Spending Allocation, Capacity and Village-Owned Enterprises: Does it Matter to Village Income in Indonesia?

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ARTICLE INFO	ABSTRACT
Received: 24 December 2021 *Reviewed: 10 January 2022* *Revised:18 January 2022* *Accept: 29 January 2022* *Keywords: Spending Allocation, Income, village device capacity.*	**Purpose:** This paper aims to analyze the influence of village spending, village device capacity, and village-owned enterprise on village income. The data source is The Village Potential Statistics 2018, testing was conducted on 5,791 villages in Indonesia. **Methodology:** The methodology used in this study is ordinary least square regression analysis by comparing two regression models both Java Island and outside Java Island. **Findings:** The results of the study found that either Javanese models or outside Javanese models showed spending on government administration, development, empowerment, and development had a positive and significant effect on village income levels. The number of village apparatus and village-owned enterprises units has a positive and significant effect on the village income level while in outside Java does not. Meanwhile, the education level of head of village, the education level of secretary had no influence on the village's income level in Java Island. Whereas in Outside Java, the level of education of the village head, the number of village apparatus also positively affects the village income level. Then, the education level of the village secretary, and the village-owned enterprises outside Java Island did not have a significant influence on the village income level. **Originality/Value:** This paper have a depth analyze to village income level in Indonesia with compared between Java Island and Outside Java Island.

1. Introduction

Village funds that rolled from 2015 to 2019 have reached Rp 263.9 trillion. The allocation of village funds is distributed evenly to 34 provinces in Indonesia, which are allocated to each village with a total of 83,931 villages. Each village has received an average of 3.15 billion village funds over the past 5 years, with the largest allocation on average received by villages on maluku island of 3.63 billion over the past 5 years.

Table 1. Allocation of Village Funds by Island in Indonesia 2015-2019

No	Islands	Number Of Province	Number Of Village	Total Per Island (IDR)	Average Per Village (IDR)	Average Per Province (IDR)
1	JAVA	6	25,069	75,215,483,963	2,976,591	12,535,913,994
2	SUMATERA	10	25,589	85,364,741,376	3,335,993	8,536,471,438
3	SULAWESI	6	10,645	31,676,314,490	2,975,699	5,279,385,748
4	BORNEO	5	7,241	23,702,642,546	3,273,394	4,740,528,509
5	PAPUA	2	7,539	22,764,769,665	3,019,601	11,382,384,833
6	NUSA TENGGARA	3	5,212	16,396,761,311	3,145,963	5,465,587,104
7	MOLUCCAS	2	2,436	8,842,763,254	3,630,034	4,421,381,627
TOTAL		34	83,931	263,963,449,605	3,145,005	7,763,630,871

The total village funds received by each province averaged 7.76 trillion over the past 5 years. One of its achievements can be seen in 2018 the villages left behind decreased by 6,518 villages, and independent villages increased by 2,665 villages. This acceleration began in 2014, after Law No. 6 of 2014 was established. The village development paradigm follows a decentralized pattern. This condition provides a new paradigm for village devices in understanding the financial system, empowering citizens, so that the strengthening of institutions at the village level is needed to encourage the village government to work well, therefore the increase in village funds budget is expected to be a boost to the growth of the village economy faster.

Village funds are a stimulus to encourage the village economy to be faster. Infrastructure improvement policies are carried out as a buffer for economic access and empowerment in labor-intensive form, used as fiscal stimulus that encourages economic improvement at the village level. The effectiveness of development at the village level is certainly strongly related by the role of the village government and community empowerment. Although there has been a Village Fund program as a stimulus, in its implementation the village head and all village devices are teams that jointly increase the chances of success of village development. The preparation of Regional Government Budget, submitted to the village government in four allocations. First, the expenditure of the village government for the administration of government. Second, village production for community development. Third, the village government's expenditure on development. Fourth, the village government's expenditure for empowerment. However, in the framework of investment, the utilization of Village Funds can be used for the participation of capital of village-owned enterprises (BUMDes) (Regulation of the Minister of Finance, 2017). Budget management at the village level has a hand in accelerating the process of rural economic growth. The allocation of the right budget or village spending and investment made by the village government can be the driving force of the economy in the village today, so as to increase the

income of the village community so that it can adjust the number of poor people in the countryside. Therefore, this paper aims to analyze the influence of village spending allocation of village device capacity, and BUMDes toward Village Community Income in Java and Outside Java.

2. Review of Literature

2.1. Theoretical Frameworks and Concepts

The important role of the village government in the development of the village in the first delivery is the ability of the village government in allocating the budget in accordance with the applicable provisions. Second, the education of the village chief, the village secretary, and his apparatus. Allocating the budget of village funds, has been regulated in the Regulation of the Minister of Finance (Regulation of the Minister of Finance, 2017). The division is regulated in village expenditure for governance, village development, and community empowerment. In addition, leadership in the village, ranging from the village head to the device is a mandate of the law [1]. The main concerns raised are about the capacity of villages to manage increased funds [1, 2]. If the village government does not have the capacity to build the village properly, it will reduce the quality of the development of the village itself.

2.1.1. Village Development

Measurement of village development with Village Development Index (IPD) is carried out twice, namely at the time of planning and evaluation. In the planning stage, measurements were carried out in 2015 by measuring villages registered in Regulation of the Minister of Home Affairs No. 39/2015. For village data used is Village Potential data in 2014. The results of Village Development Index in 2015 are contained in the book entitled Village Development Index 2014 "Challenges to Meet Village Minimum Service Standards" published in the same year, and is the result of collaboration between the Indonesia Ministry of National Planning (Bappenas) and the Central Bureau of Statistic (BPS).

At the evaluation stage, village development index was recalculated in 2018. Village development index calculation in 2018 using list and village data from Village Potential Collection 2018.The results of the calculation are presented in a book entitled Village Development Index 2018 compiled by BPS. This book provides a review of the results of village development through IPD in every village, province, and large island region. IPD summarizes the results of diverse village development in accordance with the local needs of each village. This study, the results of village development are used as endogenous variables, the impact of the performance of the village government. His approach uses the Village Development Index (IPD) which describes the availability and accessibility of various basic services for the village community. Village development in 2018 has provided a picture of villages with lagging, developing, and independent status. The results of IPD categorization resulted in villages lagging behind as many as 14,461 villages (19.17 percent), villages developing as many as 55,369 villages (73.40 percent), and independent villages as many as 5,606 villages (7.43 percent).

The dimensions of village development increased in 2018, when compared to 2014. The five dimensions are basic service dimensions, infrastructure condition dimensions, transportation dimensions, general service dimensions, and village government implementation dimensions. The dimension with the highest increase is the Implementation of Village Government, which is 9.81 points. In addition, the dimension with the smallest increase is Basic Services, which is 0.92 points. The village has been reduced by 6,518 villages when compared to 2014.Meanwhile, Mandiri Village increased by 2,665 villages.

The increase in village development depicted in Village Development Index is quite varied. One of the indicators that experienced a high increase in the Basic Service Dimension is the Availability and Access to senior high school, with the increasing number of villages in high school. Furthermore, in the Dimension of Infrastructure Conditions, the indicator that experienced the highest increase was Fuel for Cooking which was characterized by an increase in the number of villages that have LPG bases / agents / sellers.

2.1.2. Village Development Measuring Instruments

The measuring tool for the development of village development is designed with the minimum service standard approach that is the obligation of the government at the village level. However, this approach still leaves the problem, which is measuring what is not built and building what is not measured. The village administration government is working on development in accordance with the Village Minister's Regulation on the Use of Village Funds which has been issued every year since 2015. The last regulation is contained in the Regulation of the Minister of Villages, PDT and Transmigration number 16 of 2018 on Priority of The Use of Village Funds 2019 [3].
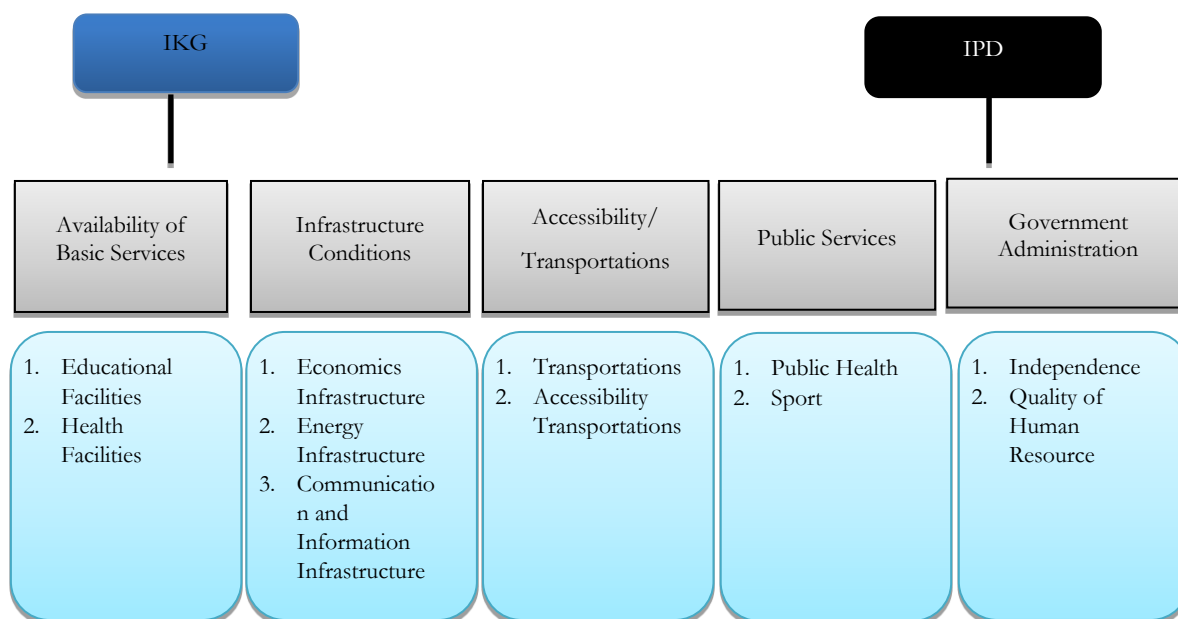

Figure 1. Village Development Index (IPD)

Both IPD and IKG (Geographic Difficulty Index) are gauges of the achievement of basic village-level services, but each has a different direction. The IKG indicator consists of all IPD indicators with an additional 2 dimensions. IPD is calculated based on 5 dimensions, 12 variables, and 42 indicators, while IKG is calculated based on 3 dimensions and 28 indicators. Basic services measured, at least have met the rules available in Law No. 6 of 2014 on Villages, as well as Presidential Regulation No. 2 of 2015 on National Medium Term Development Plan (RPJMN) Year 2015-2019 Village and Rural Development. This legal basis is a reference for BPS to measure village development through IPD.

2.2. Previous Literature

There are empirical studies that state that the amount of tax revenue as government revenue is influenced by government spending itself. Sandi Kurniawan et al. conducted research on the realization of government spending on tax revenues in Indonesia. The results showed that the realization of government spending empirically had a significant and positive effect on tax revenues. Government spending is responded to directly by tax revenues [4].

Further research conducted by Darwanis & Saputra examined more specifically the influence of capital expenditure on local indigenous income in the aceh province case study. The results showed that capital expenditure had a positive effect on the region's original income. Capital expenditure includes land expenditure, equipment and machinery spending, building and building spending, road shopping, irrigation, and networking, and other fixed asset spending [5].

Other results were shown by Ahmad in his thesis related to capital expenditures on village finances in Jember District. The results showed that capital expenditure and allocation of village funds had no effect and also showed negative coefficients. That means increased capital expenditure is not followed by a relative increase in village income realization. Empowerment and development carried out by the village government is a form of effort to increase social capital for the community for the welfare and income of the village [6]. The results of Rohmani et al. showed that social capital in irrigation management became a factor that determines the sustainability of irrigation management in Sukaharjo Regency so that it has an impact on the welfare of the community. The resulting influence is a positive influence so as to increase the independence of the village [7].

The role of the village head contributes actively to the development of a village. Mahayana on descriptive qualitative research found that village heads have a role in motivating, facilitating, and mobilizing residents in every village development activity. The village head became a facilitator, namely on the sample of Bumi Rapak village. Another study on the influence of Village Owned Enterprises on village income [8]. Tomisa & Syafitri in their research showed that there was a positive influence of Village Owned Enterprises on Village Original Income in the sample of Sukajadi Village, Bengkalis District [9].

The purpose of the issuance of village fund laws is as a stimulus in order to accelerate development in the countryside. Therefore, after 5 years of utilization of village funds, it is expected that the results of the program can be evaluated and seen the impact or influence of the implementation of the village fund program on changes in development in the countryside. After the village fund budget received by the village government is further issued in the form of village spending whose utilization by the village government must be supported by the ability of the village head and village devices in managing village funds in accordance with applicable legislation, so that it can be implemented effectively and efficiently in order to increase village income, and encourage the acceleration of village development.
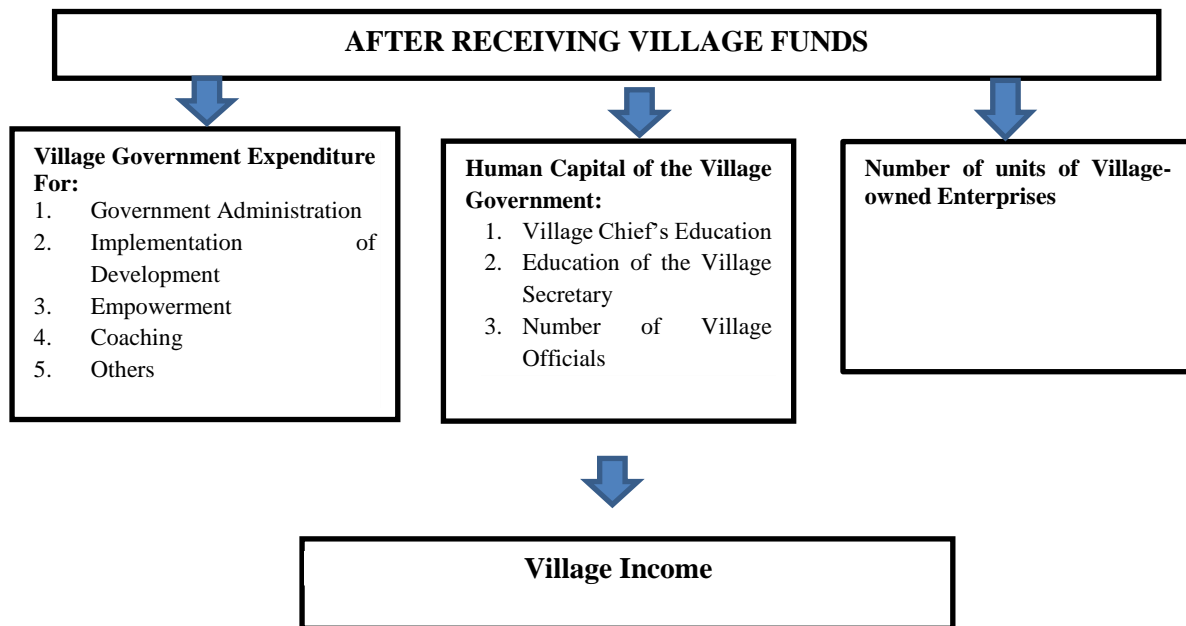
Figure 2. Research Mindset

3. Research Methodology

3.1. Scope of Research

This research is limited to the analysis of village government spending, the social capital of village government, village-owned enterprises, village income at 6.9% or 5,791 villages from the number of villages located both on the island of Java and outside Java.

3.2. Types and Data Sources.

The type of data used in this study is secondary data. Secondary data obtained from BPS Indonesia (Village Finance Statistics, Village Potential 2018) [10], and the Ministry of Finance of the Republic of Indonesia.The data source used is Village Potential data (Podes) 2018. Village Potential Data (Podes) contains all the lowest administrative territorial data in Indonesia, namely villages / villages. This data is obtained from data collection activities in all villages, villages, UPT / SPT.

Table 2. Scope of the Research

No	Region	Islands	Provincial Name	Number Of Provinces	Number Of Villages
1	Java	Java	1). Banten, 2). Special Capital Region of Jakarta, 4). Central Java, 5). East Java, 6). Special Region of Yogyakarta	6	25,269
2	Outside Java	Sumatera	1). Nangroe Aceh Darussalam, 2). North Sumatera, 3). Bangka Belitung West Sumatera, 4). Riau, 5). Riau Islands, 6). Jambi, 7). Bengkulu 8). South Sumatera, 9). Bangka Belitung Islands, 10). Lampung	10	25
		Sulawesi	1). Gorontalo, 2). West Sulawesi, 3). Southeast Sulawesi, 4). South Sulawesi, 5). Central Sulawesi, 6). Prov.North Sulawesi	6	10,645
		Borneo	1). West Borneo, 2). South Borneo, 3). East Borneo, 4). Central Borneo, 5). North Borneo	5	7,241
		Nusa Tenggara	1). Bali, 2). West Nusa Tenggara, 3). East Nusa Tengara	3	5,212
		Papua	1). Papua, 2). West Papua	2	7,539
		Moluccas	1.) Moluccas, 2). North Moluccas	2	2,436
		TOTAL		34	83,931

3.3. Analytical Techniques and Methods

3.3.1. Variable Types, Model Measurement Units, and Data Conversions

In this study, testing was conducted by testing the effect of exogenous variables on endogenes. The types of exogenous variables used are village government spending activities for development, empowerment, coaching, and implementation of village government, village government social capital, and the existence of Village-Owned Enterprises (BUMDes). On the other hand, the endogenous variable used is village income derived from various sources. In full the types of variables, model measurements, sources and data conversions are presented in the following bold [11, 12, 13, 14]:

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Table 3. Definition of Variables

Variable Types	Variable	Unit of Measurement for the Model	Data Source	Convertion Data
Exogenous	Village expenditure for the administration of government	Million rupiah per village	PODES code 1402a	Percentage with *Square Root*
	Village expenditure for the Implementation of development	Million rupiah per village	PODES code 1402b	Percentage with *Square Root*
	Village spending on empowerment	Million rupiah per village	PODES code 1402c	Percentage with *Square Root*
	Village expenditure for construction	Million rupiah per village	PODES code 1402d	Percentage with *Square Root*
	Village expenses for others	Million rupiah per village	PODES code 1402e	Percentage with *Square Root*
	Highest education of the village chief	Level of education	PODES code 1701a	Percentage with *Square Root*
	Highest education for the village secretary	Level of education	PODES code 1701b	Percentage with *Square Root*
	Number of village officials	People	PODES code 1702	Percentage with *Square Root*
	Number of Village-owned Enterprises	Unit	PODES code 1404a	Percentage with *Square Root*
Endogenous	Village Income	Rupiah Per Village	Village Financial Statistics	Percentage with *Square Root*

3.3.2. Model Estimates

This test was conducted to find out how much impact the policies and economy in the village had on the results of village development. The method used is Ordinary Least Square (OLS) and is done to compare the influence of independent variables on dependents between samples in Java and outside Java. The influence test using OLS in this section is illustrated by the following equation:

$$Yt = \beta_0 + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \beta_4 X_{4t} + \beta_5 X_{5t} + \beta_6 X_{6t} + \beta_7 X_{7t} + \beta_8 X_{8t} + \beta_9 X_{9t} + e \quad (1)$$

Where:

Yt = Village Income

$\beta_{0,1,2,3,4,5,6,7,8,9}$ = *coefficient of variable* $X_{1,2,3,4,5,6,7,8,9}$

X_{1t} = Village expenditure for the administration of government

X_{2t} = Village expenditure for the implementation of development

X_{3t} = Village expenditure for empowerment

X_{4t} = Village expenditure for construction

X_{5t} = Village expenses for others

X_{6t} = Highest Education of the Village Chief

X_{7t} = Highest Education Village Secretary

X_{8t} = Number of village officials

X_{9t} = Number of Village-owned Enterprises business units

4. Discussion

4.1 Overview

The government has been issuing a village fund program since 2015.The government budgeted village funds for each village in order to improve and improve the welfare of the village itself. Village funds obtained by a village, later can be used for expenditure to encourage the improvement of various aspects such as infrastructure, social and economic aspects, and others. The implication of revamping and improving these aspects is the improvement of village status to a better level. The increase in the status of the village can be seen in Table (4).

Table 4. Village Fund Smart Book, (Ministry of Finance, 2017)

Villages Status	2015	2016
Independent	3 (0.07%)	72 (1.66%)
Developed	212 (4.88%)	687 (15.81%)
Developing	1,675 (38.55%)	2,029 (46.70%)
Left Behind	1,889 (43.48%)	264 (6.08%)
Very Left Behind	566 (13.03%)	4,345 (100%)
Total Villages	4,345 (100%)	

Various villages have gone up one level better, as villages were so left behind with the number of 566 villages in 2015 has decreased to 264 villages or from 13.03% down to 6.08%. Similarly, the decline of villages lagged from 1,889 villages 43.48% to 1,293 villages or 29.76%, an increase in developing, advanced villages, and an increase in the number of independent villages. One of the benchmarks for the quality of the village is the amount of income of the village. The village's increasingly high income will facilitate financial traffic for any activities that support the village community. Table 5 shows the total village income accumulated per province in Indonesia.

Table 5. Village Income accumulated by Province 2017

	No	Provinces	Village Income (Million Rupiah)	Percentage (%)
Outside Java	1	NANGGROE ACEH DARUSSALAM	2.378.289	13,88
	2	NORTH SUMATERA	1.051.444	6,14
	3	WEST SUMATERA	238.897	1,39
	4	RIAU	491.218	2,87
	5	JAMBI	208.712	1,22
	6	SOUTH SUMATERA	560.406	3,27
	7	BENGKULU	172.402	1,01
	8	LAMPUNG	314.724	1,84
	9	BANGKA BELITUNG	79.686	0,47
	10	RIAU ISLANDS	124.208	0,72
	11	BALI	278.326	1,62
	12	WEST NUSA TENGGARA	365.052	2,13
	13	EAST NUSA TENGGARA	459.327	2,68
	14	WEST BORNEO	715.825	4,18
	15	CENTRAL BORNEO	232.319	1,36
	16	SOUTH BORNEO	233.684	1,36
	17	EAST BORNEO	180.911	1,06
	18	NORTH BORNEO	71.682	0,42

	19	NORTH SULAWESI	289.521	1,69
	20	CENTRAL SULAWESI	316.306	1,85
	21	SOUTH SULAWESI	397.625	2,32
	22	SOUTH EAST SULAWESI	80.639	1,44
	23	GORONTALO	247.511	0,47
	24	WEST SULAWESI	78.386	0,46
	25	MOLUCCAS	1.152.758	6,73
	26	NORTH MOLUCCAS	238.445	1,39
	27	WEST PAPUA	165.970	0,97
	28	PAPUA	514.134	3,00
		Village Income Outside Java	**11.638.407**	67,92
Java	29	WEST JAVA	1.437.870	8,39
	30	CENTRAL JAVA	1.317.797	7,69
	31	SPECIAL REGION OF YOGYAKARTA	97.758	0,57
	32	EAST JAVA	2.442.272	14,25
	33	BANTEN	201.660	1,18
		Village Income in Java	**5.497.357**	32,08
		Total Village income	**17.135.764**	100,00

The percentage of the highest total village income accumulated over the Province is East Java Province and Nanggroe Aceh Darussalam amounting to 14% of the total village income in Indonesia which is worth 17.13 trillion rupiah. Total village income in West Java and Central Java is the next largest around 1.4 trillion rupiah and 1.3 trillion rupiah with a percentage of 8% of total income in Indonesia. Furthermore, the average village income over provinces outside Java Island is 2% of the total village income in Indonesia or 415 billion rupiah, while in Java it ranges from an average of 6% of total income in Indonesia or 1 trillion rupiah [11].

4.2. Results and Discussions

Too many data models contain a value of 0 as well as extreme data, then transformed into square root-plus transformation 0.5. By testing the same variables but over different samples, the test yields two model comparisons as in table 6.

Table 6. Estimated Two Regression Models of Java and Outer Java Samples 2017

Java (Y1)			Outside Java (Y2)		
Variable	Coefficient	Prob>|t|	Variable	Coeffiecient	Prob>|t|
Constant	14,618	0,00	**Constant**	12,298	0,00
Pnygsq	0,440	0,00	Pnysq	0,420	0,00
Pembsq	0,226	0,00	Pembsq	0,239	0,00
Berdayasq	0,123	0,00	Berdayasq	0,111	0,00
Binasq	0,284	0,00	Binasq	0,208	0,00
Lainsq	0,060	0,25	Lainsq	0,122	0,00
Pend1sq	1,165	0,13	Pend1sq	1,737	0,00
Pend2sq	-0,462	0,56	Pend2sq	0,086	0,83
Aparatursq	0,538	0,00	Aparatursq	0,550	0,00
BUMDessq	1,015	0,02	BUMDessq	0,314	0,22
$R^2 1 = 0{,}2416$			$R^2 2 = 4196$		
Prob>F = 0,00			Prob>F = 0,00		

Simultaneously both the Javanese and Outer Java models, all independent variables have a significant effect on village income. Partially, both models with the same variables but differentiated samples produced regression results that tended to differ. The Java model shows that spending on government administration, development, empowerment, and development has a positive and significant effect on village income levels. Then, the Number of Village Apparatus and village-owned enterprise Units has a positive and significant effect on the level of Village Income. Therefore, the level of Village Head Education, the Village Secretary Education level has no influence on the village income level. The Outer Java Model shows that expenditures for government administration, development, empowerment, development, and other expenditures have a positive and significant effect on the level of village income. Then, the level of Education of the Village Head, the Number of Village Apparatus also positively affects the level of Village Income. Meanwhile, the level of Education of the Village Secretary, and village-owned enterprise outside Java Island have no significant influence on the level of Village Income.

Table 7. Measurement of Comparative Level of Influence between Java and Outside Java

Variable	Java (Y1)		Outside Java (Y2)	
	Value		Value	
Constant	14,618		12,298	
Pnygsq	0,440		0,420	
Pembsq	0,226		0,239	
Berdayasq	0,123		0,111	
Binasq	0,284		0,208	
Lainsq	0,060	√	0,122	
Pend1sq	1,165	√	1,737	
Pend2sq	-0,462	√	0,086	√
Aparatursq	0,538		0,550	
BUMDessq	1,015		0,314	√

√ = Not Significant

In the Java sample, expenditure for village government implementation of 1 million rupiah is estimated to generate village income of 440 thousand rupiah. Meanwhile, in the sample outside Java with the same nominal expenditure of 1 million rupiah is estimated to generate village income of only 420 thousand rupiah. Then, village infrastructure development expenditure in the sample of 1 million rupiah is estimated to generate village income of 226 thousand rupiah. Meanwhile, the value obtained on the same expenditure in the sample outside Java is estimated to produce higher village income of 239 thousand rupiah. Empowerment and Development Expenditure issued by 1 million rupiah in the Java sample is estimated to generate Village Income of 123 thousand and 284 thousand rupiah, and the value is higher than the sample outside Java which produces 111 thousand and 208 thousand rupiah.

In the Java sample, other expenditures that have been issued by the village have not had a significant impact on the income level of a village on the island of Java. The level of education behind the head and secretary of the village does not affect the level of village income, there is even a negative relationship, although not significant between the educations level of the village secretary to village income. That means villages outside Java Island still have a dependence on leadership qualities and programs from the village head to increase village income. It is also based on people in some areas outside the island of Java tend to have fewer people with higher education and if there are highly educated people it will greatly affect the environment of the community.

The number of village apparatuses plays a vital role in this model, where the coefficient produced is about 0.5 in the two models, which is higher than the expenditure itself. That means an increase in the quantity of village apparatus is still quite necessary both in Java and Outside Java. When the number of Village Apparatus increases, it can enable optimization such as employees who conduct community empowerment and development programs, educate, and manage village institutions.

Village-owned enterprises in the sample outside Java actually showed no significant association to the increase in village income, which should have implications. In the case of samples outside Java, village-owned enterprises sometimes do not exist in a village, or the existence of village-owned business entities that have not been massive. That is because the points of capital participation to village-owned enterprises have been regulated by the Central Government within the sub-expenditure door. However, village-owned enterprises in the Java sample have a significant effect with estimates, capital participation of 1 million rupiah will result in revenue receipts of 1.015 million rupiah.

5. Conclusion

Village funds are a stimulus that encourages the village economy to be faster. The spending door is also set more purposefully by the central government to the government. The study used two regression models of a sample of villages on the island of Java and outside Java, to look at variables that affect village income and compare one model against another. The results found that the Javanese model showed spending on government administration, development, empowerment, and coaching had a positive and significant effect on village income levels. Then, the number of village apparatus and units has a positive and significant effect on the village income level. Meanwhile, the village chief's level of education, the village secretary's education level had no influence on the village's income level. Meanwhile, the education level of village secretaries, and village-owned enterprises outside Java island did not have a significant influence on the village income level.

The advice from this study is:
1. Revamping village-owned business entities, especially village-owned enterprises outside java island that are still not too massive and sometimes do not exist in a village.
2. Reevaluation of expenditures made between targets, realizations, and implications.
3. Procurement of regulation and debriefing of village heads and secretaries in village operational activities, and post-activities conducted periodic monitoring
4. In addition to the variables of expenditure and social capital, further research is needed related to other external factors such as socio-economic factors that are expected to affect village income variables.

Conflicts of Interest

No potential conflict of interest was reported by the authors.

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