The Effect of Village Funds on Inclusive Village Development in Indonesia

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ABSTRACT

This study analyzes the effect of local revenue and village funds on inclusive village development with capital expenditure and economic growth as intervening variable in Indonesia. The research was conducted because the allocation of village funds since 2015 until now has not been able to realize inclusive village development. Inclusive village development is indicated by poverty, social welfare, and income inequality variables. Data source used is data secondary. Analysis method using Klassen Typology and Partial Least Square (PLS). Before doing the analysis of PLS will be done Klassen Typology, the districts in Indonesia are grouped into four quadrants namely Quadrant I (Emerging Region), Quadrant II (Prima Region), Quadrant III (Potential Area) and Quadrant IV (Rear Areas). The success of inclusive village development is influenced by independent variables and the position of the district in the four quadrants in the Klassen Typology. The conclusion of this research is that the success of village funds is dependent on the quality of village government officials which is shown in the position of each village in the 4 quadrants in the Klassen Typology.

Keywords: Local Revenue, Village Fund, Capital Expenditure, Inclusive Village Development, Klassen Typology

JEL Classification: H72, R58

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1. Introduction

The development of public sector accounting in Indonesia is increasing rapidly with the era of reform in the implementation of the policy of regional autonomy and fiscal decentralization which focuses on local government. In the era of regional autonomy and fiscal decentralization the region is required to increase competitiveness in every local government. The competitiveness of local governments will be achieved through an increase in local government independence achieved through regional autonomy and fiscal decentralization (Abdullah, 2012). Likewise, in rural areas. The village is part of the smallest territory of the State of Indonesia that absolutely must be patrolled by the Government of Indonesia Repulik. Village or other under the name of Law No. 23 of 2014 on Regional Government is a legal community unity that has jurisdictional territorial boundaries, which is authorized to regulate and manage the interests of the local community based on recognized origins and local customs and forms within national government system and are located in the district/city.

The development strategy in Indonesia is to increase the distribution of development and its outcomes through the direction of sectoral development policies and the performance of the community, especially in rural areas. Rural development is a subject of development and as a community movement in the implementation of development based on awareness to improve a better life. It is known that almost 60% of Indonesians live in rural areas. With the number of residents and potential natural components will get assets through the Village Funds based on Law No. 6 of 2014 on Village Article 71 on Village Finance and Village Assets, the management of village finances on budgets and village institutions is done by the village head. If the allocation of Village Funds is allocated efficiently and effectively to improve the livelihoods and welfare of rural communities, rural development is targeted so as to reduce village and urban disparities.

According to the Central Bureau of Statistics (BPS), the number of poor Indonesians continues to decline. The percentage of poor people in urban areas in March 2019 was 6.69 percent, decreasing to 6.56 percent in September 2019. Meanwhile, the proportion of poor people in rural areas in March 2019 was 12.85 percent, decreasing to 12.60 percent in September 2019. Compared to March 2019, the number of poor people in September 2019 in urban areas was 137 thousand people, from 9.99 million people in March 2019 to 9.86 million people in September 2019. Meanwhile, rural areas fell by 221.8 thousand people, from 15.15 million people in March 2019 to 14.93 million people in September 2019.

According to the Ministry of Disadvantaged Areas and Transmigration (PDTT), the high disparities in the number of poor people in rural and urban areas can not be separated from economic disparities. According to the Ministry of Village and PDTT continue to reduce poverty in rural areas, by building Indonesia from the periphery as Nawacita. The funds are used to build basic labor intensive infrastructure. At the same time, the existence of village funds can also reduce the gap between villages and towns. The Village Funds is able to become the leverage of the village’s Economic Growth. The philosophy of Village Funds is to improve the welfare and equity of the village through improving public services in the village, promoting the village economy, overcoming the inter-village development gap and strengthening the village community as the subject of development.

The allocation of Village Funds will encourage the implementation of village autonomy, as well as an effort to empower the village government and village communities (Aprilia, 2020). Provincial and district governments as facilitators, facilitating village communities to carry out village development. To realize the purpose of development, then all the potential of nature must be explored, developed, and utilized as possible. Similarly, human potential in the form of a large number of population then the knowledge and skills, should be improved so as to explore, develop and utilize the potential of the system to the maximum, and implementation of development programs is achieved. The regional economy as planned by the government is applied to speed up growth and development in the village. Based on the description described in the background of the problem then the focus of
research is the effect of local revenue and Village Funds on poverty, social welfare, and income inequality with Capital Expenditure and Economic Growth as intervening variable in Indonesia.

2. Literature Review

Agency theory has been widely used both in the private and public sectors. Agency theory is used to analyze principal-agent relationships in relation to public sector budgeting (Latifah, 2010) and (Faria, 2013). The agency theory analyzes the contractual arrangement between two or more individuals, groups, or organizations. The agency relationships as contracts in which one or more people (principals) engage with others (agents) to perform some services on their behalf involving the partial delegation of decision-making authority to agents (Jensen, 1976). The agency relationship in government involves the executive, legislature, and public (Marvanti, 2017).

2.1. Local Revenue and Capital Expenditure

The authority of the local government in carrying out its policy as an autonomous region is strongly influenced by the ability of the region to generate regional income (Rabb, 2016). The greater the Local Revenue received, the greater the authority of the local government in implementing the autonomy policy (Priambodo, 2015). Implementation of regional autonomy aims to improve public services and promote the regional economy. One way to improve public services is by spending on investment interests realized through Capital Expenditure. More and more the Local Revenue earned increasingly enable the area to meet its own shopping needs without having to depend on the central government which means it shows that the area has been able to be independent. Due to the increase in the Local Revenue is expected to increase Capital Expenditure, so the government can provide the quality of public services well (Lengkong, 2018). The Local Revenue has a positive and significant impact on Capital Expenditure (Pasodung, 2017). Based on these explanations, the research hypothesis are arranged as follows:

H1: Local Revenue has a positive effect on the Capital Expenditure of districts in Indonesia

2.2. Village Funds and Capital Expenditure

The allocation of Village Funds is a budget used by the village government in deceiving the community and the implementation of development managed directly by villages and communities (Ferarow, 2018) and (Aprilia, 2020). The greater of Village Funds has enabled the region to meet its spending needs in meeting basic needs, development of village facilities and infrastructure, development of local economic potentials, or the use of village funding allocations to prioritize government priority programs, especially in infrastructure. Because of the increase in Village Funds is expected to increase Capital Expenditure, so the government can provide the quality of public services well (Lilis Saidah Napisah, 2020) and (Kumala, 2020). The Village Funds can improve fiscal performance, and regional economy, able to reduce the number of poor people, and increase the gross domestic product of the agricultural sector (Fahrizal, 2018) and (Sunardi, 2020). Based on these explanations, the research hypothesis are arranged as follows:

H2: Village Funds has a positive effect on the Capital Expenditure of districts in Indonesia

2.3. Capital Expenditure and Economic Growth

Economic Growth is one of the benchmarks of a region’s economic development success. One form of economic development is the development of infrastructure and facilities and infrastructure that support local government development activities. Provision of infrastructure and facilities and infrastructure through Capital Expenditure. With the addition of infrastructure and infrastructure improvements by the local government, it will refer to regional Economic Growth. Capital Expenditure as a component of direct expenditure will be allocated to finance development activities (Arini S, 2016). This local government activity will generate demand for goods and services with the needs of local governments, so that there will be economic activity that will form the absolute value
of Gross Regional Domestic Product (GRDP) and the relative value of GRDP changes (Economic Growth). The higher the regional government capital spending, the higher the Economic Growth of the region. This is supported by research from conducted a study which the result stated that Capital Expenditure has positive and significant impact to Economic Growth (Aulia, 2014) but not support to (Badrudin, 2017). Based on these explanations, the research hypothesis are arranged as follows:

H3: Capital Expenditure has a positive effect on Economic Growth of districts in Indonesia

2.4. Economic Growth and Poverty

The Economic Growth is the development of activities in the economy that cause goods and services in the production in society increases (Syamsudin, 2015). The main factors affecting the growth and development of a country are the wealth of natural resources and the land, the amount and quality of labor, the available capital goods, the level of technology used, the social system and the attitude of the people (Sudarlan, 2015). The relationship between poverty and Economic Growth shows a negative relationship. Economic Growth without followed by equal distribution of income will not be able to reduce the number of poor people (Aulia, 2014). For that there needs to be an increase in Economic Growth accompanied by equitable income so that it can prosper the community (Ginting, 2010). Based on these explanations, the research hypothesis are arranged as follows:

H4: Economic Growth has a negative effect on poverty of districts in Indonesia

2.5. Economic Growth and Social Welfare

Economic Growth as a relative value of GRDP changes from time to time indicates the increase in income from society over time as well (Kuncoro, 2019). Increasing of Economic Growth over time shows an increase in the income of the community which is indicated by the fulfillment of daily needs. In addition to daily needs, the community is also more healthy and educated. Economic Growth becomes the benchmark of economic development of a region. When development in education and health occurs then there is an increase in the Human Development Index. Increased Economic Growth in an area will cause the community to have an opportunity to allocate income in the education and health sectors (Hartini, 2017). According to the Central Bureau of Statistics (BPS), the Human Development Index is an index to explain how people can access development outcomes and earn income, health and education. Economic Growth is important to maintain social welfare (Arini S, 2016). Economic Growth is used to improve human capabilities and how people use these capabilities so Economic Growth significantly affect the social welfare (Badrudin R. K., 2018). The other results stated that Economic Growth has a positive effect on the social welfare (Baeti, 2013). The Economic Growth has a significant effect on and has a positive relationship to the social welfare in the district/city of Central Java Province (Sasana, 2009). Based on these explanations, the research hypothesis are arranged as follows:

H5: Economic Growth has a positive effect on social welfare of districts in Indonesia

2.6. Economic Growth and Income Inequality

Economic Growth shows the extent to which economic activity will generate additional income society in a certain period (Devantoro, 2014) and (Sularso, 2011). Gini index or gini coefficient is an indicator that shows the level of income inequality as a whole (Aulia, 2014). Thus, if the Economic Growth increases, the income of the society will also increase so that there will be no high income imbalance and the gini index should decrease (Chaira, 2017). Based on these explanations, the research hypothesis are arranged as follows:

H6: Economic Growth has a negative effect on income inequality of district in Indonesia

3. Methodology
The population observed in this study is all districts in Indonesia in 2015. The technique of selecting the sample using purposive sampling, ie sampling with certain criteria. The criteria used in sampling in this study are all districts in Indonesia that provide data of Local Revenue, Village Fund, Capital Expenditure, Economic Growth, Poverty, Social Welfare, and Income Inequality by 2015, except for the province DKI Jakarta, this is because DKI Jakarta is not an autonomous region. The number of districts that meet the criteria is 244 districts. Based on the analysis of Klassen Typology, all of districts in Indonesia are grouped as developing regions (quadrant I), namely regions with low Gross Regional Domestic Product (GRDP) contribution and high growth rate, prime area (quadrant II) with GRDP contribution and high growth rate, potential area (quadrant III) with high GRDP contribution and low growth rate, and underdeveloped areas with GRDP contribution and low growth rate (quadrant IV). The mapping results of Klassen Typology analysis can be linked to development activities and planning for future economic development of the district, so that the social welfare in Indonesia can be achieved. Classification of Klassen Typology were used in Microsoft Excel. For testing the hypotheses H1 to H6, structural equation modelling (SEM) is used to evaluate and confirm the proposed model. SEM is utilised as it is able to deal with a system of regression equations and hence model complex dependencies, which the theoretical framework entails. The WarpPLS 5.0 analysis is used to view the fit indices model and the results of the hypothesis testing.

4. Results and Findings

Based on Table 1 it appears that the variable of Local Revenue has an average for all districts in Indonesia for one year amounting to Rp169,294,750,000. The lowest Local Revenue is in Kabupaten Mamberamo Tengah amounting to Rp2,000,000,000 and the highest amount of Local Revenue is in Badung District amounting to Rp2,938,005,742,143. The standard deviation of Local Revenue is Rp283,991,507,000. The Local Revenue describes the ability of a region in exploring the potential of the area in order to finance regional expenditures that ultimately can increase the needs of the community.

<table>
<thead>
<tr>
<th>Descriptive Statistics</th>
<th>N</th>
<th>Local Revenue (Rp 000,000)</th>
<th>Village Funds (Rp 000,000)</th>
<th>Capital Expenditure (Rp 000,000)</th>
<th>Economic Growth (%)</th>
<th>Poverty (%)</th>
<th>Social Welfare</th>
<th>Income Inequality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>244</td>
<td>169,294</td>
<td>366,745</td>
<td>366,745</td>
<td>5.79</td>
<td>14.34</td>
<td>60.42</td>
<td>0.32</td>
</tr>
<tr>
<td>Min.</td>
<td>244</td>
<td>2,000</td>
<td>3,221</td>
<td>94,864</td>
<td>(11.48)</td>
<td>2.33</td>
<td>0.34</td>
<td>0.14</td>
</tr>
<tr>
<td>Max.</td>
<td>244</td>
<td>2,938,006</td>
<td>83,206,805</td>
<td>1,800,669</td>
<td>68.29</td>
<td>45.74</td>
<td>78.86</td>
<td>0.47</td>
</tr>
<tr>
<td>SD</td>
<td>244</td>
<td>283,991</td>
<td>5,325,156</td>
<td>194,952</td>
<td>4.93</td>
<td>8.65</td>
<td>17.80</td>
<td>0.04</td>
</tr>
</tbody>
</table>

Source: Data Processed

The average value of the Village Funds is Rp366,745,560,000. The region that received the highest of Village Funds is Bogor District amounting to Rp83,206,804,712. While the regions that get the Village Funds. The smallest of Village Funds is Rp3,221,149,807 in West Pasaman district. The standard deviation of Village Funds amounted to Rp5,325,156,851,000. The average value of Capital Expenditure amounted to Rp377,063,970,000. Labuhan Batu Utara District has the lowest Capital Expenditure of Rp94,863,210,600. While the highest Capital Expenditure in Bogor District is Rp1,800,668,000,000. The standard deviation of Capital Expenditure amounted to Rp194,925,122,000. The average of Economic Growth in Indonesia is 5.80% in 2015. High Economic Growth is the district of Morowali which is equal to 68.29%, while the district with negative economy is North Aceh is -0.11%. The Social Welfare is measured using indicators of the Human Development Index. The national average of Human Development Index is 60.43. The lowest value is 0.34 owned by Aceh Jaya District. The highest value is 78.86 owned by Badung District. This indicates that most regions have high realistic of the Human Development Index. Meanwhile, the average poverty is 14.35%. The poverty is measured using indicators of the poor population ratio. Deiyai District has a relatively poor population ratio of 2.33%, while there are areas that have a very poor population
ratio is Simalue District which amounted to 45.74%. This data shows that the poor are not evenly distributed in the regions of Indonesia. The income inequality is measured using indicators of the Gini Index. The average value of the Gini Index is 0.33%. Yalimo District has the lowest Gini Index of 0.14% and Manokowari District has the highest Gini Index of 0.47%.

Based on the results of klassen typology analysis, as shown in Table 2, the districts included in the developing regions (quadrant I) amounted to 12 districts. The districts included in the prime area (quadrant II) amounted to 14 districts. The districts included in the potential areas amount to 7 districts. The districts included in the underdeveloped area amounted to 211 districts.

<table>
<thead>
<tr>
<th>No.</th>
<th>Characteristics of District</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Developing area (quadrant I)</td>
<td>12</td>
<td>4.92%</td>
</tr>
<tr>
<td>2</td>
<td>Prime areas (quadrant II)</td>
<td>14</td>
<td>5.74%</td>
</tr>
<tr>
<td>3</td>
<td>Potential areas (quadrant III)</td>
<td>7</td>
<td>2.87%</td>
</tr>
<tr>
<td>4</td>
<td>Backward areas (quadrant IV)</td>
<td>211</td>
<td>86.47%</td>
</tr>
</tbody>
</table>

**Source:** Data Processed

The calculation of the fit model value is based on the result of WarpPLS 5.0 analysis in Table 3.

<table>
<thead>
<tr>
<th>Variable</th>
<th>R-Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Revenue</td>
<td></td>
</tr>
<tr>
<td>Village Funds</td>
<td></td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>0.61</td>
</tr>
<tr>
<td>Economic Growth</td>
<td>0.00</td>
</tr>
<tr>
<td>Poverty</td>
<td>0.02</td>
</tr>
<tr>
<td>Social Welfare</td>
<td>0.02</td>
</tr>
<tr>
<td>Income Inequality</td>
<td>0.01</td>
</tr>
</tbody>
</table>

**Source:** Data Processed

Goodness of fit model in PLS analysis using stone-geiser Q-Square test in the form of Q-Square predective relevance value. The value is calculated based on R2 value of each endogenous variable, that is Capital Expenditure variable, R12 value is 0.61, Economic Growth variable obtained value equal to R22 0.00, poverty variable obtained value equal to 0.02, social welfare variable obtained value of 0.02, and income inequality variable obtained value of 0.01. Thus the value of Q-square predictive relevance is

\[ Q_2 = 1 - (1-R12) (1-R22) (1-R32) (1-R42) \]
\[ = 1 - (1-0.61) (1-0.00) (1-0.02) (1-0.02) (1-0.01) \]
\[ = 1 - 0.39(1)(0.98)(0.98)(0.99) \]
\[ = 0.6291 \]

Based on the calculation obtained value of Q-square predictive relevance of 0.6291 or 62.91%. So the model is said to have a strong predictive value because the variables in the model only include the Local Revenue, Villages Funds, Economic Growth able to explain poverty, social welfare, and income inequality variables of 62.91% and the rest 37.09% was explained by other variables outside this study.

<table>
<thead>
<tr>
<th>Result</th>
<th>P-value</th>
<th>Criteria</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>APC= 0.021</td>
<td>P&lt;0.001</td>
<td>Good if P&lt;0.05</td>
<td>Supported</td>
</tr>
<tr>
<td>ARS= 0.133</td>
<td>P = 0.009</td>
<td>Good if P&lt;0.05</td>
<td>Supported</td>
</tr>
</tbody>
</table>
Model fit indices is a very important measure in data processing with WarpPLS because fit indices show the suitability of models with data and shows the quality of the model under study. Avarage R-Square (ARS) is used to assess the magnitude of exogenous, endogenous and dependent variables. ARS is said to be good if the ARS value <0.05. Avarage Path Coefficient (APC) is used to see the extent of relationship or attachment between variables. APC is said to be good if the APC value <0.05. Avarage Variance Inflation Factor (AVIF) is used to see the magnitude of correlation between endogenous or multicolinearity variables. AVIF is said to be good if AVIF value <5. Interpretation of fit model indicator in this study meets the criteria of goodness of fit model so that this research model can be used to test the hypothesis.

Hypothesis testing in this research is done by testing the relationship between variables. Statistical test conducted when obtained p-value <0.05. The test results are shown in Table 5.

### Table 5: Hypothesis Testing Results per Quadrant

<table>
<thead>
<tr>
<th>Variable Relationship</th>
<th>Quadrant</th>
<th>Path Coefficient</th>
<th>P-Value</th>
<th>Prediction</th>
<th>Findings</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Revenue → Capital Expenditure</td>
<td>I</td>
<td>0.39</td>
<td>0.05</td>
<td>+</td>
<td>+</td>
<td>Accepted *)</td>
</tr>
<tr>
<td>Village Funds → Capital Expenditure</td>
<td>I</td>
<td>0.58</td>
<td>&lt;.01</td>
<td>+</td>
<td>+</td>
<td>Accepted *)</td>
</tr>
<tr>
<td></td>
<td>II</td>
<td>-0.23</td>
<td>0.17</td>
<td>+</td>
<td>-</td>
<td>Rejected</td>
</tr>
<tr>
<td></td>
<td>III</td>
<td>0.87</td>
<td>&lt;.01</td>
<td>+</td>
<td>+</td>
<td>Accepted *)</td>
</tr>
<tr>
<td></td>
<td>IV</td>
<td>0.19</td>
<td>&lt;.01</td>
<td>+</td>
<td>+</td>
<td>Accepted *)</td>
</tr>
<tr>
<td>Capital Expenditure → Economic Growth</td>
<td>I</td>
<td>0.60</td>
<td>&lt;.01</td>
<td>+</td>
<td>+</td>
<td>Accepted *)</td>
</tr>
<tr>
<td></td>
<td>II</td>
<td>-0.55</td>
<td>&lt;.01</td>
<td>+</td>
<td>-</td>
<td>Rejected</td>
</tr>
<tr>
<td></td>
<td>III</td>
<td>0.61</td>
<td>0.01</td>
<td>+</td>
<td>+</td>
<td>Accepted *)</td>
</tr>
<tr>
<td></td>
<td>IV</td>
<td>0.16</td>
<td>0.01</td>
<td>+</td>
<td>+</td>
<td>Accepted *)</td>
</tr>
<tr>
<td>Economic Growth → Poverty</td>
<td>I</td>
<td>0.57</td>
<td>&lt;.01</td>
<td>-</td>
<td>+</td>
<td>Rejected</td>
</tr>
<tr>
<td></td>
<td>II</td>
<td>0.78</td>
<td>&lt;.01</td>
<td>-</td>
<td>+</td>
<td>Rejected</td>
</tr>
<tr>
<td></td>
<td>III</td>
<td>-0.56</td>
<td>0.02</td>
<td>-</td>
<td>-</td>
<td>Accepted *)</td>
</tr>
<tr>
<td></td>
<td>IV</td>
<td>-0.06</td>
<td>0.17</td>
<td>-</td>
<td>-</td>
<td>Accepted *)</td>
</tr>
<tr>
<td>Economic Growth → Social Welfare</td>
<td>I</td>
<td>0.46</td>
<td>0.02</td>
<td>+</td>
<td>+</td>
<td>Accepted *)</td>
</tr>
<tr>
<td></td>
<td>II</td>
<td>-0.83</td>
<td>&lt;.01</td>
<td>+</td>
<td>-</td>
<td>Rejected</td>
</tr>
<tr>
<td></td>
<td>III</td>
<td>-0.52</td>
<td>0.03</td>
<td>+</td>
<td>-</td>
<td>Rejected</td>
</tr>
<tr>
<td></td>
<td>IV</td>
<td>0.37</td>
<td>&lt;.01</td>
<td>+</td>
<td>+</td>
<td>Accepted *)</td>
</tr>
<tr>
<td>Economic Growth → Income Inequality</td>
<td>I</td>
<td>0.42</td>
<td>0.03</td>
<td>-</td>
<td>+</td>
<td>Rejected</td>
</tr>
<tr>
<td></td>
<td>II</td>
<td>-0.59</td>
<td>&lt;.01</td>
<td>-</td>
<td>-</td>
<td>Accepted *)</td>
</tr>
<tr>
<td></td>
<td>III</td>
<td>-0.86</td>
<td>&lt;.01</td>
<td>-</td>
<td>-</td>
<td>Accepted *)</td>
</tr>
<tr>
<td></td>
<td>IV</td>
<td>0.16</td>
<td>0.01</td>
<td>-</td>
<td>+</td>
<td>Rejected</td>
</tr>
</tbody>
</table>

### 4.1. Effect of Local Revenue on Capital Expenditure

The Local Revenue is an important source of income for a region to meet its spending. The Local Revenue of this region can simultaneously address the degree of independence of a region. The more Local Revenue earned will allow the area to meet its own shopping needs without having to depend on the central government, meaning that it has been able to stand on its own, and vice versa. Due to the increase in Local Revenue is expected to increase investment local government Capital Expenditure, so the government can provide the quality of public services well. The greater
the Local Revenue received, the greater the authority of regional governments in implementing autonomy policies. The implementation of regional autonomy aims to improve public services and promote the regional economy.

Based on the results of the analysis, the regions that have the characteristics of quadrant I, quadrant II, and quadrant IV indicate that Local Revenue has a positive effect on Capital Expenditure. This indicates that the more Local Revenue received by the region, the more regions can allocate funds for the regional Capital Expenditure. Because Local Revenue is the main source of government revenue derived from sources within the region itself. Although Local Revenue are small but Local Revenue are very influential, not only for Capital Expenditure but also for operational expenditures. The results of this hypothesis test support the results of (Priambodo, 2015), (Pasodung, 2017), and (Lengkong, 2018) which indicates that Local Revenue has a significant effect on Capital Expenditure.

Tests on areas with quadrant III show that Local Revenue has no significant effect on Capital Expenditure. This shows that the area in quadrant III is a region with low growth rate but high contribution of Gross Regional Domestic Product is still not optimal in collecting retribution, taxes, or other levies. So that Local Revenue area can not be used for infrastructure development and infrastructure in its area. This indicates that Local Revenue is still used for expenditure outside of Capital Expenditure such as operational expenditure. The result of this research is reinforced by this research that Local Revenue has no significant effect to Capital Expenditure. The results of this hypothesis test support the results of (Rabb, 2016).

4.2. Effect of Village Funds on Capital Expenditure

The Village Funds is part of balancing funds received by the regencies/cities within the district’s Revenue and Expenditure Budget of at least 10% after deducted by the Special Allocation Fund. The Village Funds is a budget used by the village government to empower communities and implement development directly managed by villages and communities. The greater the allocation of Village Funds, the more likely it will be to meet their spending needs in the development of village facilities and infrastructure, the empowerment of rural communities and the development of local economic potentials, or the use of village funding allocations to encourage government priority programs, especially in infrastructure (Kumala, 2020).

Based on quadrant I, III, and IV test, indicating that Village Funds has a positive effect on Capital Expenditure. The Village Funds obtained as a basis for increasing Capital Expenditure investment through physical development, facilities and infrastructure and empowerment of village communities, or the allocation of village funds is prioritized for government priority programs, especially in infrastructure. This means that the higher the revenue allocation of village funds from the government, the realization of village government Capital Expenditure is higher. This indicates that quadrants I, quadrant III, and quadrant IV have used the optimal allocation of Village Funds for Capital Expenditure, since the acceptance of Village Funds has been mandated to finance expenditures that are the priority of village government. In the future, the village government can be more creative in designing programs in synergy with local government, especially programs that support services to the public such as the provision of facilities and infrastructure, so that will increase the realization of Capital Expenditure every year. This research supports research from (Ferarow, 2018), (Fahrizal, 2018), (Lilis Saidah Napisah, 2020), and (Sunardi, 2020) stated that the Village Funds has a significant positive effect on village expenditure. Increased allocation of Village Funds will increase village spending. In this case the policy of village government in the short term adjusted to the Village Funds received.

Tests on quadrant II, show different result that is Village Funds has negative effect to Capital Expenditure. This indicates that Village Funds obtained in the second quadrant is a fast growing area and large contributions have not been used optimally for Capital Expenditure through physical development, facilities and infrastructure or Village Funds are not prioritized for government priority programs, especially in infrastructure. However, Village Funds was used as a corruption field by the
village government, especially the village head, so the Village Funds allocated from the district/city was not properly used (Aprilia, 2020).

The Indonesia Corruption Watch (ICW) released 110 cases of Village Funds. In addition, other corrupt perpetrators are 30 village apparatus and 2 village head wives. As for some forms of corruption committed by the village government, that is embezzlement, misuse of the budget, abuse of authority, illegal fees, budget mark-ups, fictitious reports, budget cuts, and bribery. The same thing happened in Patimpeng Sub-district, Bone, South Sulawesi, the village head used Village Funds for personal purposes. Therefore, Village Funds is not used for proper village development in order to be fully benefited by the village community.

4.3. Effect of Capital Expenditure on Economic Growth

The higher the regional government capital spending, the higher the Economic Growth of the region. But the test result per quadrant that is in area which have characteristic of quadrant II shows the opposite that Capital Expenditure has negative effect to Economic Growth. This means that the greater the Capital Expenditure then the Economic Growth declines. This suggests that government spending on prime areas for development is less than local government expenditures for personnel expenditures. This means that the government budget policy in the quadrant II area indicates that the area, although growing fast and the large contribution can not allocate its Capital Expenditure efficiently so that the GRDP per capita is still low and unable to encourage Economic Growth. The inefficiency occurs because the district/city government uses local budgetary expenditure funds for staff salaries rather than to build infrastructure. Infrastructure development will have an effect on regional Economic Growth. The results of this study (quadrant I, III, and IV) support to (Aulia, 2014) and (Arini S, 2016), and support to (Badrudin R. &., 2017) in quadrant II which proves that Capital Expenditure in district/city in Indonesia has a non significant effect on the Economic Growth.

4.4. Effect of Economic Growth on Poverty

Poverty is a situation where individual annual income in a country or region can not meet the minimum expenditure standards that individuals need to be able to live a decent life in the area. Individuals living below the minimum spending standard are poor. As the economy develops in a country or region, there is more income to spend, which if distributed well among the population of the country or region will reduce poverty. In other words, theoretically, Economic Growth plays an important role in overcoming the problem of poverty reduction.

Based on quadrant test result that is quadrant I and quadrant II shows that Economic Growth has positive and significant effect to poverty. This means that the increasing Economic Growth, poverty is increasing too. Poverty is a problem in development that is characterized by unemployment and underdevelopment, which will then escalate into inequality. This proves that in regions with the characteristics of potential and underdeveloped regions, Economic Growth is still exclusive, where the objectives of development only achieve the target of achieving certain Economic Growth but less take into account the absorption of labor, poverty reduction and environment so that sometimes there is high Economic Growth accompanied by high unemployment and poverty rates, and damaged environments as a result of the development process. The results of this research not conduct by (Ginting, 2010), (Aulia, 2014), (Sudarlan, 2015), and (Syamsudin, 2015).

But the test results in quadrant III and IV show that Economic Growth negatively affect poverty. This means that the more Economic Growth, the more poverty decreases. Economic Growth is one indicator of the success of economic development of a region. Where the development undertaken by the local government on target it will experience an increase in Economic Growth. When Economic Growth increases then the level of people's welfare and also the higher productivity so that unemployment is reduced and poverty is reduced. The results of this test are in line with research conducted by (Ginting, 2010), (Aulia, 2014), (Sudarlan, 2015), and (Syamsudin, 2015) which states that Economic Growth negatively affect poverty.
4.5. Effect of Economic Growth on Social Welfare

The intended output growth is GRDP per capita, the high growth of output makes changes in consumption patterns in the needs of the needs. This means that the higher the Economic Growth will be higher per capita output growth and change the consumption pattern in this case the level of people's purchasing power will also be higher. The high purchasing power of the community will increase social welfare because people's purchasing power is one of the composite indicators in the Human Development Index. It can be concluded that the higher Economic Growth will increase social welfare.

Based on result of quadrant quadrant test that is quadrant I and quadrant IV indicate that Economic Growth have positive and significant influence to society prosperity. This is evidenced by the value of coefficient marked positive and the value of P-value equal to or less than 5%, which means the higher Economic Growth hence social welfare is increasing, and vice versa. It indicates that the area in quadrant I indicating that the area is developing rapidly is able to implement inclusive development. The regions in quadrant IV that are underdeveloped areas have implemented inclusive development that is oriented towards achieving certain Economic Growth but still considering pro job, pro poor, pro equality, and pro environment. The results of this study support the research of (Sasana, 2009), (Baeti, 2013), (Arini S, 2016), (Hartini, 2017), and (Badrudin R. K., 2018) which states that Economic Growth has a significant positive effect on social welfare.

However, the test results in the quadrant II and III show the opposite of Economic Growth has a negative and significant impact on social welfare. This means that the higher the Economic Growth and social welfare decreases. This indicates that the economic development process in the prime and potential regions is still exclusive, ie development which only focuses on increasing the Economic Growth without the absorption of labor, the reduction of the ratio of the poor, unemployment, gini ratio, and development oriented to the environment so it can not afford improve social welfare.

4.6. Effect of Economic Growth on Income Inequality

Economic Growth indicates the extent to which economic activity will generate additional income society at a certain period. Gini index or gini coefficient is an indicator that shows the level of income inequality as a whole (BPS). Thus, if the Economic Growth increases, the income of the society will also increase so that there will be no high income imbalance and the gini index should decrease or decrease. Based on quadrant test result that quadrant I and quadrant IV indicate that Economic Growth have positive and significant effect to income inequality. This shows the higher Economic Growth, the higher the level of income inequality. The main problem in the distribution of income is the inequality of income distribution. This can happen due to differences in productivity of each individual where one individual/group has higher productivity than other individuals/groups. Inequality or income gap is an indicator of the distribution of people’s income in an area or region at a given time. The upward trend in income inequality trends occurs both at the national, urban, rural, as well as in all provinces in Indonesia. In urban areas, inequality tends to be higher than in rural areas, as well as in big cities.

Inequality of income becomes a problem in the level of income of an area, many obstacles faced to overcome the inequality. The inequality between the poor and the rich is huge. For example inequality that occurs in farmers, farmers who have a large area of land will be more leverage per capita income, whereas farmers who have a narrow land they have been managing the land as much as possible but the results are still minimal, especially the workers who do not have their land just resigned relying on the salaries of the big farmers. Besides these small farmers do not have the skills or education that high so they can not working in non-agricultural sector. Inequality that becomes one of the problems in the implementation of economic development can be eliminated if the
income distribution can be done equally. The results of this study also not supports the research of (Devantoro, 2014), (Sularso, 2011), (Aulia, 2014), and (Chaira, 2017) which states that Economic Growth has a positive effect on income inequality. However, the test in quadrant II and III results show the opposite of Economic Growth negatively affecting income inequality. This shows the higher Economic Growth hence income inequality also decreased. Areas with characteristics of prime areas and potential areas have increased Economic Growth, so the income of the community is also increasing so there is no income inequality.

5. Conclusion

This study analyzes the effect of local revenue and village funds on inclusive village development with capital expenditure and economic growth as intervening variable in Indonesia. Inclusive village development is indicated by poverty, social welfare, and income inequality variables. The Village Funds have not had a positive effect on inclusive village development. This is shown in the results and findings. The Village Fund launched in 2015 was not accompanied by clear technical implementing regulations. This has made the allocation of Village Funds not optimal in realizing inclusive village development. Based on the results of the research hypothesis test, it appears that many research hypotheses are proven to be insignificant and they occur in quadrant II (prime areas). This shows that the implementation of Village Fund allocations has not been accompanied by clear technical regulations and readiness of human resources in the village.

Based on the conclusions generated in this study, the suggestions are expected to be useful for users, namely 1) For further research it is expected to add an open unemployment indicator so as to illustrate the Village Funds has been allocated effectively and can reduce the unemployment rate because the development objective not only achieves Economic Growth but must implement inclusive village development; 2) Add a period of time so that more data information so more complete; and 3) So that the implication of village funds is able to achieve inclusive village development, it is necessary to prepare a clear technical regulation for implementing village fund allocations and the readiness of human resources in the village through various trainings. In addition, the government needs to improve the quality of human resources for managing village funds.

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Referencias

