effect on poverty.

The operational variables of this research can be seen in Table 1. The variables used in this study consisted of village fund, the number of BUMDes and the number of poor people in each village in Aceh.

METHOD

Table 1. Operational research variables

| Variable | Definition | Unit |
|--------------|---|----------|
| Village fund | Village Funds received from the central government | Millions |
| BUMDes | Number of village-owned enterprises in each village | Unit |
| Poverty | Number of poor people in each village | Person |

The data of the present study consists of the village fund, the number of village-owned enterprises in each village and the number of poor people in 23 districts/cities of Aceh. In this case, the data was obtained from Aceh Village Community Empowerment Service. Furthermore, the data of poverty is received from the Central Statistics Agency and the Social Service from 2015 to 2021. The present study use panel data in order to analyze the data in which it combines time series and cross section data. Based on the panel data used, there were 161 observations used in this study. In processing the data analysis, this study used eviews program version 9 and Microsoft Excel while the data analysis method used is panel data regression analysis, namely pooling least squares (common effect), fixed effects approach and random effects approach, by testing the suitability of the Chow test model, and Hausman test. Hypothesis testing with the determinant coefficient test, F test and t test. In terms of Pooled Least Square (Common Effect) Model Suitability Test, this method combines cross section data with time series and uses the OLS method to estimate the panel data model (Widarjono, 2009; Gujarati 2021). Fixed effect is a model with a different intercept for each subject (cross section), but

the slope of each subject does not change over time (Gujarati, 2021). By differentiating one subject from another, a dummy variable is used (Kuncoro, 2013). These several approaches are used due to a number of variations in the values and relationships between random subjects, which are specified in the form of residuals. The best model in panel data analysis is determined by testing the statistics through the Chow Test and Hausman Test. In general, the panel regression model of each response variable is as follows:

$$Pov = \beta_0 + \beta_1 DD_{1it} + \beta_2 BUMDes_{2it} + e_{it}$$

Pov is the number of poor people per village, *DD* is the village fund obtained by each village. *BUMDes* is the number of village-owned enterprises per village, β_1 and β_2 is the regression coefficient, *i* is the unit cross section, *t* is the time period and *e* is the error term.

IV. RESULT AND DISCUSSION

Table 2 shows that the highest number of poor people in Aceh Utara is 118.74 people and the lowest one is 5.270 people in Sabang.

Table 2. Variable Descriptive Statistics

| Descriptive Variable | Dependent Variable | Independent Variable | |
|----------------------|--------------------|----------------------|---------|
| | Poverty (person) | Village Fund (IDR) | BUM-Des |
| Mean | 36.956 | 187.242.194.8 | 222 |
| Minimum | 5.270 | 6.064.106.00 | |
| Maximum | 118.740 | 634,573,609,0 | 826 |

Furthermore, village fund allocation in Aceh has increased from year to year. From 2015 to 2021 the number of village fund being transferred by to this province has reached IDR30,3 trillion (Ministry of Finance of the Republic of Indonesia, 2022). The highest number of village fund is given to district of North Aceh with the total of IDR 634,573 billion, while the lowest is Sabang, which is only IDR 6,06 billion.

Table 2 also shows the number of village-owned enterprises in Aceh as many as 5.647 units which spreads over 23 districts/cities. North Aceh Regency is an area that has 826 BUMDes units. While the city of Sabang is the area that has the lowest number of BUMDE which is only 14 units.

Based on the results of the panel

regression that has been carried out, it is found that village fund affects poverty reduction in Aceh. It can be seen from the fact that the probability value is below 0,05. Table 3 shows that the coefficient value of the village fund variable is -0,0160, meaning that if the village fund increases one rupiah, the poverty rate in Aceh will decrease by 0,0160.

The estimation model of panel regression consists of common effects, fixed effects and random effects, through the Chow test and random test. The results of estimation model testing shows that the fixed effect model is the best model compared to the others. This is based on the value of probability. The results of the fixed effect model can be seen in Table 3.

Table 3. The result of effect of village-fund and BUMDes on the Poverty

| Variable | Coefficient | t-stats. | P-value |
|---------------|-------------|----------|---------|
| Constant | 10,7313 | 56,8283 | 0,0000 |
| village-fund | -0,0160 ** | -1,9920 | 0,0484 |
| BUMDes | -0,0042 | -0,6969 | 0,4870 |
| R2 - | 0,9982 | | |
| Adjust. R2 - | 0,9978 | | |
| F-stats. | 3146,7 *** | | |
| Prob (F-stat) | 0,0000 | | |
| DW | 1,2609 | | |

Note: *** and ** indicate significance at the 1% and 5% levels.

It is different with the number of BUMDes with poverty in Aceh. The test results prove that the number of BUMDes has not been able to affect the poverty level in Aceh. This is proven by the probability value above 0,05. However, both village funds and the number of BUMDes do have impact on poverty in Aceh, as it is seen from the value of Prob. F-statistic 0,000. Furthermore, if it is seen from specific allocation, poverty can be

explained by the variables of village funds and the amount of village funds. This is showed by the adjusted value of R-squared reaching 0,99. This means that the relationship between village fund and the number of BUMDes is quite close.

Village Fund and Poverty

Poverty is a multidimensional problem in every country, including Indonesia. High

poverty rate indicates that the welfare of people in the country has not been achieved. The same also goes in defining poverty in any district / city in each province. Aceh Province has 23 districts/cities with 850 thousand poor people out of a total population of 5.274.871 (BPS, 2021). In other words, 15,53 percent of Aceh's population is poor. Unfortunately, the rate of poor people in Aceh increases from year to year.

The number of poor people in Aceh tends to fluctuate from 2015-2021. In 2015 it was 17,11 percent, then slightly decrease to 15,01 in 2019. However, in 2020 and 2021 there was an increase to 15,43 % and 15,53 %.

Aceh is the poorest area on the island of Sumatra and is the sixth poorest province in Indonesia. The total population of this province is more than five million people, and 15,3 % are considered poor. In addition, this province is an area that was affected by earthquake and tsunami in 2004. Aceh has also experienced armed conflict with the central government for decades, which ended with a memorandum of understanding in 2005 in Finland. Of course, with the disaster and conflict, the economic condition in Aceh has not been completely good compared to other regions in Indonesia.

One of the government's programs to eradicate poverty in Aceh and Indonesia as a whole is to provide program known as village funds. The number of village fund that have been delivered to this province is more than IDR 29,8 trillion for 6.497 villages. One of the objectives of this village fund is to stimulate and grow the economy in the village, because 13,20 % of the poor in Indonesia live in rural areas. The village fund has been allocated since 2015 to 2021 with the total of village funds that have been distributed by the central government have reached IDR400,1 trillion (Ministry of Villages and Disadvantaged Regions of the Republic of Indonesia, 2022). From these funds, a number of bridges, irrigation, village markets, boat moorings, drainage and others have been built.

The result of this study shows that village fund has influenced the reduction of the poverty level in Aceh. This research is in line with other previous studies including research conducted by Arham & Hatu (2020), Syafingi et al. (2020), Puri & Khoirunurrofik (2021). However, the management of village fund is still far from optimal. The main problem in managing village fund includes the lack of human resources. In this case, it is very

important to increase the capacity of village fund managers (Arham & Hatu, 2020; Widagdo et al. 2016; Hulu, Harahap, & Nasutian, 2018). Some cases of misappropriation of village fund occurred due to the lack of accountability for the use of village funds and the lack of supervision from related parties. Ash-shidiqqi & Wibisono (2018) revealed that the incompetent use of village funds is the cause of cases of misuse and corruption of village fund.

Moreover, village fund is widely used to improve infrastructure, facilities and infrastructure and empower village communities, but village funds are still having problems with the distribution and use of these funds (Irmawan and Purwanto, 2020). The next issue that arises with the existence of this village fund is village expansion. The amount of village fund has indeed increased, but several area undergoing expansions have not been able to reduce poverty rates (Faotiyah & Salim, 2020).

BUMDes and Poverty

Regional disparities between rural and urban areas in Indonesia are still an important issue in economic development. The government has carried out economic stimulus in villages, one of which is through the Village Fund program for village development (Puri & Khoirunurrofik, 2021). One of the efforts to encourage economic development in the village is through the establishment of village-owned enterprises. The empowerment program has helped the community to develop their economic activities in the village through business activities (Badaruddin, Kariono, Ermansyah, & Sudarwati, 2021). However, BUMDes-based village funds should refer to the applicable regulations in Indonesia. This is not excessive because the fund given to the village is money from the central government for the welfare of the community. Of course, the competence of village officials, individual morality, internal control systems, and violation reporting systems have a positive effect on preventing the misappropriation of village funds (Wahyudi, Achmad, & Pamungkas, 2021).

Indonesia is an agricultural country in which the majority of its population are farmers, most of whom live in rural areas. The existence of BUMDes greatly assist their business with various facilities provided. The existence of village-owned enterprises is expected to be able to provide solutions in reducing poverty in rural areas, especially in

the agricultural sector. Nugroho et al. (2022) revealed that agricultural economic empowerment is the priority. However, the importance of the quality of human resources and the agricultural sector in reducing poverty in rural areas is also pivotal. (Arham & Hatu, 2020).

With village fund, the opportunity to increase the number of BUMDes is greater. Nonetheless, the higher number of BUMDes is not followed by large utilization. This information is obtained from large number of people who are not employed in rural areas with this BUMDes (Arifin et al., 2020). However, villages that have BUMDes have a greater influence than villages that do not have BUMDes in improving the economy of rural communities (Puri & Khoirunurrofik, 2021). One of the solutions that can be offered is that to allocate the village funds for capital participation in BUMDes (Syafingi et al., 2020).

The role of BUMDes in rural areas has not been optimal, although, in fact it can be solution to socio-economic problems faced by the community in several villages. Suhirman (2021) reveals that the concept of BUMDes management has not led to patterns that aim to encourage growth and carry out efforts to empower existing community micro-enterprises. This is due to the low level of human resources in the management of BUMDes. The main cause of this is the limited capacity of BUMDes managers, the influence of the political constellation that occurs in the village, the low support of the village government, and the selection of businesses that is not based on village potential (Aeni, 2020). Several obstacles in the development of BUMDes are found in all dimensions of performance measurement, namely limited capital and assets, disorderly administration and reporting. The existence of BUMDes has not yet had an impact on village communities, institutions are not yet stable, business management and development are not yet optimal, and the legality of BUMDes is not yet strong.

V. CONCLUSION

The results in examining the impact of village fund and village-owned enterprises on the number of poor people in Aceh prove to be very influential. However, partially, it turns out that village funds greatly affect the number of poor people in Aceh. Meanwhile, BUMDes has no effect on the number of poor people in Aceh. The area with the poorest people is

Aceh Utara district and the lowest village fund given to Sabang. The problem that occurs in the management of village funds in Aceh is the lack of human resources, especially in managing the BUMDes business which in fact is looking for profits for village original income. Therefore, relevant stakeholders should be able to increase the capacity of village fund managers and BUMDes in order to reduce the level of poverty in the village, through training programs, internships and sustainable assistance. In addition, cooperation with large companies is needed in accordance with the core business of each BUMDes, so that village fund and BUMDes have an optimal role in reducing poverty levels.

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