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The Role of Village Fund Allocation (ADD) in Improving Community Welfare Through Village Potential

Eva Herianti[1], Litdia[2]
Universitas Muhammadiyah Jakarta, Jakarta, Indonesia[1,2]
heriantieva@gmail.com[1]
litdia.koto@gmail.com[2]

ABSTRACT

Corruption in village fund allocation involving village officials has become a grave concern for the government. This condition will undoubtedly reduce the community's welfare, given that village fund allocation is used to satisfy personal gains instead of fulfilling the primary needs of the community. Therefore, this study aims to examine and analyze the effect of village fund allocation on community welfare through village potential. The sample of this study comprises provincial governments using the purposive sampling method, which reports village financial data from 2017 to 2019. The panel data regression method was used in this study to test the hypothesis with the help of Eviews version 11. This study revealed that the allocation of village funds had a positive and significant effect on community welfare. However, village potential cannot strengthen the influence of village fund allocation on community welfare. This study also discovered that the level of community welfare was high due to the village revenue effectiveness. However, no significant difference was found under the category of village spending efficiency on community welfare. In other words, village fund allocation that is spent optimally by the village government for its various strategic programs will positively impact community welfare. This study aims to address the gap found in previous literature by formulating the measurement of the variable allocation of village funds and village potential, which is still limited by using secondary data.

KEYWORDS:
Village fund allocation; village potential; community welfare

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INTRODUCTION

Several cases of corruption involving village fund allocation (Alokasi Dana Desa, ADD) and committed by internal village apparatus have become a significant issue for the government. For example, corruption involving the village fund allocation committed by the Village Head from Bayongbong, Garut Regency. The Village Head was sentenced to six years in prison for being involved in the corruption of village fund allocation with a state loss of Rp400 million in 2017. The village head's modus operandi for committing the corruption began with falsifying the accountability report.

Following that is the misappropriation of the village fund allocation committed by the Village Head of Lobu Rampah in North Labuhanbatu. The Lobu Rampah Village Head was named a suspect by the police for allegedly committing corruption offenses involving village fund allocation amounting to Rp399 million in 2017. The offender's mode of operation is by conducting misappropriation of six types of activities that have been budgeted, including infrastructure projects with volumes that have already been specified in the budget plan. Air Kati Village Head in Bengkulu was also suspected of causing state losses of Rp300 million in 2017 through the misappropriation of village fund allocation. The Village Head's modus operandi began by derailing a Rp221 million construction project Telpot road, coupled with fraudulent drainage volume of Rp34 million and taxes that have not been deposited into the state treasury amounting to Rp60 million. The foregoing corruption cases revealed that the offenders directly involved in the act of corruption are the village heads as the village apparatus who manage the village budget. This phenomenon will undoubtedly reduce the level of community welfare in view of the fact that the village fund allocation was used to satisfy personal gains instead of fulfilling the needs of the village community.

Subhan (2019) revealed the myriad of problems in the allocation of village funds, among others, the lack of ability of village fund allocation managers from both the village government and community institutions in terms of planning, implementing, and controlling substandard activities and the lack of optimal participation of village community self-help groups. Dwiningwarni and Amrulloh (2017) explained that village fund management for physical development did not include increasing community income. Hence village fund management should be directed at empowerment programs through BUMDes to increase community income. In contrast to studies by Subhan (2019) and Dwiningwarni and Amrulloh (2017), Antou, Rumate, and Maramis (2019) discovered that village funds could improve village development through infrastructure development and community empowerment programs carried out by village governments and communities, thereby improving the economy of each village and sub-district.

Todaro and Smith (2012) explain that community welfare is a condition that shows people's standard of living in achieving a better life. The measure of community welfare is often referred to as the human development index (HDI), which consists of three important dimensions, namely the dimensions of health, education, and economy. The health dimension indicator is life expectancy at birth (Angka Harapan Hidup, AHH). The education dimension indicator is the expected length of schooling (Harapan lama Sekolah, HLS) and the average length of schooling (Rata-rata Lama Sekolah, RLS), while the economic dimension indicator is the adjusted per capita expenditure. HDI is an important indicator to measure the achievement of the community's quality of life, which brings benefits such as the ability to determine the level of development of a region or country, and as one of the allocators for determining the amount of the General Allocation Fund (BPS, 2017). In other words, the human development index is one indicator to assess the success of development to improve community welfare and educate the nation (Zahari *et al.,* 2018).

The success of development to improve community welfare cannot be separated from village development activities. Regulation of the Minister of Home Affairs Number 20 of 2018 specifies that a village is a legal community unit with territorial boundaries authorized to regulate and manage government affairs. The local community's interests are based on community initiatives, origin rights, and/or traditional rights that are recognized and respected in the government system of the Unitary State of the Republic of Indonesia. The village's authority to regulate and manage government affairs to enhance the local community's welfare and quality of life requires good village financial management. According to the Minister of Home Affairs Regulation Number 20 of 2018, village financial management is an entire activity that includes planning, implementation, administration, reporting, and village financial accountability. Each stage of village financial management has procedures that require the village government to understand and follow applicable regulations.

Village financial management is performed within one fiscal year. The fiscal year starts from January 1 to December 31. The implementation of village financial management principles, notably transparency, accountability, participation, budget order, and discipline, is required to achieve effective village financial management. The principle of transparency relates to the disclosure of information to the public regarding the village's financial condition. The principle of accountability relates to the obligation of the village government to account for village finances to the community, whereas the participatory principle relates to the involvement of institutional elements and village communities in the administration of village governance. Finally, the principles of order and budget discipline refer to the village's financial management, which must be according to applicable regulations or guidelines. The village government needs to be rigorous in managing village finances to achieve these principles.

Wijaya (2018) explains that three important parts of budget discipline must be considered in village financial management, namely, (1) planned income, which is a rationally measured estimate that can be achieved for each source of income, while budgeted expenditure is the highest limit of expenditure, (2) expenditures, which the availability of sufficient revenues must support. Activities that are not yet available or experience insufficient budget credits in the Village Government Budget (Anggaran Pendapatan Belanja Desa, APBDesa)/Amendment to the APBDesa shall not be carried out, and (3) all village revenues and expenditures in the relevant fiscal year must be included in the APBDesa and executed through the Village Cash Account. The village treasury account accommodates all village revenues and pays all village needs in one account following the conventional bank.

The district/city government assigns the village fund allocation to the district/city Local Government Budget (Anggaran Pendapatan Belanja Daerah, APBD) every fiscal year to support the composition of village finances to improve the welfare of rural communities. Wijaya (2018) explains that the village fund allocation is part of the Fiscal Balance Fund (Dana Perimbangan) received by the district/city local government for a minimum of 10% after deducting the special allocation fund. Sujarweni (2015) described that the village fund allocation derived from the district's central and regional fiscal balance fund for villages. This allocation is determined based on ministerial regulation through a Regent or mayor regulation. Furthermore, Wijaya (2018) explains that the village fund allocation for each village takes into account (1) the need for a fixed income for the village head and village officials, as well as (2) the number of villagers, the poverty rate of the village, the area of the village, and the level of geographical difficulty of the village.

Several previous studies have found that the village fund allocation can positively impact community welfare (Nasution, 2021; Sumarni, 2020; Fathony & Sophian, 2019; Sunu & Utama, 2019; and Nurohman, Qurniawati, & Hasyim, 2019). However, the findings of Hehamahua (2015) reveal that (1) the allocation of the village fund has not fully provided space for the community to develop its economy, (2) the management of village fund allocation requires strict regulations to limit human behavior in fulfilling personal interests, (3) there are still many villages that have not been able to do its preparation for the management of village fund allocation, both in terms of annual plan products, utilization, and accountability, and (4) direct assistance for village fund allocation is more focused on infrastructure development. Thus, improving rural communities' welfare has been less than optimal. Handayani and Badrudin (2019) discovered that the allocation of village funds had significantly impacted the Indonesian economy. Therefore, this is consistent with Hehamahua (2015). Some previous studies focused on primary data, while this study focused on secondary data. Given this fact, this study is deemed important to fill the gaps of the previous studies.

Optimal utilization of village potential is needed to support community welfare improvement through the village fund allocation. The utilization of village potential is related to the village's source of income managed by the village government to fulfill the village community's interests. Minister of Home Affairs Regulation Number 20 of 2018 specifies that village original revenue can derive from business yields, asset returns, self-help results, participation, cooperation, and other villages' original income. Hoesada (2019) explains that each village has its type and amount of original village revenue, including other forms of legitimate village revenue, such as income resulting from cooperation with third parties and company assistance located in the village. Furthermore, Hoesada (2019) added that the village's original revenue was income from the village authority based on the village's original rights and local-scale authority. The results of village efforts include the results of Village-Owned Enterprise (Badan Usaha Milik Desa, BUMDes) and "Bengkok land" (*Tanah Bengkok*).

Dewi, Saputra, and Prayudi (2017) explain that adequate village fund allocation to support village revenue sources is expected to galvanize the wheels of government at the village level, including responding to needs that can be addressed at the village level. Furthermore, Dewi *et al.* (2017) explain that the provision of efficient and effective sources of original village income thus far has never considered the real village potential. In general, calculations rely more on existing targets and realizations based on the practices so far. The village's original income as a potential source of the village are activities that the village government accomplishes for the administration of the village government to achieve community welfare. This preceding background shows that this study aims to examine and analyze the effect of village fund allocation on community welfare subdued by village potential. Thus, the two research questions are (1) does the village fund allocation positively affect community welfare? (2) can the village potentially increase the influence of the village fund allocation on the community welfare?

LITERATURE REVIEW

Stewardship Theory

Stewardship theory is the opposite of agency theory. This theory highlights the importance of achieving common interests over personal interests (Davis, Schoorman, & Donaldson, 1997; Schillemans & Bjurstrom, 2020). Davis *et al.* (1997) explain that motivated agents act to manage the organization well and will place organizational goals above personal interests. In the context of village organizations, the village government acts to manage village organizations with integrity, responsibility, and trustworthiness. Sujarweni (2015) explains that the village government is an extension of the central government that has a strategic role in regulating communities in rural areas to accomplish government development. Given the preceding, the village head plays a pivotal role and has the responsibility within the village government to improve the welfare of the village community.

Village Fund Allocation and Community Welfare

Hehamahua (2015) explains that more than 60% of Indonesia's population lives in villages. If the village government utilizes the village fund allocation to improve people's living standards, one may argue that the gap between rural and urban areas can be reduced. Utilization of village fund allocation is not only for infrastructure development or as a source of income for village officials but must also include economic empowerment of rural communities. This implies that the village government must focus on the characteristics of community empowerment as the primary source of community revenue in utilizing the allocation of village funds. For example, when the village in question has the main source of income from farming, the utilization of village fund allocation focuses on stimulating agricultural businesses. When the economic needs of the village community are met through increasing their income, the village community has the budget to meet the needs of education and health. In other words, the proper use of village fund allocation will be a stimulus for improving the welfare of rural communities.

Widiantoro (2020) reveals that the village fund allocation process, which includes village financial management, has been executed correctly, transparently, and following the prevailing procedures. Hence the village government's goal to improve community welfare conforms with reality. This condition shows that the village community has felt the positive impact of village development. Magal, Kawung, and Maramis (2021) also Oki, Pangastuti, and Ua (2020) find that good management of village fund allocation will improve community welfare. Boni, Firihu, Aedy, and Suraya (2001) explained that village fund allocation could be used for short-term, long-term, and human resource welfare investments. It has been proven that the community's welfare has improved. However, Badrudin, Dewanti, and Siregar (2021) reveal that the village fund has not been able to benefit the community mainly because of the area in the sampled four provinces and the quality of human resources that affect the management of the village fund have not been effective.

Improving community welfare requires the support of the village's financial capacity. One source of village finance is the allocation of village funds. The allocation of village funds should fulfill the interests of the village community if the village government appropriately manages it. Kusmana and Ismail (2018) explain that the allocation of village funds is utilized by villages to (1) finance village development, (2) empower the community, (3) strengthen public services in villages, (4) strengthen village participation and democracy, (5) provide allowances for village officials, (6) support village government operations, and it (8) shall not be used for political activities or activities against the law. Furthermore, Kusmana and Ismail (2018) explain that various activities financed from village fund allocation are very open to improving service facilities and infrastructure in the community to support the operations of village institutions and other activities needed by the community in general. Based on this description, this study proposes the following hypothesis.

H1: Village fund allocation has a positive effect on community welfare

Village Fund Allocation, Village Potential, and Community Welfare

Government actions to meet the community's interests are in line with the theory of stewardship (Bawono, Dwi, & Kinasih, 2020). In that theory, the village government tries to maximize the role of the community in fulfilling the interests of the village. This implies that the community gives a mandate to the village government to manage village finances to improve the community's welfare. Wekan, Madris, and Haryanto (2019) describe community welfare as a condition of the community's life that can be captured from the human development index. One way to improve community welfare is through village fund allocation.

Hasirimi, Erlina, and Tarmizi (2017) explain that the objectives of village fund allocation are (1) poverty alleviation and inequality reduction, (2) improving village development planning and budgeting along with community empowerment, (3) increasing rural infrastructure development, (4) increasing the application of religious values, social and cultural aspects in the context of achieving social improvement, (5) increasing public order and peace, (6) improving services to rural communities in the context of developing community social and economic activities, (7) encouraging self-help and community cooperation, and (8) increasing village income through BUMDes. This goal will be achieved when common interests are aligned between the village government and the village community. Syafingi *et al.* (2020) explained that the village fund allocation for capital participation in BUMDes could be used as the right solution without violating existing regulations. The goal is to improve the welfare of the community.

The village government is also expected to utilize the village's potential to improve the village community's welfare in supporting the achievement of the goal of village fund allocation. The village government can utilize village potential through a focus strategy due to limited village resources focused on main agricultural products, marine products, mining products, people's handicrafts, or other main sources of village communities. Such focus aims to optimize the utilization of village potential. With the support of the utilization of village fund allocation and village potential, it is to be expected that an increase in community welfare can be attained. Based on this description, this study proposes the following hypothesis.

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

RESEARCH METHOD

This study employs all provincial governments in Indonesia as the population during 2017-2019. The sample of this study used a purposive sampling method with several criteria. The data of this study relates to the allocation of village funds and village potentials obtained from village government financial statistics. Table 1 describes the sampling selection. There are 34 provinces in Indonesia taken as samples from 2017 to 2019. However, the Special Capital Region of Jakarta does not have available village financial data. As a result, there are only 33 provinces that have complete data for the entire three years. Finally, there are 99 observations in this study that will be used to test the hypothesis.

Table 1. Sampling Selection

Criteria	Total
Provincial government in Indonesia from 2017 to 2019	34
Provincial governments that do not have available village financial data	(1)
Number of years of conducting analysis, from 2017 to 2019	3 years
Number of observations	99

This study uses several variables: village fund allocation, village potential, community welfare, village income effectiveness ratio, and village expenditure efficiency ratio. Operational definitions and measurements of the variables are shown in Table 2.

The hypothesis is tested using the panel data approach. Therefore, before testing the hypothesis, it is necessary to conduct a paired test to determine a suitable model. The paired tests are the Chow, Lagrange multiplier, and Hausman. Chow test is used to determine the best common effect model or fixed-effect model. The Lagrange multiplier test determines the best common effect model or random-effect model. Hausman test is used to determine the best-fixed effect model or random-effect model. This study uses an alpha level of 5% in determining the panel data model accompanied by hypothesis testing. Therefore, the suitable model when the significance value of the Chow test result < 0.05 is the fixed-effect model and

Table 2. Operational Definition and Measurement of Variables

Variable Definition	Measurement	Scale
Community Welfare (IPM): The achievement of the average welfare of a region in three key dimensions namely, health, education, and expenditure.	$\sqrt[3]{Health\ IndexX Education\ IndexX\ Expenditure\ IndexX100\%}$ Adapted from BPS (2017)	Ratio
Village Fund Allocation (ADD): The dependence of the village government on the allocation of village fund.	$ADD = \frac{Actual\ Village\ Fund\ Allocation}{Actual\ Revenue} X100\%$ Adapted from Mahmudi (2019) related to regional financial dependence and modified by researcher based on this research context)	Ratio
Village Potential (PDS): Contribution of village potential to total village income.	$PDS = \frac{Village\ Original\ Revenue\ Budget}{Budget\ Revenue} X100\%$ Adapted from Mahmudi (2019) related to the degree of decentralization and modified by researcher based on this research context)	Ratio
Village Revenue Effectivity Ratio (PERP): The ability of the village government to mobilize village income as targeted.	$PERP = \frac{Actual\ Revenue}{Budget\ Revenue} X100\%$ Adapted from Mahmudi (2019) and Mahsun (2013)	Ratio
Village Expenditure Efficiency Ratio (PERB): The village government's ability to establish budget savings.	$PERB = \frac{Actual\ Expenditure}{Budget\ Expenditure} X100\%$ Adapted from Mahmudi (2019)	Ratio

vice versa. For the Lagrange multiplier test, if the significance value of the test results is <0.05, the model suitable for testing the hypothesis is the random effect model and vice versa. Finally, if the results of the Hausman test < 0.05, the model suitable for testing the hypothesis is the fixed effect model. The selection of panel data regression models to determine hypothesis testing using common effects, fixed effects, or random effects is seen in Figure 1.

This study tested the classical assumptions, notably multicollinearity, heteroscedasticity, and autocorrelation. The normality test was not used in this study because the number of samples considered to have met the criteria of the central limit theorem (Cooper & Schindler, 2013). The multicollinearity test uses a correlation standard of > 0.9 (Ekananda, 2015). If the correlation value > 0.9 indicates multicollinearity in the model. However, Gujarati and Porter (2009) and Widarjono (2016) explain that the model is still the best linear unbiased estimator but has a large variance and covariance. Thus, the violation of the multicollinearity assumption has no significant implications for the model. The heteroscedasticity test uses white's heteroscedasticity-consistent variance and standard error to correct heteroscedasticity. Therefore the results of this test are one unit with the results of hypothesis testing (Ghozali & Ratmono, 2017). The autocorrelation test uses the Durbin-Watson standard of 1.54-2.46 (Winarno, 2015). If the calculated Durbin-Watson value is in that range, then the model does not experience autocorrelation.

RESULT AND DISCUSSION

This study describes descriptive statistics containing minimum, maximum, mean, and standard deviation values. Table 3 shows descriptive statistics of the study variables. The table demonstrates that there are 99 observations in this study. Based on these 99 observations, the lowest rural welfare was found in Papua Province in 2017, and the highest was in the Special Region of Yogyakarta Province in 2019. On average, the welfare of people in all provinces reached 70%. This condition depicts that, on average, all provinces have high social welfare. In terms of the allocation of village funds, apparently, in 2017, West Java Province had the lowest allocation of village funds, while in 2019, East Kalimantan Province received the highest allocation of village funds. On average, the allocation of village funds for all provinces reached 34%. In the context of village potential, it becomes apparent that in 2017 West Sulawesi Province had the lowest village original income, while in 2017, Central Java Province had the highest village original income. On average, the village potential of

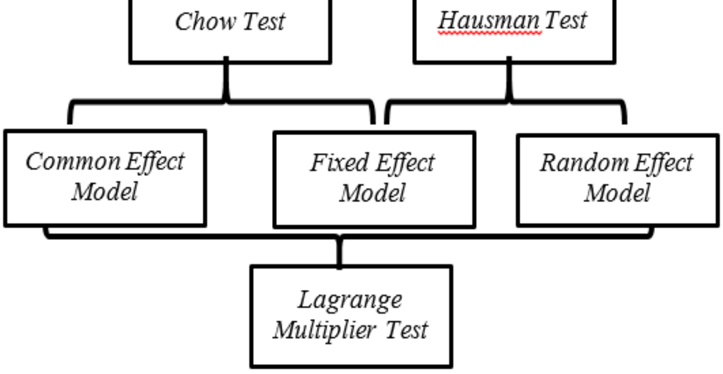

Figure 1. Panel Data Regression Model

Table 3. Descriptive statistics

Variables	Obs.	Min.	Max.	Mean	Std. Dev
Community Welfare	99	59.090	79.990	70.088	3.636
Village Fund Allocation	99	18.488	59.302	34.210	8.096
Village Potential	99	0.001	10.392	1.631	2.578
Village Revenue Effectivity Ratio	99	73.210	156.331	102.037	8.890
Village Expenditure Efficiency Ratio	99	77.434	151.982	99.750	8.527

each province reached 1.6%. This condition reveals that the village potential of all the provinces is still relatively low.

In order to improve the welfare of rural communities, it is necessary to exercise effectiveness in attaining village income and exercise efficiency in village expenditures. In terms of the effectiveness of income achievement, it comes to light that in 2018 Maluku province had the lowest level of village income effectiveness, while West Papua province had the highest in 2017. On average, all provinces have a village income effectiveness level of 102%. In the context of village expenditure efficiency, in 2018, Papua province had the highest efficiency level, while West Papua had the lowest in 2017. The minimum value of the level of spending efficiency indicates the higher the efficiency level, while the maximum value indicates the lower the level of efficiency. The standard deviation of this study shows that the fluctuations in the data are in the average range. This study uses paired test to determine the best model for testing the hypothesis. Pairwise tests were carried out separately for the main and moderating effects. The two main and moderating effect paired test tables are shown in Table 4 and Table 5.

Table 4. Main Effect Paired Test Results

Effect Test	Sig.	Conclusion
Chow test		
Cross-section F	0.000	Fixed Effect
Lagrange Multiplier Test		
Cross-section Breush Pagan	0.000	Random Effect
Hausman test		
Cross-section random	0.036	Fixed Effect

Both Table 4 and Table 5 show the determination test results. The results revealed that the Chow test produces a fixed -effect model for the main and moderating effects. The Lagrange multiplier test produces a random effect model, and the Hausman test produces a fixed-effect model. Therefore, the hypothesis testing for the main effect test and the moderating effect test use the fixed effect model.

Table 5. Paired Test Results Moderating Effect

Effect Test	Sig.	Conclusion
Chow test		
Cross-section F	0.000	Fixed Effect
Lagrange Multiplier Test		
Cross-section Breush Pagan	0.000	Random Effect
Hausman test		
Cross-section random	0.001	Fixed Effect

The results of the multicollinearity test using the correlation between variables are shown in the Appendix. The results of the main effect test indicate that the most significant correlation value occurs at the level of efficiency of village expenditure and the level of effectiveness of village income (0.888 < 0.90). This condition indicates that there is no multicollinearity in the main effects model. For the moderating effect model, the results show that the most significant correlation value occurs in village potential with the interaction between village potential and village fund allocation (0.945 > 0.90). This condition suggests that there is multicollinearity between the two variables. However, the model is still BLUE (Gujarati & Porter, 2009; Widarjono, 2016).

The results of the heteroscedasticity test of this study are integrated with the results of the hypothesis test because it uses white's heteroscedasticity-consistent variance and standard error to correct for heteroscedasticity (Ghozali & Ratmono, 2017). For the autocorrelation test, Table 8 shows that the Durbin-Watson values for the main effect and moderating effects are still in the range of 1.54-2.46, therefore the two models do not experience autocorrelation problems.

There are two hypotheses proposed in this study. H1 is that the allocation of village funds has a positive effect on the community's welfare. Based on the table, it can be seen that the effect of village fund allocation on community welfare has a coefficient of 0.018, a t-statistic of 71.445 and a significance of 0.000 < 0.050. Therefore, the H1 test result discovered that the allocation of village funds had a positive and significant effect on the community's welfare. Thereby, H1 was supported.

Donaldson and Davis (1991) explain that the theory of stewardship assumes actions taken by individuals to fulfill common interests. The village government acts as a steward and the village community as the principal in this context. The village government is assumed to act to meet the community's interests. This action puts forward the principles of village financial management, namely, transparency, accountability, participation, and budget order and discipline. The goal is to achieve a better standard of living for the community. The achievement of this common goal is supported by the utilization of village fund allocation for strategic fields of the village. The village strategic sector considers the economic empowerment of rural communities to galvanize the economic capacity of rural communities. People who have economic capacity have the potential to meet their health and education needs. This

Table 6. Hypothesis Testing Results

Independent Variables	Main Effect Fixed Effect Model Dependent Variable: Community Welfare			Moderating Effect Fixed Effect Model Dependent Variable: Community Welfare		
	β	t-stat.	Sig.	β	t-stat.	Sig.
Const.	71.439	71.445	0.000	72.744	66.577	0.000
Village Fund Allocation	0.018	2.462	0.016	0.024	3.684	0.000
Village Potential				-0.578	-1.890	0.063
Village Potential * Village Fund Allocation				0.009	1.713	0.091
Village Revenue Effectivity Ratio	0.039	2.540	0.013	-0.003	-0.305	0.761
Village Expenditure Efficiency Ratio	-0.060	-2.474	0.016	-0.027	-1.396	0.167
R^2		97.8%			98.1%	
Adjusted R^2		96.6%			96.9%	
F-Stat.		81.284			86.407	
Sig.		0.000			0.000	
Durbin-Watson Stat.		1.695			1.862	
Obs.		99			99	

condition is a matter of great concern for the government.

Hoesada (2019) affirms that village strategic planning comes from hamlet planning. District/city governments use village strategic planning for district/city planning. This condition demonstrates that strategic planning between village and district/city governments is an integrated unit. Furthermore, Hoesada (2019) explains that the district government's program for rural area development within a district is through a regulation of the regent/mayor integrated with a cross-district rural area development program at the provincial level characterized by top-down and bottom-up planning. This unit corresponds to the utilization of village fund allocation derived from the district/city government in improving the community's welfare.

Village governments that are more open to community feedback and suggestions will improve the community's welfare. This condition leads to transparency and, therefore, will increase public trust in the village government (Wardani & Utami, 2020). The community who can access information to planning, implementation, monitoring, and accountability for the village fund's financial management demonstrates that the village government has implemented transparency satisfactorily. Thus, the allocation of village funds to improve community welfare needs to be supported by transparency to provide the community with access. Permatasari et *al.* (2021) explain that the village government's installation and display of banners is a form of financial transparency in village management. In doing so, the community will not question the village government's activities within one year. The installation and display of banners made it easier for the community to oversee the implementation of village development.

H2 of this study is the potential of villages to strengthen the influence of village fund allocation on community welfare. Based on the table, it can be seen that the interaction effect of village fund allocation and village potential on community welfare has a coefficient of 0.009, a t-statistic of 1.713, and a significance of 0.091 > 0.050. Therefore, the results of the H2 test found that village potential could not strengthen the influence of village fund allocation on community welfare; hence H2 was not supported.

This study discovered that village potential in all villages had not been fully utilized to the extent of its abilities. This condition is proven by the average level of village potential achievement reaching only about 1.6%. Such circumstance shows that the village government has not utilized the village's potential derived from business activities, village assets, self-help results, community participation, and another village's original income in supporting community welfare. Village governments in all provinces are still dependent on village fund allocation, which accounts for 34% of the composition of village income. Optimal utilization of village potential can allow villages to absorb labor, increase community income, reduce poverty levels, and even reduce disparities between rural communities. This finding is consistent with the findings of Khamdun, Sukomo, and Akbar (2019), upon which utilization of village potential through the use of village assets has not been executed optimally due to the absence of specific guidance to the village government, whose task is to assist the village communities.

This study examines the differences in the effectiveness of village income and efficiency of village expenditures related to community welfare to provide a more comprehensive study. Mahmudi (2019) explained that the results of the calculation of the level of effectiveness were classified into five categories, namely, very effective (>100%), effective (100%), moderately effective (90%-99%), less effective (75-89%), and not effective (< 75%), while the level of efficiency of spending for spending <100% indicates the existence of spending efficiency. The test results of differences in the effectiveness of village income and efficiency of village expenditures related to community welfare are shown in Table 7.

Table 7. Results of Different Tests of the Effectiveness of Village Income on Community Welfare

Source	df	Mean Square	F
Corrected Model	4	36.591	2.992 (0.023)
Intercept	1	53,869.470	4,404.555 (0.000)
Village Revenue Effectivity	4	36.591	2.992 (0.023)
Error	94	12.230	
Total	99		
Corrected Total	98		
R^2		11.3%	
Adjusted R^2		7.5%	

Notes: Levene's test of equity of error variances is 0.732 > 5% indicating that the homogeneity assumption is met.

The results found differences in the category of the effectiveness of village income on the community's welfare as indicated by the significance value of the test results was 0.023 < 0.05. This study finds that, on average, the village government manages the budget effectively, as shown in Table 8, and the community welfare is high (72.10). Village income managed effectively by the village government shows that the results of village income management have met the expected

Table 8. Mean Community Welfare Value by Category Village Revenue Effectiveness

Village Revenue Effectivity Category	Mean of Community Welfare
Ineffective	68.87
Less effective	60.06
Effective enough	70.41
Effective	72.10
Very effective	69.80

goals. Mahmudi (2015) explains that effectiveness is related to the relationship between the expected results and the actual results. The implication of the effectiveness of village income management is to increase the community's welfare. Thus, the village government is capable of mobilizing the realization of village income against the village income budget to improve community welfare.

Table 9 shows the test results of differences in the efficiency of village spending on community welfare. The results found no difference in the category of village expenditure efficiency on the welfare of the community as indicated by the significance value of the test results was 0.194 > 0.05. This study found that the average value of the village government in managing spending did not differ in influencing the welfare of the community, as shown in Table 10. The average values were 69.58 and 70.54. Mahmudi (2015) explains that an organization, program, or activity is said to be efficient if it can produce specific outputs with the lowest possible input. In this study, the village government has not

Table 9. The Result of the Difference of Spending Efficiency on Public Welfare

Source	df	Mean Square	F
Corrected Model	1	22.500	1.714 (0.194)
Intercept	1	484,755.814	36,922.328 (0.000)
Village Expenditure Efficiency	1	22.500	1.714 (0.194)
Error	97	13.129	
Total	99		
Corrected Total	98		
R^2		1.7%	
Adjusted R^2		0.7%	

Notes: Levene's test of equity of error variances is 0.604 > 5% indicating that the homogeneity assumption is met.

Table 10. Mean Community Welfare Value based on Village Expenditure Efficiency Category

Village Expenditure Effciency Category	Mean of Community Welfare
Inefficient	69.58
Efficient	70.54

been able to produce expenditure efficiency in meeting the community's welfare, thus indicating a waste of the budget. The inefficiency of village government expenditure shows that expenditure planning and control is not well planned and controlled so that it can harm the welfare of the community. For this reason, the village government needs to have a comprehensive understanding of the concept of expenditure as a village government strategy for managing the budget better.

CONCLUSION

This study found that the allocation of village funds had a positive and significant effect on community welfare. The allocation of village funds that are used optimally by the village government with various strategic programs will positively impact the development of a prosperous community. However, this study did not find the potential of villages in strengthening the effect of village fund allocation on community welfare. This condition occurs because the potential contribution of the village in supporting village income has not been appropriately managed. The description is expected to contribute to theory, policy, and methodology.

This study contributes to the development of stewardship theory in village organizations. Referring to this theory, the village government acts honestly, responsibly, transparently, and has the integrity to meet the community's interests. This condition is evidenced by the use of village fund allocations to support the village community's welfare. However, the village government cannot take advantage of the village's potential. This condition needs to be a concern of the local government to improve the quality of human resources in formulating various strategic programs that can provide important benefits for the village government in managing the potential of their village.

The village government needs to carry out various evaluations related to managing village potential specifically. This needs to be considered because, on average, for all provinces in Indonesia, the village's potential can only contribute 1,6% of the village income budget during 2017-2019. The government needs to evaluate the village's vision and mission to describe the village in the future. Hoesada (2019) explains that the description of the ideal village is (1) a description of the industry portfolio owned by a village government, (2) the backbone industry of the village, a competitive industry, (3) the pattern of using village natural resources or the participation of the whole community. In village economic activities, the total wealth of village natural resources and the status of damage/sustainability of village natural resources, (4) the composition of the educated and uneducated workforce in the village, (5) accumulation of village capital, accumulation of foreign investment outside the village into the village, (6) accumulation of knowledge and village social relations, as well as (7) vision of the ideals of village spatial planning, ecosystems, democratic climate, and peace, ideals of health and lifestyle of rural communities, village per capita income, village job opportunities, a gross domestic product of the village, etc. Thus, the village government needs to implement a village utilization pattern to improve the community welfare.

This study contributes to the methodology to address the gaps in the previous literature by formulating a measurement of the variable allocation of village funds and village potential. The measurement of these two variables refers to Mahmudi (2019), specifically for local government organizations. Furthermore, this study adapts to the context of village organizations. Thus, the measurement of these two variables is expected to bridge the gaps in the previous literature. The limitations of this study are related to the unavailability of village government financial data, not specifically for each village but in general for all village finances at the provincial level. Access to data for all village governments in Indonesia was minimal.

The implementation of this study was deemed important to address the gaps in previous studies that still use secondary data. For that reason, further studies need to consider the ease of obtaining data. This study provides conclusions that are only limited to proxy measurements in explaining variables. Future studies can use other proxies to explain variables to improve the results of data analysis.

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APPENDICES

Appendix 1. Result of Multicollinearity Test (Correlation) Main Effect

Variables	Community Welfare	Village Fund Allocation	Village Revenue Effectivity Ratio	Village Expenditure Efficiency Ratio
Community Welfare	1.000			
Village Fund Allocation	0.358	1.000		
Village Revenue Effectivity Ratio	-0.127	-0.069	1.000	
Village Expenditure Efficiency Ratio	-0.253	-0.152	0.888	1.000

Appendix 2. Result of Multicollinearity Test (Correlation) Moderating Effect

Variables	Community Welfare	Village Fund Allocation	Village Potential	Village Potential* Village Fund Allocation	Village Revenue Effectivity Ratio	Village Expenditure Efficiency Ratio
Community Welfare	1.000					
Village Fund Allocation	0.358	1.000				
Village Potential	0.313	-0.067	1.000			
Village Potential * Village Fund Allocation	0.355	0.113	0.945	1.000		
Village Revenue Effectivity Ratio	-0.127	-0.069	-0.165	-0.222	1.000	
Village Expenditure Efficiency Ratio	-0.253	-0.152	-0.137	-0.201	0.888	1.000


Village
Fund