THE INFLUENCE OF VILLAGE FUNDS, SPENDING ON SOCIAL PROTECTION FUNCTIONS, AND CAPITAL EXPENDITURES ON THE REGIONAL REVENUE AND EXPENDITURE BUDGET ON POVERTY LEVELS IN INDONESIA

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ABSTRACT

This research aims to determine how the influence of village funds, local government spending through spending on social protection functions, and capital expenditures on poverty levels in Indonesia. This research method uses the Multiple Linear Regression method to determine the influence between variables. The data type used is quantitative data, and the data source is secondary data from the Ministry of Finance and the Central Statistics Agency. First, the results explain a significant negative effect of the Village Fund on the poverty level in Indonesia, meaning that if the allocation of village funds is increased, the poverty rate will decrease. The following result is that there is a significant negative effect of spending on social protection functions on the level of poverty in Indonesia, meaning that if spending on social protection functions is increased, the poverty rate will decrease. Finally, there is a significant negative effect of capital expenditure on the Regional Revenue and Expenditure Budget of Poverty level in Indonesia, meaning that if capital expenditures on regional income budget allocation are increased, the poverty rate will decrease.

Keywords: Village Fund Allocation, Social Protection Function Expenditure, Capital Expenditure, Poverty Level.

INTRODUCTION

The village is the smallest legal community representation and unit in the life of the Indonesian people. Therefore, to strengthen the Village's position as a subject of development and as a form of recognition of the Village, the government issued Law Number 6 of 2014 concerning Villages, which became the legal basis for the distribution of village funds.

In 2014 the Government of Indonesia launched nine priority agendas called Nawacita. This program is designed to show the priority direction of Indonesia's change towards a sovereign and independent country in the economic field as well as personality in culture. One of the points of the Nawacita is to build Indonesia from the periphery by strengthening regions and villages within the framework of a unitary state (RPJMN, 2015). The government has issued various policies to realize the priority agenda. One of the government's programs to support the realization of Nawacita is the distribution of village funds, capital expenditures, and social assistance throughout Indonesia.

Capital expenditure is one type with specific characteristics, especially related to the allocation process (Abdullah and Halim, 2006). Capital expenditure budgeting does not only involve negotiations among the executives but also relies heavily on input from planners and architects. In addition, the allocation of funds for capital expenditures must also pay attention to
aspects of the financial capacity of local governments for the long term, especially for the maintenance of fixed assets obtained from these capital expenditures.

According to the Regulation of the Minister of Villages, Development of Disadvantaged Regions and Transmigration Number 22 of 2016, the government's focus in distributing village funds is to provide the maximum benefit to rural communities, one of which is poverty reduction. It is hoped that rural areas or villages can catch up with development through poverty alleviation. Therefore, the policy of channeling village funds can be successful if it can provide an optimal impact on reducing the number of poor people, which the percentage of poor people can measure.

Poverty, according to Supriatna (1997), is defined as a minimal situation that occurs not at the will of the person concerned. World Bank research (2020) shows that most global poor live in rural areas, have low education, work in the agricultural sector, and are under 18 years of age. Harniati in Bhinadi (2017) states that the dimensions of poverty are classified into three types of poverty, namely:

1. Natural poverty
2. Cultural poverty
3. Structural poverty

The existence of poverty in a society is a sign of not achieving individual or household welfare (Bhinadi, 2017). According to Zastrow in Bhinadi (2017), several approaches can be used to measure the level of welfare, namely:

1. Absolute Approach
2. Relative Approach
3. Basic Needs Approach

Since being allocated in 2015, village funds' distribution tends to increase yearly. From 2015-2017, village funds increased from IDR 20.76 trillion in 2015 to IDR 46.9 trillion in 2016 and IDR 60 trillion in 2017. In 2018, the government set the same budget as the previous year, IDR 60 trillion, because the government wanted to evaluate the implementation of village funds (Financial Report, 2019, page 387). In 2019 the village fund budget again increased to IDR 70. The average realization of village funds in the last five years has reached 99.73%. The data shows village funds have grown by 237% over five years, with an average increase of 47% each year.

In 2015-2019 nationally, the poverty rate in Indonesia was 11.13%, 10.7%, 10.12%, 9.66%, and 9.22%. This figure shows that the poverty rate in Indonesia has fallen by an average of 1.91% in the last five years. This decline is inseparable from the government's various efforts to alleviate poverty by distributing village funds. Several studies also support the effect of distributing village funds on reducing poverty in Indonesia, one of which is by Sigit and Kosasih (2020), which concludes that village funds have a negative and significant effect on poverty in Indonesia.

The facts and phenomena above show that the distribution of village funds has a role in reducing poverty levels in Indonesia. However, if we look further, the reduction in the poverty rate in the last five years is still not optimal. The growth of village funds by 237% in five years could only reduce the poverty rate by 1.91%. Compared with the poverty rate in the period before the distribution of village funds, the poverty rate in 2010-2014 decreased by 2.37%. However, after the village funds were rolled out, in the 2015-2019 period, the poverty rate only fell by 1.91%.

Another phenomenon that shows that the reduction in the poverty rate in the last five years has not been optimal is that the poverty rate target has not been achieved. When compared with the medium-term poverty target in the 2015-2019 RPJMN, the realization of the poverty rate for the last five years has still not reached the expected target.
The government has implemented various programs and policies to alleviate poverty in Indonesia. In addition to village funds, poverty alleviation policies are also carried out by local governments through the Regional Revenue and Expenditure Budget. Through the Regional Revenue and Expenditure Budget, the local government allocates regional expenditures that impact the community's welfare, called a pro-poor budget. Nur Sofyan Has (2017) cites Rinusu's definition of a pro-poor budget as a planning and budgeting practice aimed at making programs, policies, and activities that impact people's welfare and fulfill people's fundamental rights needs. For example, one form of the pro-poor budget is spending on social protection functions.

The social protection function is one spending classification in direct contact with people's welfare. Suharto (2008), as quoted by Bappenas (2014), defines social protection as all initiatives from the government, the private sector, or the community to protect vulnerable groups and improve the social status of marginalized groups through income transfer or consumption to the poor. According to the National Team for the Acceleration of Poverty Reduction, aid-based poverty reduction and social protection aim to fulfill fundamental rights, reduce the burden of life, and improve the poor's quality of life. Social protection spending will increase the fulfillment of the basic needs of the poor, increase income distribution and encourage household consumption (C), thereby increasing economic growth. The purpose of Social Protection is to increase the purchasing power of low-income people while at the same time encouraging public consumption (Ministry of Finance, 2020).

Spending on social protection functions is one of the classifications of government spending based on functions that aim to create a prosperous society and is oriented toward reducing poverty and inequality (State Budget Financial Report, 2018). The Government, in the Financial Report (2018), also states that:

The implementation of village funds together with various other funding sources, such as the allocation of village funds, Program Keluarga Harapan (PKH), and Rice for the Prosperous People, has resulted in outcomes, including: (1) a decrease in the rural Gini ratio (2) a decrease in the number of rural poor people (3) a decrease in the percentage of rural unemployment.

Apart from spending on social protection functions, another expenditure item from local government spending that contributes to poverty alleviation is capital expenditure. According to Sendouw, et al (2016), capital expenditure is one of the most important items in government spending that directly touches the welfare of the community. This is also supported by the research of Widianto et al (2016) and Susilowati dan Hadi (2017), which conclude that Capital Expenditure influences poverty. Furthermore, capital Expenditure is a type of government expenditure usually used in the form of purchasing fixed assets and building physical infrastructure. Therefore, in theory, capital spending will encourage economic growth, further impacting poverty levels.

Research on the effect of village funds and government spending on poverty rates in Indonesia has been widely carried out. However, based on the archives of previous research, there is no research that details, analyzes, and compares the factors that influence the poverty rate in Indonesia. Therefore, based on the description above, the authors are interested in researching "The Influence of Village Funds, Spending on Social Protection Functions, and Capital Expenditures on the Regional Revenue and Expenditure budget of poverty levels in Indonesia".

Based on the description previously, the formulation of the problems in this research are:

1. Do village funds, spending on social protection functions, and capital expenditures jointly affect the poverty rate in Indonesia?
2. Do village funds have a significant effect on poverty rates in Indonesia?
3. Does the expenditure on the social protection function of the Regional Revenue and Expenditure Budget significantly affect the level of poverty in Indonesia?
4. Does the capital expenditure on Regional Revenue and Expenditure Budget significantly affect Indonesia's poverty rate?

METHOD

This research is categorized as quantitative research, namely the search for social and humanitarian problems based on theoretical testing consisting of variables measured by numbers and analyzed by statistical procedures (Cresswell, 2004). According to Sugiyono (2019), quantitative research is used if you want to know the effect of the independent variable on the dependent variable in scientific conditions. For example, this study wanted to determine the effect of village funds, social protection function expenditures, and capital expenditures on Indonesia's poverty levels' Regional Revenue and Expenditure Budget. This research is essentially an analysis of the factors that influence the level of poverty in Indonesia. The poverty level in this research includes village funds, social protection function expenditures, and capital expenditures on the Regional Revenue and Expenditure Budget. The research objects are divided into groups that affect the poverty level in districts/cities in Indonesia. This research aims to realize village funds distributed by the central government to villages through the Regional Revenue and Expenditure Budget of the district/city. In addition, the object of this research also includes the realization of regional expenditures. Regional expenditures that focus on this research are spending on social protection functions and capital expenditures.

Data Types and Sources

The data used in this research is secondary data obtained indirectly from certain parties who have collected the data. Secondary data is finished data that does not require data processing to interpret the data (Riyanto and Hatmawan, 2020).

Secondary data in this research were obtained from several sources, including the Directorate General of Fiscal Balance of the Ministry of Finance and the Central Statistics Agency. Data related to village funds, spending on social protection functions, and capital expenditures on the Regional Revenue and Expenditure Budget were obtained from the DJPK, while the poverty rate for districts/cities was obtained from BPS.

Research Population

Corper and Schinder (2003) in Sugiyono (2017) define the population as the whole subject to be measured, which is the unit to be studied and used as a generalization area. Therefore, the population in this research were all provinces in Indonesia with the sample criteria to be taken, namely the province that received the allocation of village funds and realized it.

Data analysis technique

The steps used to prove the formulation of the problem, using several assumption tests, include:
1. Performing Classical Assumption Test consisting of Multicollinearity Test, Autocorrelation Test, Heteroscedasticity Test, and Normality Test.
2. The analytical tool used to test in this research is the Multiple Regression Analysis. Multiple linear regression analysis is used to determine the magnitude of the influence of the independent variable on the dependent variable (Gujarati, 2004: 662).
3. The multiple linear regression model used is as follows:
\[ Y_i = a + b_1X_1 + b_2X_2 + b_3X_3 + e \]

**Description:**
- \( Y_i \) = Poverty Level
- \( a \) = Coefficient
- \( b_1, b_2, b_3 \) = Regression Coefficient
- \( X_1 \) = Village Fund
- \( X_2 \) = Social Assistance Expenditure
- \( X_3 \) = Capital Expenditure
- \( e \) = Error

The steps used to prove the hypothesis are simultaneously used Simultaneous Regression Test (F test), and partial test used Partial Test (t-test).

**RESULTS AND DISCUSSION**

Following are the results of the regression data according to the table below:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Koefisien Regresi</th>
<th>Standar Error</th>
<th>t-Value</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>C = Constant</td>
<td>40.577</td>
<td>3.058</td>
<td>13.269</td>
<td>0.000</td>
</tr>
<tr>
<td>X1 = Dana Dana</td>
<td>-0.505</td>
<td>0.046</td>
<td>-10.978</td>
<td>0.000</td>
</tr>
<tr>
<td>X2 = Perlindungan Sosial</td>
<td>-0.351</td>
<td>0.087</td>
<td>-4.058</td>
<td>0.000</td>
</tr>
<tr>
<td>X3 = Biaya Modal APBD</td>
<td>-0.260</td>
<td>0.061</td>
<td>-4.342</td>
<td>0.000</td>
</tr>
</tbody>
</table>

The regression model obtained from the table above is:

\[ Y = 40.577 - 0.505X_1 - 0.351X_2 - 0.260X_3 \]

Based on the results of the regression data test, it can be explained as follows:

**Village Funds, Social Protection Function Expenditures, and Capital Expenditures on the Regional Revenue and Expenditure Budget influence the Poverty Level in Indonesia.**

If the three budgets are increased or decreased, it will affect the poverty level in Indonesia. However, the facts above show that poverty alleviation programs carried out by the government through village funds, regional expenditures, social protection functions, and capital expenditures on the Regional Revenue and Expenditure Budget have contributed to alleviating poverty in Indonesia. Moreover, as a national and regional poverty alleviation program, the three expenditures can touch the poor directly. Therefore, the central and regional governments must continue to strive to improve the effectiveness of the allocation and use of village funds, spending on social protection functions, and capital expenditures to provide a multiplier effect on poverty alleviation in their respective regions.

The influence of the Village Fund, social protection function spending, and capital expenditure on the Regional Revenue and Expenditure Budget in influencing the poverty rate in Indonesia in this research was 42.40%. The rest of the dependent variables were influenced by other variables not examined. The existence of other variables outside this research model indicates that the problem of poverty cannot be solved only by the factors in this research. Bhinadi (2017) argues that poverty is a complex problem in terms of cause and effect. Tambunan (2011), as quoted by Josep (2018), suggests that there are many factors that directly or indirectly affect the level of poverty ranging from labor productivity, job opportunities, work ethic, and work motivation, net wage levels, income distribution, taxes and subsidies, investment, allocation and natural resources, availability of public facilities (such as basic education, health, information,
transportation, electricity, clean water, and residential locations), use of technology, level, and type of education, physical and natural conditions of a region, culture and traditions, macroeconomic conditions such as inflation rates, unemployment, and the rupiah exchange rate, even social, political and regional security conditions are also determinants of a region's poverty level.

The theories about poverty above show that the factors influencing the poverty level are very complex. At the same time, in this research, the variables of village funds, social protection function expenditures, and capital expenditures on the Regional Revenue and Expenditure Budget only cover a part of the variables that affect the poverty level in Indonesia. Hence, it is reasonable if the coefficient of determination in this research model is around 42.40.

The Village Fund has a negative and significant influence on the Poverty Level in Indonesia.

Based on the regression data test results, it is explained that village funds significantly negatively affect Indonesia's poverty level. If the village fund budget is increased, the poverty rate will decrease. The results of this research indicate the effectiveness of the village fund program in provinces in Indonesia.

This research supports data published by the Ministry of Villages, Development of Disadvantaged Regions, and Transmigration, which states the real benefits of village funds in the period 2015 to 2021, including:

a. Facilitate and accelerate the transportation of people and goods; during 2015-2021 built 308,490 km of village roads, 1,583,215 m of bridges, and 7,384 boat mooring units;
b. Increase agricultural production after the construction of 5,371-units of reservoirs and 80,120 units of tertiary irrigation canals;
c. Facilitate the marketing of village products, especially agricultural products, because 12,244 village market units have been built, as well as the development of 42,317 Village-Owned Enterprises activity units;
d. Mitigation of hydrological disasters after the construction of 247,686 retaining units and 45,517,578 m of drainage;
e. Expanding the activities of community institutions such as sports groups after the establishment of 29,210 sports facilities;
f. Improving environmental health by building 1,207,423 clean water infrastructure units, 443,884 toilet facilities, 14,401 Polyclinics, 42,007 Integrated Healthcare Center, and 74,289 wells and 66,430 PAUD activities.

Data from the Ministry of Villages, Development of Disadvantaged Regions, and Transmigration noted that from 2015 to 2021, there was a significant increase in village status due to the allocation of village funds. As a result, very underdeveloped villages decreased by 8,471 villages, from 13,453 villages to 4,982 villages. Developing villages increased by 11,020 villages, from 22,882 villages to 33,902 villages. Developed villages increased by 16,641, from 3,608 villages to 20,249 villages, while independent villages increased by 6,064, from 174 villages to 6,238 villages.

When referring to previous studies, the significant influence of village funds on poverty levels in Java is in line with the results of research by Susilowati and Hadi (2017), which concludes that village funds have an effect on reducing poverty in East Java Province as well as research by Sigit and Kosasih (2020) which concluded that village funds influence poverty alleviation in Indonesia. Village funds have a significant effect on poverty levels in Java because one of the priorities for using village funds is community empowerment programs through labor-intensive
cash programs, as stated by sources in Sigit and Kosasih's research (2020) that: "Village funds can affect poverty reduction because one of the uses of village funds is for cash which is a village community empowerment program. Cash-intensive programs that utilize local resources, labor, and technology can provide additional wages for the villagers involved, thereby increasing the purchasing power of rural communities”.

**Spending on social protection functions has a negative and significant impact on the Poverty Level in Indonesia.**

Based on the regression data test results, it is explained that spending on social protection functions significantly negatively affects the level of poverty in Indonesia. However, this means that the government's spending on social protection functions can reduce the poverty rate, namely the number of poor people in the province of Indonesia.

Compared with the results of previous studies, the effect of spending on social protection functions in provinces in Indonesia is to the research of Fizbein et.al (2014) which found that social protection programs in several developing countries have a significant effect on poverty alleviation. In his research, Fizbein et.al (2014, 175) states that if the social protection program is not implemented, it will become a real and serious threat to developing countries. Fizbein et.al (2014, 175) estimate that there will be an additional 150 million poor people if developing countries do not implement social protection programs.

The research on spending on social protection functions indicates that social protection programs carried out by local governments, in general, have succeeded in reducing poverty. The social protection budget for 2020-2021 has been realized in IDR 61.52 trillion, allocated through the Regional Revenue and Expenditure Budget of Provinces in Indonesia. One form of social protection program is through social assistance provided in various types of assistance, including the Cash Assistance program throughout Indonesia, which consists of three types of assistance, namely:

a. Program Keluarga Harapan (PKH),
b. Non-Cash Food Assistance / Basic Food Program,
c. Social Cash Assistance.

**Capital Expenditure on the Regional Revenue and Expenditure Budget has a negative and significant impact on the Poverty Level in Indonesia.**

Based on the results of the regression data test, it is explained that there is a significant negative effect of capital expenditure on the Regional Revenue and Expenditure Budget of the poverty level in Indonesia. However, this means that local governments' spending on capital expenditures can reduce the poverty rate, namely the number of poor people in the province of Indonesia.

The results of this capital expenditure study align with Kaligis research (2017), which concludes that capital expenditure negatively affects poverty. In addition, this result is also by the theory of capital expenditure which is one of the proxies for infrastructure sector spending. The existence of capital expenditures and infrastructure development should facilitate the movement of goods and services and increase the economy's added value. With the increase in the economy, people's income will increase, thereby removing them from the poverty line. In addition, the procurement of regional assets in the form of infrastructures such as roads and bridges should be a driver of community productivity. However, the research results related to capital expenditure
contradict the research conducted by Widianto et al. (2016), who concluded that capital expenditure had no significant effect on poverty in Tegal City. In the discussion, Widianto et al. (2016) argue that the allocation of regional capital expenditures is not based on regional needs for facilities and infrastructure for community needs but is used for routine expenditures that are less productive so that it does not have an impact on reducing community poverty. This is also supported by Sigit and Kosasih (2020), who conclude that capital expenditure has no significant effect on poverty in Indonesia. According to Sigit and Kosasih (2020), capital expenditure focuses on increasing regional assets so that it does not have a direct effect on poverty, but the effect is indirectly through improving the regional economy. So that even if the expenditure in capital expenditures affects the poverty level, the effect cannot be directly felt in the short term. This is also supported by several studies showing that capital expenditure's effect on the poverty rate will be seen at a lag of 2 years.

The facts above show that the poverty alleviation programs carried out by local governments through regional expenditures, both spending on social protection functions and capital expenditures, must be continuously evaluated. Nevertheless, as poverty alleviation programs in the regions, both types of regional expenditures have contributed to reducing poverty.

Therefore, local governments must continue to strive to improve the effectiveness of the allocation and use of spending on social protection functions and capital expenditures to provide a multiplier effect on poverty alleviation in their respective regions. Productive and adaptive to get people out of the poverty line.

CONCLUSIONS

Based on research related to the effect of village funds, social protection expenditures, and capital expenditures on poverty levels in Indonesia, the following conclusions can be drawn:

1. Village funds, social protection functions, and capital expenditures on the Regional Revenue and Expenditure Budget significantly affect Indonesia's poverty level.
2. Village funds have a negative and significant effect on poverty levels in Indonesia.
3. Spending on social protection functions negatively and significantly impact poverty levels in Indonesia.
4. Capital Expenditure on the Regional Revenue and Expenditure Budget has a negative and significant impact on poverty levels in Indonesia.
5. Based on the calculation results, Village Fund Expenditures significantly reduce poverty levels in Indonesia.

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