Investigating the Impact of Village Funds, Village Expenditures, and the Village Development Index on Economic Growth in Indonesia

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Abstract. The objective of this study is to examine the impact of village funding, village expenditures, and the Village Development Index (VDI) on Indonesia's economic growth. Panel data encompassing 33 provinces between 2018 and 2022 was the data used. The panel data regression approach is utilized for data analysis, and the fixed effect model is the model selected. The results of the analysis show that village funds, village expenditure and the Village Development Index (VDI) simultaneously influence economic growth in Indonesia. Meanwhile, partially village funds have a significant but negative effect on economic growth in Indonesia. Indonesia's economic growth is significantly and favorably impacted by village expenditures and the Village Development Index (VDI). The research's implications highlight the importance of improving village fund management, implementing village spending programs that can support regional development and independence to be more effective in supporting economic growth.

Keywords: Village Expenditures, Village Funds, Village Development Index, Fiscal.

1 Introduction

A key metric for assessing the economic development of a nation is its rate of economic growth. Economic growth in Islam is full of values. Economic growth from an Islamic perspective contains values that focus on holistic human welfare. Islam teaches that everything must be in a good moral and ethical corridor. Therefore, the production of goods or products that cause bad effects or harm humans and even damage the environment is not considered beneficial growth [1]. This means that economic activities must be in line with maqashid sharia. So detrimental economic activities are considered not in line with Islamic teachings, even though they can materially increase economic growth rates.

Higher economic growth is generally followed by an expansion of economic activity which can influence various other aspects. This condition can increase productivity, per capita income, quality of life and create new jobs [2], [3], [4]. Stable and high economic growth will increase a country's competitiveness. With the support of good infrastructure and quality human resources, it frequently draws in overseas investors who want

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to put money into the nation [5]. These factors explain why many countries are focusing on policies that can increase economic growth.

Indonesia's economic growth from 2018-2022 has a positive trend. Even though in 2020 there was negative economic growth as a result of the economic shock after the Covid-19 pandemic. After that, Indonesia's economic growth continued to improve. Spatially, economic growth in 2022 will be dominated by the islands of Maluku and Papua at 8.65 percent, followed by Sulawesi, Java, Bali and Nusa Tenggara, Kalimantan and Sumatra. However, the contribution of Gross Regional Domestic Product (GRDP) to the Indonesian economy remains dominated by the Java Island region at 56.48 percent, followed by Sumatra, Kalimantan, Sulawesi Bali and Nusa Tenggara as well as Maluku and Papua.

Based on this explanation, it suggests that there are economic disparities that still exist in various provinces in Indonesia. Although economic growth has generally been recorded as positive, this distribution has not been evenly distributed between regions. The Indonesian government has attempted to implement various policies and strategies to overcome this gap. The government's efforts are realized through several important initiatives such as village funds, village spending and the Village Development Index (VDI). This government effort is considered a significant step and contributes to encouraging economic growth, building regional independence and reducing economic disparities between regions in Indonesia.

Research related to economic growth in Indonesia has been carried out previously. Among these studies by Khan et al. [6], Zeng and Zhou [7], and Saidi et al. [8]. The research results show that many factors influence economic growth. Research that explicitly examines the impact of village finances, village spending, and the Village Development Index is still scarce, nevertheless. Therefore, the purpose of this study is to examine how village funds, village expenditures, and the Village Development Index affect Indonesia's economic growth.

2 Method

Panel data made up of cross-sectional and time series data are used in this study [9]. 33 Indonesian provinces are included in the panel data for the years 2018–2022. Purposive sampling was used to determine the sample size, and 165 samples total were used. Data gathered from the Ministry of Villages, Development of Disadvantaged Regions, and Transmigration as well as the Indonesian Central Statistics Agency. Data analysis uses panel data regression and the equation as follows.

$$PE_{it} = \alpha + \beta_1 DD_{it} + \beta_2 BD_{it} + \beta_3 IDM_{it} + e_{it}$$

Information: Economic Growth (PE), Village Funds (DD), Village Expenditure (BD), Village Development Index (IDM), i-th entity (i), t-th period (t), Constant (α), Coefficient (β), error term (e).

3 Results and Discussion

3.1 Choosing Regression Models for Panel Data

The Chow and Hausman tests were utilized in the model selection process, and fixed effect was found to be the best model for this study.

3.2 Classical Assumption Test

According to the findings of the classical assumption test, the data utilized in this study model satisfied the assumptions of normality, multicollinearity, heteroscedasticity, and autocorrelation.

3.3 Test for Determination Coefficient (R-squared)

The adjusted R-squared value is 0.999. This means that village funds, village expenditure and the Village Development Index are able to influence variations in economic growth by 99 percent.

3.4 Simultaneous Test (F-Test)

The probability value (F-statistic) of 0.0000, less than 0.05, was obtained from the F test results. This means that every independent variable; Village funds, village expenditure and the Village Development Index simultaneously influence economic growth.

3.5 Partial Test (t-Test)

The partial test results show that the probability value for each of the village fund, village expenditure and Village Development Index variables is 0.0000. This suggest that each independent variables partially influence economic growth.

3.6 Results of Panel Data Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	12.30578	0.408452	30.12787	0.0000
Village Funds	-0.209483	0.028444	-7.364868	0.0000
Village Expenditure	0.199883	0.032321	6.184304	0.0000
Village Development Index	0.645577	0.032923	19.60854	0.0000

The following is the research equation based on panel data estimates:

$$EG = 12{,}305 - 0{,}209VF + 0{,}199VE + 0{,}645VDI + e$$

3.7 Village Funds, Village Expenditures and the Village Development Index 's Impact on Economic Growth

Economic growth is significantly impacted by village funding, according to the first hypothesis test results. Village funds are central government expenditure that is transferred to the regions. These funds are allocated every year in the State Revenue and Expenditure Budget. This fiscal decentralization has strengthened regional financial capacity in carrying out government and development, with a focus on efforts to improve community welfare and reduce social and economic disparities in various regions in Indonesia.

Indonesia's fiscal decentralization is consistent with Islamic maqashid sharia. The principles of maqashid sharia, or the purposes of sharia, place a strong emphasis on upholding the five major facets of existence: property (hifzh al-mal), reason (hifzh al-aql), religion (hifzh al-din), soul (hifzh al-nafs), and heredity (hifzh al-nasl). These ideals are highly aligned with the context of fiscal decentralization and village funds, since they seek to foster prosperity, social fairness, and enhance sustainable development across different regions.

In accordance with neoclassical growth theory, capital accumulation is an important factor in achieving economic growth [10], [11]. Village funds provided by the central government are a form of government investment given to regions that encourage sustainable development and the achievement of economic progress. Village funds have been shown in numerous studies to have a favorable and substantial impact on economic growth. Like research by Kerihi et al. and Fazri et al. [12], [13]. Other research by Fitria et al. [14] also found that fiscal decentralization benefited the expansion of the economy. Something similar was also found [15], economic success is significantly impacted by fiscal decentralization.

But according to the hypothesis's findings, village funds had a negative effect on economic expansion. This means that increasingly large village funds are not always able to increase economic growth. This aligns with studies conducted by [16], Village funds have a negative effect on economic growth in West Sumatra. Economic growth in East Kalimantan is negatively impacted by fiscal decentralization [17]. Village funds can negatively impact economic growth if they are not managed well [18]. Village funds are an important instrument in improving the regional and national economy. However, in order to maximize its effect on economic growth, improvements regarding allocation as well management are still needed.

The quality of the resources owned by the village greatly influences the ability of village officials to manage these funds [19]. The lack of community involvement in planning and implementing programs financed from village funds also influences their effectiveness in increasing economic growth [20]. Kthe arena of active community participation can ensure that programs are implemented according to local needs and at the same time monitor that the program runs as it should. Supervision of the use of village funds is inadequate [21]. This creates the potential for gaps in misuse of village funds such as corruption.

In addition, The Covid-19 epidemic has resulted in a substantial shift in the priorities for how village revenues are used. The focus on using village funds has shifted to supporting post-pandemic health emergency management and accelerating economic recovery. The new priorities for using village funds include the Village Direct Cash Assistance program, response and prevention of Covid-19, village economic recovery such as cash-intensive programs, improving health services including the establishment of Covid-19 response village posts as well as increasing the capacity of health workers and providing medical equipment. base. This shifting of village fund priorities is considered could have played a part in decreasing the efficiency of village funds in boosting Indonesia's economic growth.

The second hypothesis test's findings demonstrate that village expenditure significantly influences economic growth. This means that higher village spending significantly and positively influences economic growth. Village expenditures are expenses incurred by the village authority to finance the execution of different projects or activities, development and community empowerment. Several sources of village expenditure funds are village funds, Village Fund Allocation, Original Village Income and other sources. Village government administration, development implementation, community development, disaster management, emergency and urgent situations in the village, and community empowerment comprise the five primary areas of village expenditure. Ministry of Finance [22] stipulates that 30 percent of the budget is used for the field of village government administration and 70 percent for other fields. These five spending areas show development priorities and village needs which can ultimately support economic growth and improve community welfare.

Village spending is a significant component of financial governance in Islamic economics, which is predicated on the ideas of justice, welfare, and efficient use of resources. Sharia values, which highlight the value of justice, efficiency, and trust in managing resources for the benefit of society as a whole, must be followed when spending in the village. Spending in villages that is intended to improve welfare and economic development is very much in line with maqashid sharia. Furthermore, it contributes to the establishment of a just and prosperous social structure where resources are managed wisely and everyone's basic needs are met.

These findings are in agreement with earlier research. similar to studies conducted by Aluthge et al. [23],and Fadlianti et al. [24]. Capital expenditures have a noteworthy and favorable effect on economic growth. The same thing was also revealed [25], Leshoro [26] in his research, Economic growth is positively and significantly impacted by government spending. In other research, it has also been shown that village learning contributes to improving community welfare [27]. This indicates that with better and more effective budget allocation there will be an increase in economic activity which directly or indirectly influences regional economic growth. Therefore, to increase economic growth, efforts need to be made to increase capacity and fiscal independence.

The final hypothesis test's findings demonstrate the substantial impact of the Village Development Index on economic growth. This means that a higher Village Development Index contributes significantly and favorably to economic growth. These findings are consistent with studies carried out by Hadiwibowo et al. [28], economic growth is enhanced by higher levels of village development. Additionally, research by Prasetya et al. [29] showed that the Village Development Index had a favorable effect on the social and economic circumstances of communities.

The Social Resilience Index, Economic Resilience Index, and Environmental Resilience Index are the three indices that make up the Developing Village Index [30]. In Islamic economics, the notion of maqashid sharia bears significant importance to the Village Development Index. The village development index has three indices, namely social, economic, and ecological, that are aligned with Islamic principles. These principles include Hifzh al-nafs, Hifzh al-mal, and Hifzh al-nasl. The Ministry of Villages, Development of Disadvantaged Regions, and Transmigration established the Developing Village Index, which is intended to gauge the degree of village development. Independent Villages, Developed Villages, Developing Villages, Disadvantaged Villages, and Very Disadvantaged Villages are the five categories that make up the Developing Village Index.

Since its inception, the government has received assistance from the Developing Village Index in formulating and implementing development policies, especially in rural areas. In the last few years it is known that there has been significant improvement, a number of regions in Indonesia have succeeded in moving out of the Village Development Index status of "underdeveloped to a better status [31]. This shows an increase in various aspects of development in various regions in Indonesia. Although there is still a gap in the Village Development Index between regions [32], [33]. Infrastructure and transportation development receive top priority in efforts to improve the economy in the future. This shows that efforts to increase economic development and regional independence do not only depend on increasing human resources but also on the quality and infrastructure that supports the mobility and distribution of goods and services throughout the region. Adequate infrastructure allows regions to be more connected, developed, and independent in carrying out their economic activities.

4 Conclusion

The study's findings allow for the conclusion that village funds, village expenditure, and the Village Development Index simultaneously influence economic growth in Indonesia. Partially, village funds significantly and negatively influence economic growth in Indonesia. Meanwhile, village spending and the Village Development Index significantly and positively influence economic growth in Indonesia.

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