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Analysis The Effect of Village Funds on Accelerating Economic Development in Rural Areas

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Abstract. This research intends to examine the impact of Village Fund utilization on accelerating economic development in rural areas. The Village Fund is a strategic government policy to improve the welfare of rural communities through infrastructure development, economic empowerment, and job creation. This research applies a quantitative method supported by a Likert scale questionnaire distributed to 100 respondents in three villages in Jayapura Regency. The method of analysis is simple linear regression using SPSS software program. The results of the study indicate that the utilization of Village Funds has a positive and significant effect on accelerating rural economic development, showing a regression coefficient of 0.512 and p-value of 0.000. The R^2 value of 0.399 demonstrates that 39.9% of economic growth variability is accounted for by the utilization of Village Funds, while the remainder is influenced by other factors. This finding emphasizes the importance of transparent management of Village Funds oriented toward productive sectors to create self-reliant and competitive villages

Keywords: Community Empowerment, Economic Development, Infrastructure, Rural Areas, Village Fund

1. Introduction

Equitable and sustainable economic development across Indonesia is one of the government's top priorities. Regional and regional authorities function within a challenging context, encountering multifaceted socio-economic problems [1]. However, the gap between urban and rural areas remains a crucial issue that requires serious attention. This gap is reflected in the limited access of rural communities to basic infrastructure, public services, and economic opportunities, which ultimately triggers social and economic inequality. To address this issue, the government launched the Village Fund program as required by the 2014 Act No. 6 on Villages.

Since its implementation in 2015, the Village Fund has become an important instrument for accelerating development and community empowerment at the village level. This policy provides direct authority and financial resources to village governments to plan, implement, and oversee development programs in accordance with local needs. Research by [2] states that the success of rural development through decentralization is highly dependent on (1) how villages formulate local budgets based on community participation, (2) the institutional capacity of villages to manage budgets, and (3) the level of community involvement in the planning and monitoring processes.

The Village Fund aims to enhance the living standards in village communities, promote economic self-reliance, and reduce poverty and regional disparities. Although the Village Fund has been in operation for several years with continuously increasing budget allocations, its effectiveness in accelerating rural economic development remains a subject of debate [3]–[5]. Some studies indicate that increased funding allocations do not always correlate with improved rural community well-being, especially when fund management is suboptimal, village government capacity is limited, or community participation is insufficient [6]. Questions arise regarding the extent to which these funds are truly utilized optimally for productive programs that can drive the rural economy. Therefore, this study is relevant to evaluate the actual impact of Village Fund utilization on rural economic development. This study will examine community perceptions of Village Fund utilization and the extent of its real contribution to achieving economic independence in villages [7]–[9].

The utilization of Village Funds, which has been ongoing since 2015, is a strategic effort by the government to alleviate poverty and regional disparities. In fact, the allocation of these funds has resulted in massive physical infrastructure development, such as village roads, bridges, and clean water facilities, which have directly improved accessibility and the quality of life for the community. Village autonomy is a regional autonomy policy granted to village governments to optimize their potential, thereby maximizing village revenue for development and improving community welfare [10]. However, challenges arise when funds are primarily

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allocated for physical infrastructure development, while allocations for productive activities that could stimulate the local economy remain minimal. This situation raises questions about the extent to which Village Funds have truly succeeded in building economic independence. Accordingly, this research intends to assess in depth the community's perceptions of the utilization of Village Funds—whether they feel the direct economic impact—while also measuring the real contribution of these funds to increasing income and creating jobs in rural areas.

This study analyzes the utilization of Village Funds in accelerating rural economic development in Indonesia using the frameworks of decentralization, rural development models, and community-based development (CBD). Decentralization theory highlights the benefits of local authority in aligning programs with community needs, while rural development models and CBD stress integrating infrastructure investment with participatory economic empowerment. Since its implementation in 2015 under Law No. 6/2014, the Village Fund has aimed to reduce rural–urban disparities, yet concerns remain over its effectiveness when allocations prioritize physical projects over productive initiatives. This research assesses community perceptions and the actual economic impact, offering evidence-based recommendations for a more balanced and sustainable use of Village Funds.

The research seeks to offer concrete solutions for stakeholders. The results of the analysis of community perceptions and the measurement of economic impacts will form the basis for formulating more targeted policy recommendations. Data-driven approaches and community participation in evaluating development programs have proven to enhance the success rate of regional governance policies [11]. The solution offered is to encourage village governments to allocate Village Funds more evenly, not only for physical development but also for sustainable economic empowerment programs, such as BUMDes (Village-Owned Enterprises), entrepreneurship training, and the development of village-specific sectors. The implementation of this solution will ensure that Village Funds are not only a stimulus for infrastructure development but also a catalyst for inclusive economic growth. Thus, Village Funds will transform from mere financial assistance into strategic investments capable of creating self-reliant and competitive villages. The aim of this study is to see the influence of village funds on accelerating economic development in rural areas.

2. Method

To address these issues, this study uses a quantitative approach. The research population includes the entire community and village apparatus in three villages directly adjacent to Jayapura Regency. Sampling was conducted using purposive sampling with 100 respondents who were considered to have the best understanding regarding the allocation of Village Funds in their area. The main research instrument is a closed-ended questionnaire with a 1–5 Likert scale designed to measure three main indicators: the use of funds for economic infrastructure, community economic empowerment, and job and income creation. This scale allows researchers to measure the level of agreement of respondents to each statement, providing measurable and objective data.

The collected data will be analyzed using two statistical techniques. First, descriptive statistics will be used to present an overview of respondents' perceptions of the utilization of Village Funds. Second, simple linear regression will be applied to measure the direct effect between the utilization of Village Funds (independent variable) and the acceleration of rural economic development (dependent variable). The findings are anticipated to yield an in-depth understanding of the contribution of Village Funds. These findings will be very useful for local and village governments in formulating more targeted policies, so that Village Funds are not only a tool for infrastructure development but also the main driving force for the independence and economic growth of rural communities.

3. Result And Discussion

3.1 Result

Rural economic development is one of the Indonesian government's main objectives to address interregional disparities. This strategy is in line with the inclusive and region-based development approach that has been implemented in various countries to reduce disparities and promote economic growth at the local level [12]. Since the launch of the Village Fund program in 2015, this fund has been expected to be a catalyst for economic growth at the village level. This research seeks to determine the degree to which the utilization of these funds has actually contributed to accelerating economic development in rural areas. Based on the quantitative methodology that has been designed, data was collected through questionnaires distributed to 100 respondents in three villages. The findings from the linear regression demonstrate a meaningful and positive correlation between the utilization of village funds and rural economic development. This study aims to analyze

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the extent to which the utilization of village funds influences the acceleration of economic development in rural areas. SPSS-based regression analysis confirms the independent variable significantly and positively affects the dependent one was found. The following is a presentation in the form of descriptive statistical tables:

Table 1. Descriptive Statistics of Research Variables

Variable	N	Mean	Std. Deviation	Minimum	Maximum
Use of Funds	100	3,45	0,39	2,19	4,43
Economic Development	100	4,53	0,32	3,76	5,52

Description:
N : Number of respondents.
Mean : Average score of respondents on each variable.
Std. Deviation : Measure of data dispersion relative to the mean (the smaller the value, the more homogeneous the data).
Minimum–Maximum : Range of scores given by respondents.

Descriptive statistics findings show that the average value for the variable of village fund utilization is 3.45 accompanied by a standard deviation of 0.39. This indicates indicating a majority of participants concur that village funds have been utilized well, although not yet optimally. The lowest recorded score is 2.19 and the highest of 4.43 indicate that respondents' perceptions fall within the moderate to high category, with no extreme evaluations. The relatively homogeneous perceptions reflect the similarity of community experiences regarding the implementation of the village fund program.

Meanwhile, the economic development the mean score for the variable is 4.53 with SD of 0.32, indicating very positive and consistent perceptions from the community regarding the effect of growth in the economy of their villages. The range of values between 3.76 and 5.52 shows that all respondents assess the economic development of their villages as good to very good. Overall, these results reflect that the utilization of village funds has made a real contribution to rural economic development, although its management can still be improved to make its impact more optimal and equitable.

After obtaining a general overview of respondents' perceptions through descriptive statistical analysis, the next crucial step in this study is to test the causal relationship between variables. This section will present the results of a simple linear regression test to analyze in more depth the influence of village fund utilization (as the independent variable) on rural economic development (as the dependent variable). This regression test will provide empirical evidence of the extent to which the utilization of village funds contributes to accelerating economic development, which can be measured based on the beta value, significance value, and coefficient of determination (R2). These results will provide a stronger conclusion regarding the impact of Village Fund regulations on promoting economic progress at the rural level. Based on the results of simple linear regression analysis using SPSS the data revealed a notable and favorable impact of the predictor on the outcome.

Table 2. Results of Simple Linear Regression Test on the Influence of Village Fund Utilization on Economic Development

Variable	Coefficient Regress (B)	Std. Error	tcount	Sig. (p)	Beta	Description
(Constant)	2,754	0,351	7,848	0,000	–	Significant
Use of Funds	0,512	0,064	8,030	0,000	0,632	

Based on the results of the simple linear regression test in Table 1, the following regression equation was obtained:

$$Y = 2{,}74X + 0{,}512Y$$

Explanation:
Y = Economic Development
X = Utilization of Village Funds

From the analysis results, the regression coefficient shows that every increase in the utilization of allocation from village funds is likely to affect economic development. This finding is supported by a significance value below 0.05, confirming that the relationship is not coincidental. Additionally, the R^2 statistic of 0.399 reveals close to 40% of changes in rural economic development can be explained by the utilization of village funds. Although this figure is significant, it also implies that over 60% of rural economic development is affected by additional variables beyond this research scope. Thus, while village funds are proven to be important, the roles of other factors such as local government policies, geographical conditions, and private sector participation cannot be ignored.

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The regression coefficient (B) value of 0.512 indicates that every 1-unit increase in the utilization of village funds will increase the economic development score by 0.512 points. The significance value (Sig.) of 0.000 < 0.05 indicates that the effect is statistically significant. This means there is a positive and significant relationship between the utilization of village funds and economic development in rural areas.

The coefficient of determination (R^2) = 0.399 obtained from the Model Summary table indicates that 39.9% of the changes in economic development can be explained by the utilization of village funds, while the remaining 60.1% is influenced by other variables not examined in this model. The analysis results show that the utilization of village funds has a positive and significant effect on accelerating economic development in rural areas. This finding reflects that when village funds are managed optimally and directed toward strategic sectors that directly address community needs, their impact on improving welfare and economic growth in villages becomes evident.

One important aspect of the utilization of village funds is the development of village infrastructure. Infrastructure such as village roads, irrigation channels, village markets, and other public facilities play a vital role in supporting community economic activities. Good roads, for example, facilitate the mobility of agricultural products and goods from villages to wider markets, thereby improving community economic access. Village markets built or revitalized using village funds can become centers of local economic activity that stimulate trade and expand the distribution network for local products. This aligns with research conducted by [13]. This study shows that rural infrastructure development—including roads, water, and environmental management—enhances local productivity and supports economic revitalization, particularly in eastern and central China.

In addition to infrastructure, support for MSMEs along with strengthening Village-Owned Enterprises (BUMDes) are crucial factors in promoting village economic self-reliance. Village funds are one of the key drivers and stimuli for the development of a village today [14]. Village funds can be used to provide capital, training, and mentoring to MSMEs to enable them to grow, compete, and create jobs. Such interventions align with findings that financial support combined with skill training and mentoring enhances profitability, sales growth, and the resilience of micro-enterprises in rural areas [15]. BUMDes, as economic institutions owned by village communities, can become the primary drivers of economic development if managed professionally and participatively. Through business units relevant to local potential—such as village tourism management, agricultural products, or logistics businesses—BUMDes can strengthen the overall economic structure of the village. Skills training and entrepreneurship training are also strategic approaches in utilizing village funds. These training programs are important for enhancing the capacity of village human resources to manage local potential innovatively and productively. However, the reality on the ground is that instead of creating prosperity and independence for the village community, it has actually made the village community powerless [16]. A skilled community has a greater opportunity to create independent businesses, obtain employment, and become more adaptive to global economic changes.

Furthermore, the village cash-for-work program is a concrete example of the use of village funds that directly target the poor and unemployed. This program not only provides direct income but also increases people's purchasing power, reduces poverty, and strengthens social cohesion. The achievement of community empowerment is determined by community engagement in implementation of development processes, from the planning stage, implementation, monitoring, and enjoying the results of development [17]. By actively involving residents, this program also enhances a sense of ownership over development outcomes and strengthens mutual cooperation within the community. From all these aspects, it can be concluded that village funds serve as a highly strategic fiscal instrument, especially when their management involves community participation, is directed toward productive sectors, and is based on the needs and local potential of the village. The accuracy of targeting and the effectiveness of the program greatly determine how far village funds can drive sustainable economic development.

3.2 Discussion

Study outcomes hold key insights for the future handling of village funds strategies, particularly in the context of efforts to accelerate rural economic development. The analysis shows that the utilization of village funds has a significant impact on economic development, meaning that their management must be directed in a more strategic and effective manner. Practically speaking, this implies a shift in focus from physical development alone to programs that can create economic value. In reality, observed economic progress often fails to encompass all segments of society [18]. Village governments need to accurately identify local potential and design initiatives such as micro-enterprise development [19]–[21], productive skills training, and the revitalization of village-based natural resource-driven economies. This approach ensures that village funds not only build infrastructure but also economically empower communities.

Furthermore, the results of this study reaffirm the necessity for open and responsible governance in village fund oversight [22]–[28]. The use of funds that lacks transparency risks causing misappropriation and inequality

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in benefits, which ultimately erodes public trust. Therefore, open reporting mechanisms, participatory audits, and regular publication of budget plans and implementations are crucial. Transparency serves as a form of accountability and as a tool to ensure that every rupiah of village funds is truly used for economic development that directly impacts and benefits all residents.

Lastly, another important implication is the active involvement of the community in the entire cycle of village fund management, from planning, implementation, to supervision. One effort that can be made is by increasing community participation in every stage of the implementation process of empowerment programs [17]. When the community is directly involved, the programs designed will be more aligned with their real needs and more sustainable. This participation also serves as a means of enhancing the social capacity of village communities to manage development independently. Overall, this research reinforces the idea that village fund management based on participation, real needs, and a focus on local economic empowerment is the key to transforming villages from mere objects of development into the main subjects capable of creating inclusive and sustainable economic growth**.**

4. Conclussion

The objective is to examine the impact of Village Fund utilization on accelerating economic development in rural areas. According to the outcome of a basic regression model conducted on data from 100 respondents in three villages, it was found that Village Fund utilization produces a statistically valid and favorable influence on rural economic development. The regression coefficient (B) value of 0.512 with a significance value (p) of 0.000 (< 0.05) indicates that every increase in the the deployment of Village Funds is projected to directly enhance economic growth quality in the village. The coefficient of determination (R^2) value of 0.399 indicates that 39.9% of the variation in rural economic development is attributed to Village Fund use, though remaining changes are due to unexamined variables model.

This study also found that Village Fund management directed toward productive sectors such as economic infrastructure, strengthening MSMEs, developing village-owned enterprises, job skills training, and labor-intensive programs can serve as the main drivers of village economic growth. Community involvement, transparency in budget management, and planning based on local needs are important factors in ensuring the effective use of Village Funds. Thus, it can be concluded that Village Funds are not merely instruments for financing physical development, but also strategic tools for strengthening the local economy and promoting village independence. Therefore, more participatory, sustainable, and community-empowerment-oriented Village Fund management policies are needed to achieve equitable and inclusive economic development.

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