

VILLAGE FUND ALLOCATION AND VILLAGE WELFARE: THE ROLE OF VILLAGE POTENTIAL AS A MODERATOR

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Abstract

Village fund allocation remains a significant concern for the government due to persistent cases of misuse that can reduce village welfare. The purpose of this study is to examine and analyze the effect of village fund allocation on village welfare, moderated by village potential. This study used a purposive sampling method for all provincial governments in Indonesia that reported village financial data for 2017-2020. The analytical approach used panel data regression with eViews version 12. The study found that village fund allocation had a positive and significant effect on village welfare. However, village potential did not significantly enhance the effect of village fund allocation on village welfare. The practical implication of this study is that village fund allocation has been proven to significantly improve village welfare, making it crucial to ensure optimal distribution and management. Furthermore, this study explains that village potential has not been able to moderate the effect of village funds, indicating that this potential may not be optimally utilized. Therefore, efforts are needed to strengthen village capacity to manage existing potential to achieve synergy between village funds and local potential. This study can also serve as a reference for local governments in designing local potential-based development strategies that are more integrated with village funding.

Keywords

Village fund allocation, village potential, village welfare

1. Introduction

Community welfare is a condition that indicates a community's standard of living in achieving a better life (Todaro & Smith, 2012). In the context of village welfare, village welfare reflects the standard of living of village communities in achieving a better life. Indrayani & Setiawan (2018) explain that achieving community welfare requires changes for the better through development. Improved village development indicates a better standard of living for the community.

Village development, as a proxy for village welfare, can be achieved if village funds are allocated optimally by the village government. However, village funds tend not to be allocated optimally by village governments. Sumarni (2020) explains that public awareness of the need to implement changes funded by village fund allocations remains very low. Subhan (2019) similarly explains the problem of village fund allocation, namely the lack of capacity in managing village fund allocations, both by village governments and community institutions, in terms of planning, implementation, and control, as well as the lack of optimal participation of village community self-help groups.

Another phenomenon demonstrating suboptimal village fund allocation is the misuse of village funds. One example of this occurred in Ngulan Wetan village. The village government engaged in fictitious activities and financial markups. This resulted in state losses of approximately IDR 180 million (<http://kejari.trenggalekkab.go.id>). Furthermore, there was a case of misuse of village funds in Fatlabata village, Aru Tengah district, Aru Regency. The village head misused the village fund allocation to the tune of IDR 412 million (<http://cnnindonesia.com>).

Kusumawardani & Alfiyah (2022) explain that village fund allocations must provide the greatest possible benefits by prioritizing village development activities. This is consistent with the objectives of village development, namely to improve the quality of health and education, employment and economic income, and alleviate poverty. Therefore, village development represents village welfare. A prosperous village indicates that the village has better village development.

Several researchers have conducted previous studies examining the effect of village fund allocation on village welfare. For example, studies by Bili et al. (2022), Fathony et al. (2019), Harahap (2021), Luju et al. (2020), Kusumawardani & Alfiyah (2022), Sumarni (2020), and Tang et al. (2022). However, these studies tended to use primary data to test their hypotheses. The difference between these studies and this study lies in the data type approach. This study uses secondary data to test its hypotheses. This study replicates the study by Herianti & Litdia (2022), which examined the effect of village fund allocation on community welfare, with village potential as a moderating variable. The difference between this study and Herianti & Litdia (2022) is the use of proxies to measure the variables of village fund allocation and village community welfare. Therefore, this study is important to fill the gap in previous studies, which limited the use of secondary data to test their hypotheses.

Several previous studies have examined the effect of village fund allocation on village welfare. However, these results have been inconsistent. Studies by Bili et al. (2022), Fathony et al. (2019), Harahap (2021), Herianti & Litdia (2022), Luju et al. (2020), Kusumawardani & Alfiyah (2022), Sumarni (2020), and Tang et al. (2022) found that village fund allocation had a positive and significant effect on village welfare. However, a study by Lona (2023) found that the management of village fund allocations in improving village community welfare was ineffective.

Herianti & Litdia (2022) explained that optimal utilization of village potential is necessary for village governments to improve village welfare through village fund allocation. This is because village potential is related to sources of village original income, which can be managed effectively by village governments to improve village welfare. Hoesada (2019) explains that each village has its own type and amount of original village income, including legitimate forms of original village income, such as original village income generated through collaboration with third parties and assistance from companies located in the village. This background description indicates that this study aims to examine and analyze the effect of village fund allocation on village welfare, moderated by village potential.

2. Literature Review

2.1 Stewardship Theory

Stewardship theory focuses on the agent's actions in managing an organization to achieve organizational goals rather than personal goals (Davis et al., 1997). In the context of village organizations, village governments are motivated to manage village organizations with the aim of improving the welfare of village communities. Pasoloran (2001) explains that stewardship theory shows that agent performance is influenced by the existence of structural situations that can effectively facilitate each agent's actions. Furthermore, if the agent's motivation aligns with the concepts in stewardship theory, it will be able to strengthen the appropriate management structures and mechanisms.

2.1 Village Fund Allocation and Village Welfare

Herianti & Litdia (2022) explain that the use of village fund allocations is not limited to infrastructure development or as a source of village government revenue. However, the use of village fund allocations must include economic empowerment of rural communities. Widianoro (2020) explains that the village fund allocation process, which includes village financial management, has been carried out correctly, transparently, and in accordance with applicable procedures. This means that well-managed village fund allocations will improve village welfare.

Village fund allocations, as a source of village finance, when properly managed by the village government will improve village welfare. According to Minister of Home Affairs Regulation Number 37 of 2007, the objectives of village fund allocation are: (a) to alleviate poverty and reduce inequality, (b) to improve village-level development planning and budgeting and community empowerment, (c) to increase rural infrastructure development, (d) to increase the practice of religious and socio-cultural values to achieve social progress, (e) to improve public order and security, (f) to improve services to village communities to develop social and economic activities, (g) to encourage increased self-reliance and mutual cooperation among village communities, and (h) to increase village and community income through Village-Owned Enterprises (BUMDesa).

Studies by Bili et al. (2022), Fathony et al. (2019), Harahap (2021), Herianti & Litdia (2022), Luju et al. (2020), Kusumawardani & Alfiyah (2022), Sumarni (2020), and Tang et al. (2022) found that village fund allocation had a positive and significant impact on village welfare. This description indicates that this study proposes the following hypothesis.

H₁: Village fund allocation has a positive impact on village welfare

2.3 Village Fund Allocation, Village Potential, and Village Welfare

Stewardship theory explains that agents act to fulfill organizational interests rather than individual interests (Davis et al., 1997). In the context of village organizations, the village government acts to fulfill the interests of the village community rather than individual interests. Herianti & Litdia (2022) explain that the village government is expected to utilize village potential to improve community welfare in support of achieving the goals of village fund allocation. This means that village potential can be utilized by the village government through the use of village natural resources to meet community interests.

The village government can utilize village potential through the management of village natural resources. The use of village natural resources is considered to optimize village community welfare. Lona (2023) explains that village community welfare reflects the community's living conditions, as seen through the community's standard of living. Optimal utilization of village fund allocations, supported by the effectiveness of village potential, can improve village welfare. This description suggests that this study proposes the following hypothesis:

H₂: Village potential strengthens the influence of village fund allocation on village welfare.

3. Research Method

This study sampled provincial governments in Indonesia during 2017-2020. The sample was selected using purposive sampling with several criteria shown in Table 1 below.

Table 1. Sample Selection Criteria

Criteria	Total
Provincial governments in Indonesia during 2017-2020	34
The provincial government does not have village financial data	(1)
Number of years of analysis during 2017-2020	4 tahun
Number of observations	132

The sample selection criteria table shows that the sample size for provincial governments in Indonesia during 2017-2020 was 34. Based on this number, DKI Jakarta province did not have village financial data, bringing the sample size to 33 provinces. Based on this number, the study consisted of 132 observations, as the data used in this study spanned the years 2017-2020.

The operational definitions and measurements of the variables of village fund allocation, village potential, and village welfare are as follows.

1. Village Fund Allocation

Village fund allocation is a financial budget provided by the government to villages, sourced from regional tax revenue sharing and a portion of the central and regional financial balance funds received by districts/cities for villages, which are distributed proportionally (Tang et al., 2022). The measurement scale uses a ratio scale through percentages. This study measures village fund allocation by modifying the studies of Herianti & Litdia (2022) and Tehupuring et al. (2023) as follows.

$$\text{Village Fund Allocation} = \frac{\text{Realization of Village Fund Allocation}}{\text{Village Fund Allocation Budget}} \times 100\%$$

2. Village Potential

Village fund allocation is a portion of village finances obtained from regional tax revenue sharing and a portion of the central and regional financial balance funds received by districts/cities for villages, which are distributed proportionally (Kusumawardani & Alfiyah, 2022). Herianti & Litdia (2022) explain that village potential is the percentage of village potential contribution to village income. The measurement scale uses a ratio scale through percentages. This study measures village fund allocation, adopted from the studies of Herianti & Litdia (2022) and Tehupuring et al. (2023) as follows.

$$\text{Village Potential} = \frac{\text{Village Original Revenue Budget}}{\text{Revenue Budget}} \times 100\%$$

3. Village Welfare

Community welfare is a condition that indicates a community's standard of living in achieving a better life (Todaro & Smith, 2012). In the context of village welfare, village welfare indicates the standard of living of village communities in achieving a better life. The measurement scale uses a ratio scale through percentages. This study measures village welfare through village development as follows:

$$\text{Village Welfare} = \frac{\text{Realization of Village Development Expenditure}}{\text{AVillage Development Budget}} \times 100\%$$

This study's hypothesis testing uses a panel data regression approach. Panel data regression requires researchers to choose the best model, namely common effects, fixed effects, or random effects, to test the hypothesis. The goal is to determine the best model for hypothesis testing. The significance level used in this study is 5%. Algifari (2021) explains that if panel data regression produces a random effects model, then classical assumption testing is not necessary in the panel data regression model.

4. Results and Discussion

This study uses descriptive statistics to explain the variables. Descriptive statistics consist of minimum, maximum, mean, and standard deviation values. The following is a table of descriptive statistics.

Table 2. Descriptive Statistics

Variable	Obs.	Min.	Max.	Mean	Std.dev
Village Fund Allocation	132	0,09%	138,09%	100,35%	14,42%
Village Potential	132	0,01%	10,39%	1,50%	2,45%
Village Welfare	132	38,01%	183,00%	96,29%	16,30%

Table 2, the results of the descriptive statistical test, shows that the sample size for this study was 132 observations. The table shows that the average village fund allocation was 100.35%, with a minimum allocation of 0.09% and a maximum allocation of 138.09%. This indicates that, on average, village fund allocations nearly reached or slightly exceeded 100% of the set target or needs. A minimum value of 0.09% indicates that some villages received or allocated very little funds compared to their targets, and a maximum value of 138.09% indicates that some villages received or allocated village funds far exceeding 100% of their targets. Furthermore, the village potential variable had an average value of 1.50%. This condition shows that the average village has relatively low potential when measured by the indicators used in the study, village potential with a minimum value of 0.01% indicates that there are villages with very low potential and a maximum value of 10.39% indicates that there are villages that have quite large potential, although in general the value remains small in percentage terms.

Finally, the village welfare variable had an average value of 96.29%, indicating that the level of village community welfare is generally below 100%, which may be the threshold for full welfare indicators. A minimum value of 38.01% indicates that some villages have very low levels of welfare, and a maximum value of 183% indicates that some villages have very high levels of welfare. This condition indicates that there is a large disparity in welfare between villages. Some villages are very prosperous, while others are still far behind.

Table 3. Results of Panel Data Regression Model Determination Test

	Model I	Model II
	Chow Test	
<i>Cross-section F</i> (Sig.)	0,593	0,526
Conclusion	<i>Common</i>	<i>Common</i>
	Lagrange Multiplier Test	
<i>Breusch-Pagan</i> (Sig.)	0,000	0,000
Final Conclusion	<i>Random</i>	<i>Random</i>
	Hausman Test	
<i>Cross-section random</i> (Sig.)	0,819	0,648
Conclusion	<i>Random</i>	<i>Random</i>

Final Conclusion	Random	Random
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The results of the panel data regression model determination test in Table 3 above indicate that the final conclusion of models I and II is a random effect. This is because the Chow test found the most suitable model to be a common effect, and the Lagrange multiplier test found the most suitable model to be a random effect. These results are also supported by the Hausman test, which found the most suitable model to be a random effect.

The purpose of this study was to examine the effect of village fund allocation on village welfare, moderated by village potential. This study found the following hypothesis test results.

Table 4. Hypothesis Test Results

Independent Variables	Model I Main Effect Dependent Variable: Village Welfare <i>Random Effect</i>		Model II Moderating Effect Dependent Variable: Village Welfare <i>Random Effect</i>	
	Coef.	Sig.	Coef.	Sig.
Const.	52,802	0,000	52,596	0,000
Village Fund Allocation	0,433	0,000	0,431	0,001
Village Potential			-0,175	0,980
Village Fund Allocation * Village Potential			0,004	0,952
F-Stat.	22,406		7,421	
Sig.	0,000		0,000	
<i>Adjusted R</i> ²	14%		12,8%	
Obs.	132		132	

Models I and II of this study found that the model fit test was met. This condition was demonstrated by the F-test significance value of $0.000 < 0.05$. Furthermore, this study found that the coefficient of determination for model I was 14%. This condition indicates that 14% of the variation in community welfare variables can be explained by village fund allocation, while the remainder is influenced by other variables outside the model. Model II found the coefficient value to be 12.8%. This condition indicates that 12.8% of the variation in village welfare variables can be explained by village fund allocation, village potential, and village fund allocation*village potential, while the remainder is influenced by other variables outside the model. The coefficient of determination for model II was lower than for model I because the variables village potential and village fund allocation*village potential were insignificant, thus not contributing to model II.

H₁ of this study proposed that village fund allocation has a positive effect on village welfare. This study found that the effect of village fund allocation on village welfare had a coefficient of 0.433 and a significance level of $0.000 < 0.05$. This condition indicates that village fund allocation has a positive and significant effect on village welfare, thus supporting H₁.

The village fund allocation process, including village financial management, has been implemented correctly, transparently, and in accordance with applicable procedures (Widiantoro, 2020). This means that well-managed village fund allocation will improve village welfare. The results of this study are consistent with studies conducted by Fathony et al. (2019), Herianti & Litdia (2022), Luju et al. (2020), Kusumawardani & Alfiyah (2022), Sumarni (2020), and Tang et al. (2022), which found that village fund allocation has a positive and significant effect on village welfare.

H₂ proposed by this study is that village potential strengthens the influence of village fund allocation on village welfare. This study found that the effect of village fund allocation * village potential on village welfare had a coefficient of 0.004 and a significance level of $0.952 > 0.05$. This condition indicates that village potential cannot strengthen the influence of village fund allocation on village welfare, thus H₂ is not supported.

This study found that village potential has not been optimally utilized. This condition is indicated by the average village potential value of 1.50%. This means that village resources have not been utilized

optimally. Village governments rely more on village fund allocation to improve village welfare than on village utilization. The results of this study are consistent with a study conducted by Herianti & Litdia (2022), which found that village potential cannot moderate the influence of village fund allocation on village welfare.

5. Conclusion

This study aims to examine and analyze the effect of village fund allocation on village welfare, moderated by village potential. This study sampled all provincial governments in Indonesia from 2017 to 2020 using a purposive sampling method. The analytical approach used panel data regression. This study found that village fund allocation had a positive and significant effect on village welfare. However, village potential did not significantly strengthen the effect of village fund allocation on village welfare.

The implications of stewardship theory in this study indicate that village governments use village fund allocation to improve village welfare. This means that village organizational interests are prioritized by village governments over individual interests. The results of this study provide a new perspective: village potential, while logically supposed to strengthen the influence of fund allocation on community welfare, does not always function as a significant moderator. This finding could stimulate the development of new theories or modifications to conceptual frameworks in village development studies.

The practical implications of this study can provide input to the government and policymakers, demonstrating that village fund allocation has been proven to significantly improve village welfare, making it crucial to ensure optimal distribution and management. Furthermore, this study explains that village potential has not been able to moderate the influence of village funds, indicating that this potential may not be optimally utilized. Therefore, efforts are needed to strengthen village capacity to manage existing potential to achieve synergy between village funds and local potential. This study can also serve as a reference for local governments in designing local potential-based development strategies that are more integrated with village funding.

The methodological implications of this study indicate that proxies for village fund allocation and village welfare can add to the literature, as measurements of both variables are still limited using secondary data. Furthermore, by using panel data from all provinces in Indonesia over four years (2017–2020), this study provides a more comprehensive and accurate picture of the dynamics of village fund allocation and village welfare nationally.

This study is limited by published data on village finances at the village government level across Indonesia. Therefore, this study only examines village finances at the provincial government level. Therefore, future studies should consider village finance data at the village government level within a single district/city, taking into account data availability.

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