

## RESEARCH ARTICLE

## The influence of village funds on the development of village economic potential: A case study

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### ABSTRACT

The study aims to analyze the impact of the effectiveness of the village fund, the allocation of village funds, and the participation of the public in the management of the rural funds on the development of the economic potential of the people in the Perolihen Village, Sitellu Tali Urang Jehe, Pakpak Bharat Regency. The study employed a quantitative approach, surveying 63 respondents from the Perolihen Village population through a questionnaire. The obtained data was analyzed using the Structural Equation Modeling Partial Least Squares (SEM PLS). The results of the research show that the effectiveness of village funds and the management of the village fund have a significant influence on the development of the economic potential of the people in the Perolihen Village. However, public participation in village fund management does not have a significant influence on the development of the population's economic potential.

### KEYWORDS

Special autonomy funds; local own-source revenue; village funds; poverty; Aceh

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## 1. Introduction

The village's development is one of the main priorities in efforts to accelerate the improvement of the people's well-being in Indonesia (Rahayu, 2017). The village, as the smallest unit in the government structure, plays a strategic role in supporting the national economy by developing the local potential it has (Soleh, 2017). To support village development, the Indonesian government has allocated village funds aimed at strengthening the village's economic structure, reducing poverty, and improving the villagers' quality of life (Kamuli et al., 2023).

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The village fund is one of the policy instruments intended to encourage the village's independence in managing its own resources (Yanuarsari et al., 2021). The effectiveness of the use of village funds is heavily influenced by various factors, including good management and the active participation of the community. Transparent and accountable village fund management and high public participation are expected to drive the development of local economic potential, such as agriculture, farming, crafts, and tourism, which in turn can improve the well-being of the village community as a whole.

The Village Fund is one of the government programs aimed at improving people's well-being in the countryside. The Village Fund's effectiveness is critical in efforts to manage and exploit the economic potential that exists in the villages. It is expected that proper and efficient use of funds will have a positive impact on the villagers' economic development and well-being.

Effective village fund management and high public participation can help villages' economic potential flourish rapidly. Properly and transparently used village funds will boost local economic growth, create jobs, and improve people's well-being. Thus, the development programs implemented at the village level can provide tangible and sustainable benefits to the entire village population.

The Perolihen Village, which is located in Sitellu Tali Urang Jehe, Pakpak Bharat district, is one of the villages that received the allocation of village funds. The economic potential of the village includes agriculture, farming, and tourism sectors that are not fully developed. Therefore, it is important to investigate to what extent the effectiveness of the village fund, the management of village funds, and the participation of the public in the administration of rural funds can influence the development of village economic potential.

## 2. Literature review

### 2.1. *Economic potential*

Economic potential is the economic capacity that exists in the region capable of being developed and continued to be developed in order to be a source of income of the region as well as a livelihood of the economy of the local community (Suparmoko, 2002). Local economic potential can be defined as the economic capacity of local regions that can and should be developed and continuously evolved as well as a source of search for the surrounding community can even affect

the growth of the economy of the region as a whole for further development (Agitama, 2021).

## ***2.2. Village fund***

The Village Fund (VF) is a fund derived from the State Revenue and Shopping Budget (APBN) that is given to the village through the District Revenues and Shopping Fund (APBD) of the district or city. This fund is used to finance government operations, development implementation, community building, and community empowerment. The Presidential Regulation No. 8 of 2016 (Fizay, 2023) includes Article 1 Paragraph 2. The allocation of this fund is expected to create uniform and sustainable development throughout Indonesia's territory. Furthermore, DD aims to empower the villagers to play an active role in the development carried out in their neighborhoods (Darmi & Mujtahid, 2020).

### ***2.2.1. Effectiveness of village funds***

As stated by Mingkid et al. (2017), efficiency is defined as the quality of work done and how well an individual produces something in line with expectations. This means that a job can be considered effective if it can be completed in a timely, costly, and quality manner. For a task to be effective, it must align with your desired outcome. In other words, the challenge lies in successfully achieving the village funding goal in Perolihen. Efficiency refers to the successful process of achieving a goal that has been set during the planning phase.

The set plan and the achieved results can be compared to determine the level of effectiveness. However, an effort or activity can be considered effective once it has achieved its purpose. Ineffectiveness occurs when the effort or outcome of the work is not appropriate, resulting in the goal not being achieved as expected (Najidah & Lestari, 2019).

### ***2.2.2. Allocation of village funds***

The Village Fund allocates funds from the Local Government Budget (APBD) of the district to meet the village's needs for government maintenance, development implementation, public service, and government maintenance. Allocation of village

funds (ADD) is part of a village fund granted by the county and channeled through the Kas Desa (Sandag et al., 2022).

According to Azwardi & Sukanto (2014), the allocation of village funds according to the government regulations guarantees that the share of the central and regional financial balance funds received by the district or city for the village, deducted from the staff expenditure, is distributed proportionately for each village. Whereas in the Interior Minister's Regulation No. 37 of the year 2007, the Village Financial Management Guidelines state that Section 18 of the village financial management guidelines stipulates that the allotment of village money must be derived from the APBD district or city.

### **2.3. Society participation**

According to Latif (2019), Society participation can be defined as involvement in activities involving the identification of problems and potential problems in society, decision-making processes in dealing with problems, efforts to address problems, and the evaluation of changes occurring. In short, participation is the cooperation between the people and the government in planning, implementing, preserving, and developing the results of development. Participation is also defined as the will of the people to fully support government programs set by the government.

Society has an important role in development for several reasons, according to Moeljarto (cited in Muslim, 2007). First, the community is the primary role and goal of development. Second, participation enhances self-esteem and dignity. Third, participation makes it easy to obtain information about attitudes, aspirations, needs, and conditions of the area that will not be revealed without participation. Fourthly, involvement makes the development project more acceptable. Fifth, participation creates a good environment to thrive. Sixth, participation is seen as the fulfillment of the democratic right of everyone to participate in the development of their own village. Seventh, building community capacity to manage development programs through participation is an effective method

## **3. Research methods**

The research uses a quantitative approach with the aim of testing the influence of village funds on the development of economic potential in Perolihen Village, Sitellu Tali Urang Jehe district, and Pakpak Bharat district. The data was collected through

surveys using questionnaires distributed to 63 respondents, who are the village's population. The questionnaire is designed to measure three main variables: the efficiency of the village fund, village fund management, and community participation in rural fund administration. The collected data was then analyzed using the Structural Equation Modeling Partial Least Squares (SEM PLS) method, with the help of the SmartPLS 4 software. The SEM PLS method was chosen for its ability to test relationships between variables in complex models and in accordance with the purposes of this research. This analysis aims to determine the impact of each variable on the development of the economic potential of the people in Perolihen Village so that it can provide a comprehensive picture of the factors affecting the successful use of village funds.

**Table 1.** Respondents characteristics

Items	Frequency	Percent
Gender		
Male	43	68.25
Female	20	31.75
Total	63	100.00
Education degree		
Elementary school	10	15,87
Junior high school	18	28,57
High school	25	39.68
College	10	15,87
Total	63	100.00
Occupation		
Farmers	38	60.31
Civil servants (PNS)	5	7.93
Workers/Employees	10	15.87
Other	10	15.87
Total	63	100.00

Source: Processed using SmartPLS

## 4. Results

### 4.1. Respondent characteristics

In Table 1 the proportion of male respondents to female respondents was 68.25 percent, while 31.75 percent were female. The community's perception of the village budget is influenced by the level of formal education. The final level of formal education of the respondents in this study was very varied. The majority of

respondents achieved SD (basic school) education at 15.87%, middle (first secondary school) at 28.57%, high school (high middle school) at 39.68%, and college education at 15.87%. The majority of the population in this village of Sriwijaya is employed in agriculture, accounting for 60.31%, followed by civil servants (PNS) at 7.93%, and various other types of labor or employees, accounting for 15.87%.

#### 4.2. Outer model testing

According to Candana et al. (2020), an outer model, or measurement model, describes the relationship between the blocks of indicators and their latent variables. This model specifically associates a latency variable with its indicators, or, in other words, an external model explains how each indicator relates to another variable. As for the external models used in this study, they include convergence validity tests, discriminatory validity testing, and reliability tests.

**Table 2.** Convergence Validity Test Results

	X1	X2	X3	Y1
X1_1	0.703			
X1_2	0.746			
X1_3	0.720			
X1_4	0.708			
X2_1		0.709		
X2_2		0.762		
X2_3		0.759		
X2_4		0.777		
X3_1			0.720	
X3_2			0.825	
X3_3			0.768	
X3_4			0.899	
Y1_1				0.847
Y1_2				0.794
Y1_3				0.714
Y1_4				0.734

Source: Processed using SmartPLS

Based on Table 2 it can be seen that the loading factor value of all statements is greater than 0.70. Therefore, it can be stated that the data in this study has good convergence validity (Kusumaningrini, 2021).

**Table 3.** Discrimination validity test results

	X1	X2	X3	Y1
X1_1	0.403	0.443	-0.104	-0.076
X1_2	0.746	0.395	0.033	-0.191
X1_3	0.572	0.116	-0.063	-0.046
X1_4	0.708	0.362	0.279	-0.154
X2_1	0.351	0.509	-0.000	0.086
X2_2	0.358	0.562	0.128	-0.317
X2_3	0.403	0.759	-0.195	-0.382
X2_4	0.561	0.777	-0.067	-0.320
X3_1	-0.248	-0.039	0.320	0.000
X3_2	0.045	0.075	-0.425	-0.096
X3_3	-0.157	-0.111	0.468	-0.076
X3_4	0.129	-0.102	0.899	0.215
Y1_1	-0.110	-0.408	0.280	0.847
Y1_2	-0.011	-0.173	-0.061	0.294
Y1_3	-0.266	-0.299	0.140	0.614
Y1_4	0.155	0.200	0.074	0.234

Source: Processed using SmartPLS

According [Table 3](#), the correlation values between the indicator and its structure are greater than the correlation with other blocks. Accordingly, it can be stated that all items of the declaration are free from issues of discriminatory validity.

**Table 4.** Rehabilitation validity test results

	Cronbach's alpha	Composite reliability (rho_c)
Village Fund Effectiveness	0.739	0.773
Village Fund Management	0.754	0.784
Community Participation	0.799	0.761
Economic Potential	0.712	0.756

Source: Processed using SmartPLS

According [Table 4](#), Cronbach's alpha and composite reliability values are greater than 0.70. Therefore, it can be concluded that the data in this study does not have reliability problems.

### 4.3. Inner model testing

Based on [Table 5](#) it can be seen that the R-Square value for the variable Efficiency of village funds, village fund management, and community participation is 0.299 or about 29%. This means that the ability of these variables in explaining the economic potential development variable is weak.

**Table 5.** R square test result

	R-square	R-square adjusted
Economic potential	0.299	0.263

Source: Processed using SmartPLS

The based on [Table 6](#) the results of the F square analysis, provides insights into the impact of the variable on the latent variable. The village fund effectiveness variable shows a strong influence on the village potential development variable, with a value of  $0.352 > 0.35$ . Meanwhile, the village fund management variable has a value of  $0.243 > 0.15$ , which shows a moderate influence over the village development potential variable. However, the community's variable participation has a weak influence on the village's potential development, with a value of  $0.136 < 0.19$ . It gives an overview of how significant the influence of each independent variable on the dependent variable is in this research model.

**Table 6.** Effect size result

Variable	Y
Village Fund Effectiveness	0.352
Village Fund Management	0.243
Community Participation	0.136
Economic Potential (Y)	

Source: Processed using SmartPLS

**Table 7.** Q square test result

	Saturated model	Estimated model
SRMR	0.094	0.094

Source: Processed using SmartPLS

Based on [Table 8](#) it is evident that the model's saturated value, which is 0.094, is less than 0.10. Then, it can be concluded that this study model has good goodness of fit. Based on [Table 10](#) above, some things can be explained as follows. The effectiveness of the fund has a statistical t-value of  $2,274 >$  of the t-table of 1.96 and a p values value of  $0.043 <$  of 0.05 %. This means that the effectiveness of the Perolihen village fund has significant influence on the economic potential of the village. The village fund management has a t-statistical value of  $2.266 >$  of the t-table of 1.96 and a p value of  $0.024 < 0.05\%$ . This means that the fund management of the Perolihen Village has a significant influence on the economic potential in the



village. The participation rate exhibits a statistical *t* value of 0.584, as indicated by the *t* table of 1.96, and a *p* value of 0.559, exceeding 0.05%. This implies that public participation has no significant impact on Perolihen Village's economic potential.

**Table 8.** Result of hypothesis

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ( O/STDEV )	P- values
Village Fund Effectiveness → Potential	0.050	-0.030	0.182	2.274	0.043
Village Fund Management → Potential	0.525	-0.420	0.232	2.266	0.024
Community Participation → Potential	0.185	0.129	0.317	0.584	0.559

Source: Processed using SmartPLS

## 5. Discussion

The village fund has a significant influence on the village's economic potential because it is able to enhance various aspects that support local economic growth and reduce poverty (Arina et al., 2021; Afrizal, et al., 2024). First, village funds are often used to improve infrastructure such as roads, bridges, and other public facilities, which improve accessibility and connectivity, thus facilitating the distribution of goods and services as well as the mobility of the population (Siahay et al., 2023). Second, the village fund's investments in education and health can improve the quality of human resources, allowing the villagers to access better jobs or develop their own enterprises (Manurung, 2023). In addition, village funds also support micro, small, medium, and enterprises (MSMES) through training, capital provision, and support, which stimulate local economic growth by improving the quantity and quality of local products and opening up jobs (Nuraeni, 2018). Furthermore, the village's money is used to develop local opportunities such as agriculture, tourism, and handicrafts, which can increase the village's original income and the well-being of its communities (Amir, 2020).

However, although public participation in the drafting of the village fund budget is important in theory for the concept of participatory democracy, in practice, it does not always have a direct impact on the increase in the village's economic potential. One of the main reasons for this is the population's varying capacity and knowledge about the village's budget processes and financial management, which can result in

less effective proposals and decisions (Sulistiyowati, 2022). In addition, limited resources, both financial and human, often hamper the realization of proposals from the community (Cahyaningtyas & Natsir, 2024). Differences in interests and priorities among villagers can also lead to conflict or compromise that is less optimal for economic growth (Puspita, 2018). Finally, the issue of bureaucracy and potential corruption can reduce the effectiveness of public participation. This is because, even when people participate in budgeting, the end result may not meet expectations if funds are misused. Thus, even though public involvement in budgeting is important, these factors can hinder the direct positive impact on the village's economic potential.

## 6. Conclusion

The conclusion of the study indicates that the efficiency of village funds in Perolihen Village has a significant impact on the economic potential of the village, with a t-statistical value of 2,274 greater than the t-table of 1.96 and a p value of 0.043 smaller than 0.05. This suggests that good village fund management significantly increases the village's economic potential. Furthermore, the management of village funds also has a significant effect on the economic potential of Perolihen Village, as demonstrated by a t-statistic of 2,266 greater than the t-table of 1.66. Moreover, a p-value of 0.024 is less than 0.05. However, public participation in the preparation of the villages' financial budgets does not have a significant effect on village economic potential, with a t-statistics value of 0.584 smaller than the T-tabel of 1.66 and p-values of 0.559 larger than the 0.05. This shows that, despite the importance of community participation, in the context of the Perolihen Village Discipline, such a proportion does not significantly affect the growth of the rural economy.

## Disclosure statement

The authors declare that there are no conflicts of interest regarding this publication.

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