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The Effect of Village Funds And Capital Expenditure on Welfare Through Poverty Mediation in District/City in East Java Province

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ABSTRACT

The purpose of this study was to analyze the effect of Village Funds and Expenditure Capital on welfare through poverty in 30 regencies/cities (29 regencies and 1 Batu city) in East Java province in 2015–2022. Secondary data on Village Funds and Capital Expenditures were obtained from the website of the Directorate General of Fiscal Balance (DJPK) of the Ministry of Finance of the Republic of Indonesia. Secondary data on poverty (number of poor people) and welfare (IPM) were obtained from the website of the Central Statistics Agency (BPS) of East Java Province. The data analysis technique used path analysis with the SmartPLS 3 tool. The results showed that partially the Village Fund had a significant positive effect on poverty and the Village Fund had a significant positive effect on welfare. Capital Expenditure has a significant positive effect on poverty and Capital Expenditure has a significant positive effect on welfare. Poverty has a significant negative effect on welfare. Village Funds have a significant indirect negative effect on welfare through poverty. Capital Expenditures have a significant indirect negative effect on welfare through poverty.

INTRODUCTION

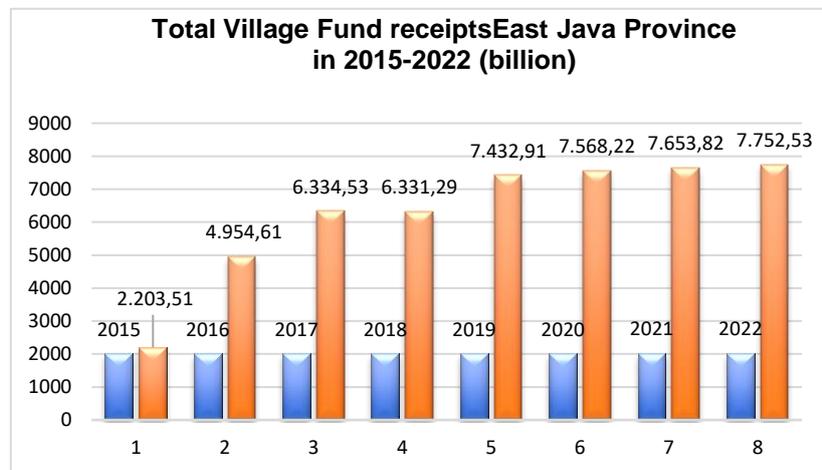
In order to reduce poverty and improve people's welfare, the government has issued Village Funds since 2015 and Capital Expenditures. Village Funds are funds originating from the State Revenue and Expenditure Budget intended for villages which are transferred through the Regency/City Regional Revenue and Expenditure Budget and are used to finance government administration, implementation of development, coaching, community and community empowerment (Permendagri Number 113 of 2014) . Village fund receipts in East Java Province in 2015-2022 continue to increase as shown in Figure 1.

Village fund receipts must be able to be allocated for village development. The aim of village development is to improve the welfare of rural communities and the quality of human life as well as reduce poverty through meeting basic needs, building village facilities and infrastructure, developing local economic potential, and utilizing natural resources and the environment in a sustainable manner (UU No. 6 of 2014 concerning Villages) .

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In PMK Number 214/PMK.05/2013 concerning Standard Account Chart, it is stated that Capital Expenditure is a budget expenditure in order to acquire or add fixed assets and/or other assets that provide benefits for more than one accounting period (12 months) and exceed the value limit minimum capitalization. So capital expenditure is infrastructure spending such as roads, bridges, buildings and other infrastructure facilities that are long-term in nature for the benefit and service to the community.



Source: BPS East Java, 2023

Figure 1: Graph of East Java Province Village Fund receipts for 2015-2022

The large number of poverty rates in many regions shows that poverty alleviation strategies are still ineffective. Directions of the President of the Republic of Indonesia at a Limited Meeting on extreme poverty reduction strategies (<https://smeru.or.id>): 1) Even though facing a pandemic, the Government continues to deal with extreme poverty in 2024 to reach 0%. 2) Accelerating the reduction of extreme poverty in an integrated manner through collaborative interventions. 3) Interventions in the education, health and clean water sectors are acceptable. 4) Refine database for target accuracy and acceleration efforts. 5) Involve the private sector as an off taker of products for the extreme poor so that they can increase income.

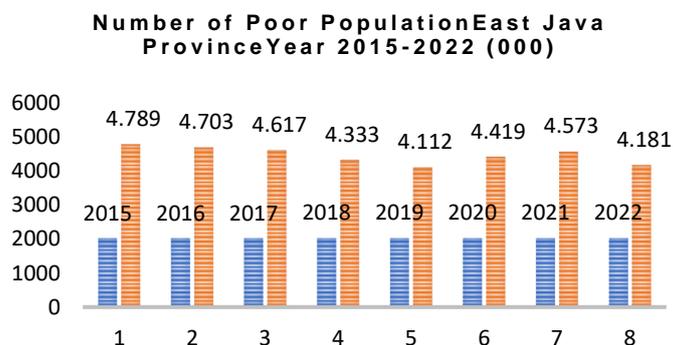
The State of Indonesia has ratified the global Sustainable Development Goals (SDGs) or Sustainable Development Goals (TPB) into the National SDGs through Presidential Decree number 59/2017 concerning Implementation of Achieving Sustainable Development Goals. In Presidential Decree number 59/2017 it is explained that SDGs are documents that contain global goals and targets for 2016 to 2030.

SDGs in Indonesia have been aligned with the implementation of Law Number 6 of 2014 concerning Villages. The SDGs program is implemented at the Village SDGs level, namely: Villages Without Poverty, Villages Without Hunger, Healthy and Prosperous Villages Quality Village Education, Village Women Involvement, Villages Decent for Clean Water and Sanitation, Villages with Clean and Renewable Energy, Equitable Village Economic Growth, Infrastructure and Village Innovation according to Needs, Villages Without Gaps, Residential Areas Safe and Comfortable Villages, Consumption and Production in Environmentally Aware Villages, Climate Change Responsive Villages, Marine Environment Care Villages, Land Environment Care Villages, Peaceful Villages with Justice, Partnerships for Village Development, Dynamic Village Institutions and Adaptive Village Culture. (<https://rancaekekwan.desa.id>)

With regard to the disbursement of Village Funds and Allocation of Village Funds, it is expected that the regional development process as a whole will be enhanced and together the disparities in development between regions will also be reduced. Allocation of funds that are evenly distributed and on target as well as management of sources of income in an optimal, efficient and effective manner in the use of the expenditure budget are the main things that must always be prioritized. In addition, the government also acts as a guarantor for the creation of fair distribution and becomes a facilitator of human development and creates social welfare (Pitri, 2018). The rights of the poor and vulnerable must be prioritized. The village economy must be moved.

Poverty is a condition in which a person cannot meet basic needs such as food, clothing, medicine and shelter (Hardinandar, 2019). Based on UNDP in the 1997 Human Development Report, the measure of poverty is called the Human Poverty Index (HPI). Poverty can be measured by three main things, namely life, basic education, and overall economic provisions. One theory of poverty is the

theory of social democracy, where poverty is not an individual problem but a structural problem. Figure 2 shows that the number of poor people in East Java tends to show a slightly decreasing trend from 2015-2022. However, 2021 and 2022 will show an increase in poverty due to the impact of the co-19 pandemic.

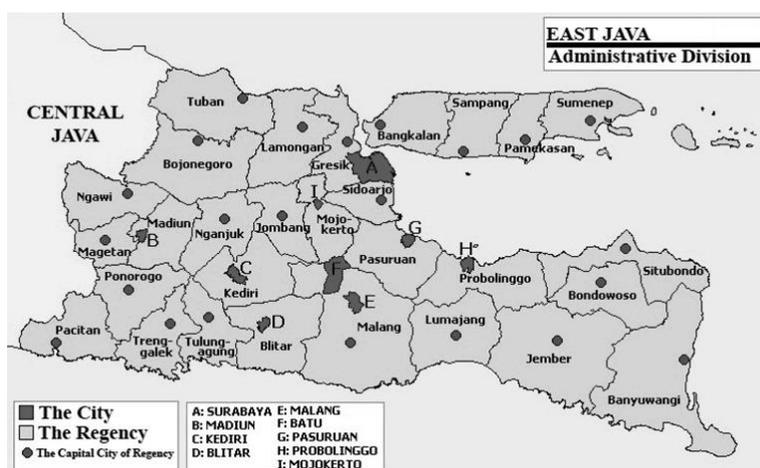


Source: BPS East Java, 2023

Figure 2: Number of Poor Population in East Java Province 2015-2022

The essence of welfare can be obtained if the community is free from the bondage of disbelief, poverty, ignorance and fear and this is obtained if the community strengthens faith and does not mix it with all forms of tyranny and then it is realized through good deeds or good deeds (Sukmasari, 2020). In the 1990s there was another change, Mahbub UI-Haq formulated a welfare measure with the Human Development Index (HDI). With HDI, welfare is no longer emphasized on economic aspects only, but also on aspects of individual social quality. The HDI is a combination of three components, namely the life expectancy index, the education index, and the per capita income index (Sardar & H.r, 2016: 394).

The education index needs to be increased to encourage economic growth. According to Kaur (2016), economic growth is also influenced by technology and knowledge. Economic growth will create investment, create jobs, absorb the workforce, which in turn will reduce population poverty (Seran, 2017). Regency/city governments in East Java continue to pursue development agendas to improve welfare and reduce poverty under the coordination of the East Java Provincial Government. The vision of the governor and deputy governor of East Java for the 2019-2024 period is "Working Together for a Prosperous and Dignified East Java with a Spirit of Mutual Cooperation, Religion and Social Justice with Participatory and Inclusive Governance" (<https://pusatstudijatim.id>). Regency/City area is shown in Figure 3.



Source: <https://www.pengadaanbarang.co.id/2022/12/peta-jawa-timur.html>

Figure 3: Map of East Java

Various studies on Village Funds show different results. Village funds have a negative and significant effect on the poverty rate (Sunu and Utama, 2019; Arfiansyah, 2020; Bukhari, 2021; Abdullah, 2022). Allocation of village funds has a significant effect on poverty (Dewi and Irama, 2018). This means that the Village Fund is able to reduce the level or number of poor people.

In another study in Pesisir Selatan District, it was shown that there was no significant relationship between village funds and a decrease in poor families or an increase in the number of

village funds was not accompanied by a decrease in the poverty rate. (Gusti, Agustar and Osmet, 2020). With the existence of the Village Fund, the services of the village government to its citizens should have increased.

Village funds have a positive and significant effect on people's welfare in the Province of Bali (Sunu and Utama, 2019). Village Funds have a significant positive influence on IPEI (Inclusive Economic Development Index), (Sihombing and Purwanti, 2022). The poverty rate has a negative and significant effect on people's welfare in the Province of Bali (Sunu and Utama, 2019). The human development index can affect poverty reduction in Indonesia (Fitria, Sebayang, and Julia: 2021).

The research relationship model can be seen in Figure 4.

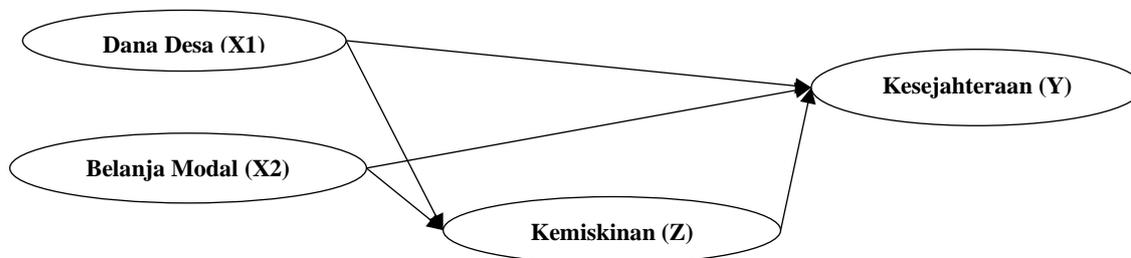


Figure 4: Research Relationship Model

Based on the background above, the hypothesis is arranged as follows.

H1: Village funds have an effect on poverty in districts/cities in East Java.

H2: Village Funds have an effect on Welfare in districts/cities in East Java.

H3: Capital Expenditure has an effect on Poverty in districts/cities in East Java.

H4: Capital Expenditures affect Welfare in districts/cities in East Java.

H5: Poverty affects Welfare in districts/cities in East Java.

H6: Village Funds have an indirect effect on Welfare through Poverty in districts/cities in East Java.

H7: Capital Expenditures have an indirect effect on Welfare through Poverty in districts/cities in East Java.

MATERIALS AND METHODS

This research is a correlational quantitative type. The research object was 30 regencies/cities consisting of 29 regencies (all) and 1 Batu city in East Java as shown in figure 1. Batu City was also chosen because most of its area is a village (20 villages) that receive village fund programs and only have 4 wards. Secondary data on Village Funds (DD) and Capital Expenditures (BM) were obtained from the DJPK website of the Ministry of Finance of the Republic of Indonesia for 2015-2022. Secondary data on poverty by proxy for the number of poor people (JPM) and welfare by proxy for the human development index (IPM) were obtained from the BPS East Java Province website for 2015-2022. The data analysis technique uses path analysis with the Smart PLS 3 tool.

Furthermore, the Q-Square test can measure how well the observed values produced by the model and also the parameter estimates (Ghozali, 2016). A Q-Square value greater than 0 (zero) indicates that the model has a predictive relevance value. Meanwhile, if the Q-Square value is less than 0 (zero), then the model has less or no predictive relevance (Chin, 1998). Predictive value – relevance is obtained by the formula (Hair, 2011): $Q^2 = 1 - (1 - R1^2) (1 - R2^2) \dots (1 - Rn^2)$. Next is direct and indirect (mediation) hypothesis testing. If the P value ≤ 0.05 means that the variable X has an effect on Y and has a significant effect if T Statistics > T Table.

RESULTS AND DISCUSSION

RESULTS

1. Q Square Testing

Formula: $Q^2 = 1 - (1 - R^2_1)(1 - R^2_2)$

$Q^2 = 1 - (1 - 0.438)(1 - 0.543)$

$Q^2 = 1 - (562)(457)$

$Q^2 = 1 - 257 = 0.743$

The results of the Q-Square calculation in this study amounted to 0.743 or 73.3%, meaning that the model in this study has a relevant predictive value, where the model used can explain the information contained in the research data by 74.3%.

2. Direct Effects Analysis

Table 1 : Path Coefficients (Total Effect)

| Hypothesis | Influence | Coefficients | T Statistics | Significant | Description |
|------------|------------|--------------|--------------|-------------|-------------|
| H1 | DD -> JPM | 0,571 | 9,222 | 0,000 | Significant |
| H2 | DD -> IPM | 0,604 | 8,882 | 0,000 | Significant |
| H3 | BM -> JPM | 0,322 | 6,857 | 0,000 | Significant |
| H4 | BM -> IPM | 0,307 | 5,072 | 0,000 | Significant |
| H5 | JPM -> IPM | -0,977 | 9,332 | 0,000 | Significant |

Source: Smart PLS Outputs, 2023

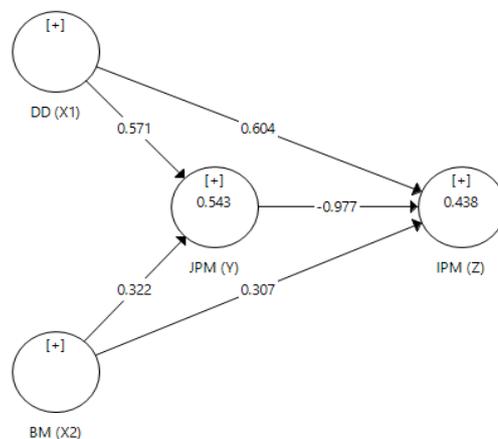
H1: Village funds (DD) have a significant positive effect on poverty (JPM) in districts/cities in East Java with a coefficient value of 0.000 < 0.05 and a statistical T value of 9.222 (> T table 1.971) and so hypothesis 1 is accepted. A significant sample of 0.571 can be interpreted, if the Village Fund increases by one unit, poverty will have an effect of 0.571.

H2: Village funds have a significant positive effect on welfare (IPM) in districts/cities in East Java with a coefficient value of 0.000 < 0.05 and a statistical T value of 8,882 (> T Table 1,971) so hypothesis 2 is accepted. A significant sample of 0.604 can be interpreted, if the Village Fund increases by one unit, welfare will increase by 0.604.

H3: Capital Expenditure (BM) has a significant positive effect on poverty (JPM) in districts/cities in East Java with a coefficient value of 0.000 < 0.05 and a statistical T value of 6,857 (> T Table 1,971) so hypothesis 3 is accepted. A significant sample of 0.322 can be interpreted, if capital expenditure increases by one unit, then poverty has a positive effect of 0.322.

H4: Capital expenditure has a significant effect on welfare (IPM) in districts/cities in East Java with a coefficient value of 0.000 < 0.05 and a statistical T value of 5.072 (> T Table 1.971) so that hypothesis 4 is accepted. A significant sample of 0.307 can be interpreted, if capital expenditure increases by one unit, welfare will increase by 0.307.

H5: Poverty (JPM) has a significant effect on welfare (IPM) in districts/cities in East Java with a coefficient value of 0.000 < 0.05 and a statistical T value of 9,332 (> T Table 1,971) so that hypothesis 5 is accepted. A significant sample of -0.977 can be interpreted, if poverty increases by one unit, welfare decreases by -0.977. The ability to influence each exogenous variable on exogenous variables can be seen in Figure 3.



Source: Smart PLS Outputs, 2023

Figure 5: Research Model Relationship (coefficient)

3. Analysis of Indirect Effects

Table 2 : Indirect Effects

| Hypothesis | Influence | Coefficients | T Statistics | Significant | Description |
|------------|------------------|--------------|--------------|-------------|-------------|
| H6 | DD -> JPM -> IPM | -0,558 | 5,251 | 0,000 | Significant |
| H7 | BM -> JPM -> IPM | -0,314 | 5,562 | 0,000 | Significant |

Source: Smart PLS Outputs, 2023

H6: Village Funds (DD) have an indirect significant negative effect on welfare (IPM) through Poverty (JPM) because the coefficient is 0.000 <0.05 and the T statistic is 5.251 (> T Table 1.971) so that Hypothesis 6 is accepted. From a significant sample of -0.558, it can be interpreted that if the Village Fund increases by one unit, welfare will have an indirect negative effect through poverty of -0.558.

H7: Capital Expenditure (BM) has an indirect negative effect on welfare (IPM) through Poverty (JPM) because the coefficient is 0.000 <0.05 and the T statistic is 5,562 (> T Table 1,971) so that hypothesis 7 is accepted. From a significant sample of -0.314, it can be interpreted that if Capital Expenditure increases by one unit, welfare will have a negative effect indirectly through poverty of -0.314 units.

DISCUSSION

The results of the analysis show that Village Funds have a positive effect on Poverty in districts in East Java in 2015 – 2022. The purpose of village funds is to alleviate poverty. Providing village funds is a manifestation of fulfilling village rights to carry out its autonomy so that it grows and develops. The role of the village government in providing services, community welfare and accelerating the development and growth of strategic areas must be increased, so as to develop areas that are still lagging behind in a system of development areas. With the existence of the Village Fund, the services of the village government to its citizens should have increased.

Village funds have a negative and significant effect on the poverty rate (Sunu and Utama, 2019; Arfiansyah, 2020; Bukhari, 2021; Abdullah, 2022). Allocation of village funds has a significant effect on poverty (Dewi and Irama, 2018). This means that the Village Fund is able to reduce the level or number of poor people. In another study in Pesisir Selatan District, it was shown that there was no significant relationship between village funds and a decrease in poor families or an increase in the number of village funds was not accompanied by a decrease in the poverty rate. (Gusti, Agustar and Osmet, 2020). With the existence of the Village Fund, the services of the village government to its citizens should have increased.

The results of the analysis show that Village Funds have a positive effect on Prosperity in districts in East Java in 2015 – 2022. The existence of Village Funds and Village Fund Allocations are expected to improve the regional development process as a whole, which can be improved and together, development disparities between regions can also be reduced. The village government has a strategic position in creating justice in the distribution of development. The results of this study are in line with research, Village funds have a positive and significant effect on people's welfare in the Province of Bali (Sunu and Utama, 2019). Village Funds have a significant positive influence on IPEI (Inclusive Economic Development Index), (Sihombing and Purwanti, 2022). The government acts as a guarantor for the creation of fair distribution and becomes a facilitator of human development and creates community welfare (Pitri, 2018).

Providing village funds is a manifestation of fulfilling village rights to carry out its autonomy so that it grows and develops. Improving access to consumption of social services (education, health and nutrition) is an important policy tool in the government's overall strategy to reduce poverty and improve welfare levels in a region.

Capital Expenditure has a significant positive effect on welfare in regencies in East Java in 2015 – 2022. Capital Expenditure is regional government expenditure for infrastructure procurement as public facilities. It could be that capital expenditure is not directly related to community economic activities, public education, or public health. However, the existence of capital expenditure must continue to be increased for easy access between regions and improvement of public facilities.

Capital expenditure is able to contribute to poverty alleviation. Facilities and infrastructure for the community, especially those related to economic activities, must continue to be improved, such as markets, roads between villages and regions, and others. This can encourage the rotation of the economy so that poverty can be reduced naturally.

Poverty has a significant negative effect on welfare in districts in East Java in 2015 – 2022. If the poverty rate increases, welfare will decrease. The Human Development Index has important implications for poverty reduction. The Human Development Index (IPM) includes a long and healthy life, knowledge and a decent life. These three dimensions have a very broad meaning because they are related to many factors. To measure the health dimension, life expectancy at birth is used. The development paradigm which is now shifting from the dominance of the state's role to the role of society will not be realized if the number of poor people is still quite significant. In general, the poor spend more of their energy and time on fulfilling basic needs and the poor have low purchasing power. The results of this study are in line with the results of the study, the poverty rate has a negative and significant effect on people's welfare (Sunu and Utama, 2019).

Village funds have an indirect negative effect on welfare through poverty in districts in East Java in 2015 – 2022. This means that village funds have not/a little been able to improve people's welfare through poverty alleviation. This becomes a joint evaluation to increase the effectiveness of using village funds to increase welfare and alleviate poverty. This is due to the impact of the Covid-19 pandemic in 2020/2021 so that the allocation of village funds is more focused on programs to deal with the impact of Covid-19. At that time, the community had difficulty developing their economy due to various restrictions on social activities. People find it difficult to work and earn income. Furthermore, after the pandemic, the community restarted their economic activities.

The government has committed to implementing SDGs or Sustainable Development Goals (TPB). SDGs in Indonesia are aligned with the implementation of Law Number 6 of 2014 concerning Villages. The SDGs program is implemented at the Village SDGs level. The existence of the Village Fund is a serious effort by the government in accelerating development in the form of community empowerment, poverty alleviation and increasing community welfare. Village funds need to be continuously improved in quality so that they have a more positive impact on village development.

Capital Expenditure has an indirect negative effect on welfare through poverty in districts in East Java in 2015 – 2022. This means that Capital Expenditure has not/slightly been able to improve welfare indirectly through poverty alleviation. Capital expenditures for the development of regional infrastructure or assets must be improved in quality and usability so that they are more optimal for poverty alleviation programs and improving people's welfare.

CONCLUSIONS AND SUGGESTION

From the results of the discussion it can be concluded that the Village Fund has a significant positive effect on poverty in districts/cities in East Java. It can be interpreted that the Village Fund has a positive impact on poverty, but has not been able to reduce the number of poor people. This is due to the impact of the Covid-19 pandemic in 2020 and 2021. The government is more focused on handling Covid-19 first in all corners of the village. Village Funds have a significant positive effect on welfare in districts/cities in East Java. Capital expenditure has a significant positive effect on poverty in districts/cities in East Java. Capital Expenditure has a significant positive effect on welfare in districts/cities in East Java. Poverty has a significant negative effect on Welfare in districts/cities in East Java.

Village Funds have an indirect negative effect on welfare through poverty in districts/cities in East Java in 2015 – 2022. Capital Expenditures have an indirect negative effect on welfare through poverty in districts/cities in East Java. This means that poverty must really be dealt with in a rooted and sustainable manner in order to obtain common prosperity.

Suggestion

It is hoped that the government will continue the village fund program to alleviate poverty and improve people's welfare and strive for communities to be able to recover more quickly from the economic downturn due to the 2020-2021 Covid-19 pandemic. Capital expenditure allocations should be prioritized to encourage community economic improvements such as market development and other supporting infrastructure for the economy so that they can have the effect of turning the wheels of the economy and alleviating the economy. The government should improve the quality of education and health through improving the quality of teacher human resources as well as education and health facilities so that the human development index number can increase and encourage the achievement of sustainable development goals.

Research Limitations

The research period is relatively short, namely 2015 – 2022. Moreover, in 2020 – 2021 the East Java province experienced a pandemic and afterwards was still recovering from the co-19 pandemic. So that this greatly influences the use of village funds and welfare.

Suggestions For Further Research

Suggestions for subsequent research are to extend the research time and take research themes by comparing the implementation of Village Funds and PAD on economic growth and poverty before and after the Covid-19 pandemic.

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