

## An Analysis of the Determinant Factors of Poverty and Inequality in Indonesia and Their Implications for Village Development Planning

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### Abstract

*This study aims to analyze the key determinant factors influencing poverty and inequality, as well as to examine their implications for village development planning. The research adopts a mixed-method approach by integrating robust regression-based quantitative analysis with qualitative literature studies derived from secondary sources. The findings identify five factors that significantly affect inequality: economic growth, the open unemployment rate, the human development index (HDI), the proportion of informal agricultural workers, and fiscal transfers from the central government to regional administrations. Furthermore, six determinant factors are found to influence poverty: economic growth, inequality, the open unemployment rate, the human development index, the proportion of informal agricultural workers, and fiscal transfers from the central government to local governments. As a key implication, the study emphasizes the need to prioritize the allocation of village funds toward programs that directly address the root causes of poverty and inequality. This strategic focus is essential to ensure that rural development planning contributes effectively to social equity and sustainable economic growth at the village level.*

## Introduction

Poverty remains a major challenge in national development. Although in several decades Indonesia has been able to reduce the poverty rate, Indonesia's vulnerability to poverty is still relatively high at around 30%, especially in rural areas (Maharani et al., 2024; Akib et al., 2025). Poverty in Indonesia is quite dynamic, each poor household can fall into poverty from one period to the next due to conditions such as a pandemic, economic crisis or crop failure (Purwono et al., 2021)

Although various intervention programs have been implemented by the government, poverty disparities between regions are still high, especially in provinces with strong rural characteristics such as Papua, East Nusa Tenggara, and West Sulawesi. Solissa et al. (2025) said that, this condition shows that the problem of poverty cannot be solved with an economic approach alone, but requires a deep understanding of the various social, educational, and structural factors that surround it.

In addition to poverty, development inequality is evident in Indonesia (Asra, 2000; Booth, 2000). The western region of Indonesia contributes 80% of the country's economy, while the eastern region of Indonesia only contributes 20%. Development inequality between regions is strongly influenced by the imbalance in the management of resources and factors of production which affects the poverty rate (Fan, 1997).

In addition to inequality between regions, development inequality between villages and cities is still one of the development problems in Indonesia (Azim et al., 2022; Sugiastuti & Pratama,

2022; Ratnadila, 2018). One indication is the disparity in *poverty rate* and *gini-based household expenditure* between villages and cities which is still high (Mookodi, 2021).

As of March 2024, the poverty rate in rural areas was 11.79%, and in urban areas it was 7.09%. The decline in rural poverty is relatively slow, in 10 years (2014-2024) the decline in rural poverty is around 2.38%. The average percentage of poor people in rural areas during the 2017-2024 period was 12.60%, while in urban areas it was 7.08%. This calculation shows that rural poverty is consistently 1.8 times higher than urban poverty, with the highest disparity occurring in 2020.

Align with research from Imantria (2024), the poverty rate in Indonesia is measured based on people's purchasing power, so it cannot see poverty from a multidimensional perspective. Singh & Chudasama (2020) said that, the implication is that various poverty alleviation policies have not fully touched holistically on the root causes of poverty. Inequality in Indonesia is the most fundamental economic problem caused by the non-optimal distribution of resources and economic instability that led to the crisis (Harahap, 2024; Michael & Sulistyaningrum, 2022; Tarique & Malik, 2025; Huda & Supriyadi, 2025).

Inequality is also exacerbated by limited access to basic infrastructure, education, and health services, as well as high dependence on the agricultural sector which is vulnerable to economic shocks (Mendoza, 2011; Osabuohien et al., 2022; Oluoko-Odingo, 2011). To address inequality and poverty in rural areas, the Government of Indonesia issued Law No. 6/2014 on Villages, which among other things regulates the Village Fund transfer mechanism. The Village Fund program is part of a fiscal policy that gives authority to village governments to manage public spending.

This budget allocation is expected to stimulate local economic activity and have a significant economic impact, thereby contributing to reducing rural-urban inequality and reducing rural poverty (Fitriani, 2025; Tiwari et al., 2013). During the 2015-2024 period, the government has allocated IDR 610 trillion in village funds (Ministry of Villages and Disadvantaged Regions Development, 2025). However, the effectiveness of rural poverty reduction shows a worrying trend, with the rate of decline slowing from 0.49% (2010-2015) to only 0.16% (2015-2024).

In fact, villages in Indonesia have enormous economic potential as a buffer for national food security (Nugroho et al., 2022; Neilson, J., & Wright, 2017) a local wisdom-based tourism destination (Irfan & Suryani, 2017) and a center for creative industry development (Flew, 2010). With 74,961 villages spread across Indonesia, optimizing this potential should contribute significantly to reducing poverty and inequality in Indonesia. The Village Fund policy is considered to have the same results as the transfer fund scheme during the New Order era, where fiscal decentralization is feared to increase inequality between regions even at the village level (Shen et al., 2012).

Based on study Handoyo et al. (2021) and Hartojo et al. (2022), concluded that the rural economic development stimulus has not had a significant effect on reducing village poverty. However, the existence of village funds is considered to significantly reduce poverty, but has no impact on income inequality. Another study also concluded that village funds have no direct implications in reducing unemployment or poverty in the village (Indraningsih et al., 2021).

So far, the use of village funds in village development planning has not been optimized. Based on the results of a study conducted by Park & Wang (2010) and Sewell et al. (2019), states that the development of facilities and infrastructure and community empowerment programs has increased, but there are still problems in equity and utilization so that village funds are not directly correlated in poverty alleviation. Another study conducted by Putra(2022) concluded that although village funds have been allocated on the right track, the reduction in poverty as a

result of the use of village funds can be said to have not been achieved (Galasso & Ravallion, 2005).

Because most village governments, especially in underdeveloped and developing areas, have difficulty translating community aspirations into development programs, low financial literacy in the planning and budgeting process causes village governments to prefer programs that have high absorption and facilitate the accountability process rather than accommodating programs that benefit the community (Ebirim et al., 2024). In principle, village funds are fiscal transfers from the central government to the regions.

Theoretically, the existence of transfer funds is believed to encourage public spending by local governments and can ultimately contribute to reducing income inequality and poverty (Johansson, 2016; Joseph et al., 2007). Nonetheless, theoretically, the relationship between fiscal transfers (or fiscal decentralization) and inequality and poverty is considered insignificant (Sacchi & Salotti, 2014). However, empirically, the relationship between fiscal decentralization, including village fund transfer schemes and income inequality has been widely studied, albeit yielding mixed findings (Fan et al., 2020).

Some studies suggest that transfers can help reduce inequality (Guillaud et al., 2020). However, other studies show that transfers widen inequality (Giangregorio, 2024). There are some studies that explain that transfer funds affect inequality in certain variables or regions (Kim & Samudro, 2017). Based on several previous studies, it can be concluded that village funds can be an instrument to reduce poverty and inequality or even widen inequality.

One important factor in optimizing the use of village funds is the planning aspect of village development (Sarifuddin et al., 2022; Suheryadi et al., 2020). Village development as an integral part of the national development strategy requires a policy foundation based on empirical data and analysis. However, the quality of development planning at the village level remains a challenge. Many villages do not have sufficient technical capacity to accurately analyze local problems, so that programs and budgets are often not aligned with the real needs of the poor.

This has an impact on the effective use of village funds and the limited impact of programs on poverty reduction. Based on various problems, this research question consists of 1). What are the factors that significantly influence the poverty rate and inequality among provinces in Indonesia? 2). What are the implications of the results of the analysis of factors affecting poverty and inequality in designing targeted rural development strategies? The findings of this study are expected to serve as a basis for designing village development policies that are more contextualized, evidence-based, and have a direct impact on improving the welfare of rural communities in a sustainable manner.

## Methods

This research uses a mixed method approach, which is research that combines two forms of quantitative and qualitative approaches to analyze a phenomenon (Rachmad et al., 2024). The quantitative approach is used to analyze the determinants of poverty and inequality, while the qualitative approach is used to analyze the implications for village development planning. The quantitative analysis uses secondary data from various sources with the level of analysis at the provincial level. The secondary data used comes from the Central Bureau of Statistics for the period 2022-2024. Of all provinces, Jakarta is excluded because it has no villages and has different economic characteristics from other provinces in Indonesia. The regression analysis model of transfer funds on inequality is adopted from the model developed by Wirandana & Khoirunurrofik (2024). Meanwhile, the regression model between transfer funds and poverty

uses the model developed by (Putra, 2017). The quantitative analysis model is explained as follows:

### **Inequality Model**

$$\text{Ineq} = \partial_0 + \partial_1 \text{Growth} + \partial_2 \text{Unemp} + \partial_3 \text{HDI} + \partial_4 \text{LPA} + \partial_5 \text{Share Agri} + \partial_6 \text{Share Ind} + \partial_7 \text{Log (TF)} + \varepsilon$$

### **Poverty Model**

$$\text{Poverty} = y_0 + y_1 \text{Growth} + y_2 \text{Ineq} + y_3 \text{Unemp} + y_4 \text{HDI} + y_5 \text{LPA} + y_6 \text{Share Agr} + y_7 \text{Log (TF)} + \varepsilon$$

Description:

- Growth : economic growth (percentage)
- Ineq : Inequality (index)
- Unemp : Unemployment rate (Percentage)
- HDI : Human Development Index (Index)
- LPA : Productivity of the workforce in the agricultural sector (Nominal)
- Agri : Contribution of the agricultural sector to the economic development (Percentage)
- Share : Contribution of the industrial sector to the economic development (Percentage)
- Log TF : Fiscal transfer in the form of general allocation fund and specific allocation fund (Rupiah)

Data analysis was conducted using Robust S-Method Regression and MM Method. Regression analysis is one of the tools in statistical analysis that utilizes the relationship between two or more variables. The goal is to make an estimate of the dependent variable using the independent variable. The next data analysis is qualitative data analysis using secondary data to observe a phenomenon. The data used in qualitative data analysis are relevant secondary data including village development plan documents, village fund development priority documents, annual work plan documents and various study documents relevant to village development planning. Qualitative data analysis is the process of processing and interpreting data that is not in the form of numbers (non-numeric data) to understand the meaning, concepts and characteristics of a phenomenon. This process involves collecting, reducing, presenting and interpreting data to produce meaningful findings (Muthmainna & Siroj, 2025). Qualitative data analysis is a continuation of the results of quantitative data analysis to interpret the findings and relate them to the preparation of village development planning.

## **Results and Discussion**

### **Factors Affecting Poverty and Inequality**

#### ***Analysis Description***

Poverty in Indonesia remains a major challenge in the context of national development. Indeed, various government intervention programs have been launched to reduce the gap between rural and urban communities (Satterthwaite & Tacoli, 2014). One indicator that reflects this inequality is the disparity in poverty levels that occurs consistently from year to year. The comparison of rural and urban poverty rates illustrates the existence of development inequality in villages and cities. The rural-urban poverty rate ratio is almost 50%, but has managed to fall from year to year.

Table 1. Village-City Poverty Percentage Comparison Year 2018 – 2024

2018		2019		2020		2021		2022		2023*		2024	
Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
13,10	6,89	12,60	6,56	13,20	7,88	12,53	7,60	12,36	7,53	12,22	7,29	11,34	6,66

Source: BPS, 2025

\*year 2023 is taken from semester 1 data

The table illustrates the development of poverty percentages in rural and urban areas in Indonesia from 2018 to 2024. The data shows a consistent disparity between rural and urban poverty rates, with poverty rates in rural areas significantly higher than those in urban areas. Rural poverty is slowly decreasing year by year. In 2018, rural poverty stood at 13.1%, significantly decreasing to 11.34% by 2024. Despite fluctuations during this period, this trend of inequality will persist until 2024, when the percentage of poverty in villages will reach 11.34%, while in cities it will only be 6.66%. In addition to poverty, the portrait of socioeconomic inequality can also be seen through the income inequality indicator or *Gini Ratio*. The following graph shows a comparison of the Gini Ratio between provinces in Indonesia in 2022 to 2024. It can be seen that several provinces, such as the Special Region of Yogyakarta (DIY), West Java, and Gorontalo have consistently recorded high levels of inequality above the national average. Meanwhile, provinces such as North Kalimantan, Bangka Belitung Islands, and Maluku recorded relatively low inequality.

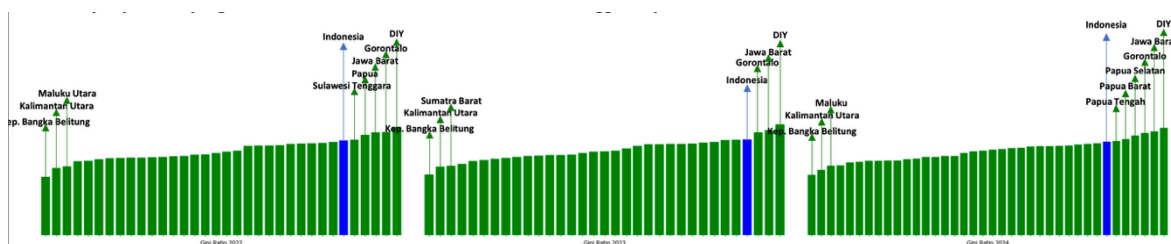


Figure 1. Comparison of Gini Ratio by Province in Indonesia in 2022-2024 Researcher's Data, 2025

The graph shows the inequality of people's income per province. In 2022, the level of inequality of the Indonesian population (Gini Ratio) was 0.384, There are 5 provinces that have a provincial Gini Ratio value greater than the National Gini Ratio including DI Yogyakarta, Gorontalo, West Java, Papua, and Southeast Sulawesi, while the provinces with the lowest level of inequality are Bangka Belitung Islands, North Kalimantan and North Maluku. In 2023, Indonesia's Gini Ratio value was 0.388, a slight increase compared to 2022. The provinces of DI Yogyakarta, West Java and Gorontalo consistently have larger provincial Gini Ratio values when compared to the National Gini Ratio while the provinces of Bangka Belitung and North Kalimantan have lower Gini Ratio values than the National Gini Ratio value.

Furthermore, in 2024, the value of Indonesia's gini ratio fell to 0.378. Interestingly, the provinces of DI Yogyakarta, West Java and Gorontalo still have higher levels of inequality when compared to the national scale, as well as the two expansion provinces (South Papua and Central Papua) and West Papua. The provinces of Bangka Belitung and North Kalimantan consistently have lower Gini Ratio values than the national Gini Ratio value from 2022 to 2024. Poverty and inequality have real implications for the development of the human development index. The HDI reflects the success of development in the dimensions of education, health, and decent living standards, which are important foundations in creating a productive and prosperous society. Deneulin & Shahani (2009), emphasizes that development is not just economic growth alone, but the expansion of substantive freedoms that enable people to lead



Rank	Name Of Province	Average Idm Score 2024	Province Idm Status 2024
13	Gorontalo	0.7541	Advanced
14	South Sulawesi	0.7513	Advanced
15	Central Java	0.7485	Advanced
16	Jambi	0.7450	Advanced
17	Lampung	0.7380	Advanced
18	Riau Islands	0.7360	Advanced
19	Central Sulawesi	0.7281	Advanced
20	Central Kalimantan	0.7181	Advanced
21	Bengkulu	0.7129	Advanced
22	South Sumatra	0.7033	Developing
23	Banten	0.6930	Developing
24	Southeast Sulawesi	0.6884	Developing
25	North Kalimantan	0.6876	Developing
26	Aceh	0.6848	Developing
27	Maluku	0.6800	Developing
28	West Sulawesi	0.6670	Developing
29	North Sumatra	0.6436	Developing
30	East Nusa Tenggara	0.6324	Developing
31	North Maluku	0.6159	Developing
32	Papua	0.5795	Underdeveloped
33	West Papua	0.5541	Underdeveloped
34	Southwest Papua	0.5228	Underdeveloped
35	South Papua	0.5158	Underdeveloped
36	Central Papua	0.4628	Very Underdeveloped
37	Papua Mountains	0.4312	Very Underdeveloped

Source: Ministry of Villages and PPDT, 2025

Based on the IDM value per province, there are two provinces that have Independent status, 19 provinces have developed status, 10 provinces have developing status, 4 provinces are underdeveloped and two provinces are very underdeveloped. Most provinces in Indonesia have an IDM status of "advanced", which means that the majority of villages in Indonesia have an advanced village status. IDM status also indicates the level of village progress in terms of the economy, social conditions and its ability to manage the environment. Of course, village progress is inseparable from various supporting factors both external and internal to the village and often these factors have different influences in each region.

### ***Regression Analysis***

The analysis of factors affecting poverty and inequality was analyzed using Robust S-Method regression. Before testing the significance of the parameters, an assumption test was conducted on the model to determine the consistency of the parameters. Assumption tests are conducted with three types of tests, namely identical (Glesjser Test), independent (Durbin Watson Test) and normal distribution (Anderson-Darling Test). Based on the results of the assumption test to determine mukticollinearity, various relevant parameters are obtained in the inequality and poverty model as described in the following figure:

**Model 1**

$$\text{Ineq} = -0.001 - 0.004\text{Growth} - 0.004\text{Unemp} + 0.004\text{HDI} + 0.003\text{LPA} - 0.10\text{ShareAgri} + 0.120\text{ShareInd} - 0.013\log(\text{TF})$$

Coefficients:

	Estimate	Std. Error	t value	Pr(> t )	
(Intercept)	-0.0008426	0.1364709	-0.006	0.995087	
Growth	-0.0042791	0.0012478	-3.429	0.000897	***
Unemp	-0.0039442	0.0030149	-1.308	0.193942	
HDI	0.0036260	0.0010985	3.301	0.001359	**
LPA	0.0033279	0.0004432	7.509	3.21e-11	***
ShareAgri	-0.0098156	0.0485617	-0.202	0.840250	
ShareInd	0.1195322	0.0429137	2.785	0.006454	**
log(TF/1000)	-0.0129571	0.0093225	-1.390	0.167818	

VIF

	Unemp	HDI	LPA	ShareAgri	ShareInd
Growth	1.4050	1.5054	1.4190	1.3730	1.7089
log(TF)					2.2139

log(TF)  
1.3320

Test Assumptions	P-Value	Conclusion
Identical	0.6483	Meets identical assumptions
Independent	0.652	Meets independent assumptions
Normal Distribution	0.8402	Meets normal assumptions

Figure 3. Results of Mukticollinearity Test on Regression Model Independent Variables (Model 1 =Inequality)

Source: Researcher's Data Processing Results (2025)

Based on the VIF (Variance Inflation Factor) value after variable reduction, all independent variables contained in model 1 have no detected cases of multicollinearity, as evidenced by VIF values smaller than 10. Based on the test results, the linear regression model has met the IIDN (Identical, Independent, Normal Distribution) assumption. At the next stage, modeling will still be carried out using robust regression.

**Model 2**

$$\text{Poverty} = 61.471 - 0.235\text{Growth} + 22.083\text{Ineq} - 0.428\text{Unemp} - 0.792\text{HDI} + 0.220\text{LPA} - 4.302\text{ShareAgri} + 1.143\log(\text{TF})$$

Coefficients:

	Estimate	Std. Error	t value	Pr(> t )	
(Intercept)	61.47106	13.48804	4.577	1.42e-05	***
Growth	-0.23460	0.11473	-2.061	0.0421	*
Ineq	22.08315	9.85598	2.241	0.0274	*
Unemp	-0.42777	0.28878	-1.481	0.1418	
HDI	-0.79196	0.11235	-7.049	2.86e-10	***
LPA	0.22022	0.05004	4.401	2.82e-05	***
ShareAgri	-4.30203	4.43542	-0.970	0.3345	
log(TF/1000)	-1.14313	0.85744	-1.333	0.1857	

VIF

	Ineq	Unemp	HDI	LPA
Growth	1.1898	1.5518	1.3836	1.4868
ShareAgri				1.7539

ShareAgri  
1.4281

log(TF)  
1.1288

Test Assumptions	P-Value	Conclusion
Identical	0.06464	Meets identical assumptions
Independent	0.34	Meets independent assumptions
Normal Distribution	0.139	Meets normal assumptions

Figure 4. Results of Mukticollinearity Test on Regression Model Free Variables (Model 2 =Poverty)

Source: Results of Research Data Processing (2025)

Based on the VIF (Variance Inflation Factor) value after variable reduction, all independent variables contained in model 2 have no detected cases of multicollinearity, as evidenced by VIF values smaller than 10. Based on the test results, the linear regression model has met the IIDN (Identical, Independent, Normal Distribution) assumption. At the next stage, modeling will still be carried out using robust regression. Based on the model test results, it shows that model 1 can describe the variance of the inequality variable based on its independent variables by 78.5%. While in model 2 the variance of poverty variables based on the independent variables is 96.38%. Therefore, based on the good value of the model obtained, the analysis model chosen is the Robust S-Method Model. Furthermore, to determine the significance of the independent variables on the dependent variable, the parameter significance test is carried out with the following results:

Parameter	Coefficient	P-Value	Conclusion
Growth	-0.004	2.9e-07	Significant
Unemp	0.006	0.013	Significant
HDI	0.002	0.012	Significant
LPA	0.002	1.6e-11	Significant
ShareAgri	0.046	0.184	Not Significant
ShareInd	-0.001	0.972	Not Significant
Log(TF)	0.021	0.002	Significant

Many independent variables influence the Gini Ratio (INEQ) variable in 2022-2024, including:

- GRDP (Growth) Rate
- Open Unemployment Rate (Unemp)
- Human Development Index (HDI)
- Informal Agricultural Worker Level (LPA), and
- Fiscal Transfers in the form of DAU and DAK (TF)

Parameter	Coefficient	P-Value	Conclusion
Growth	0.109	0.093	Significant
Ineq	26.005	1.54e-08	Significant
Unemp	-0.603	1.80e-05	Significant
HDI	-1.450	<2e-16	Significant
LPA	0.067	0.008	Significant
ShareAgri	-0.011	0.996	Not Significant
Log(TF)	0.938	0.013	Significant

Many independent variables influence the Poverty Population variable in 2022-2024, including:

- GRDP (Growth) Rate
- Gini Ratio (Ineq)
- Open Unemployment Rate (Unemp)
- Human Development Index (HDI)
- Informal Agricultural Worker Level (LPA), and
- Fiscal Transfers in the form of DAU and DAK (TF)

Figure 5. Parameter Significance Test

Source: Researcher Data Processing Results, 2025

Figure 5 shows that variables such as economic growth rate (*Growth*), open unemployment rate (*Unemp*), Human Development Index (*HDI*) and proportion of informal workers in agriculture (*LPA*) have a significant influence on inequality. Interestingly, *Growth* has a significant negative coefficient (-0.004), indicating that the higher the economic growth rate, the lower the level of inequality. This finding is in line with the Kuznets Curve hypothesis, which states that in the early stages of economic development, inequality will increase, but after reaching a certain point, growth will actually decrease inequality. Furthermore, the Human Development Index (*HDI*), which has a positive and significant coefficient, confirms that higher quality of life dimensions lead to better income distribution, although the effect depends on equal access to basic services.

Open unemployment (*Unemp*) and informal agricultural employment (*LPA*) have a positive and significant effect on inequality, indicating that non-inclusive labor market conditions worsen income distribution. Fiscal transfer (*Log(TF)*) has a positive effect, which may indicate that without a proper distribution mechanism, fiscal transfer funds have not been effective in reducing inequality. Furthermore, (*ShareAgri*) and (*ShareInd*) are insignificant, suggesting that the proportion of agriculture and industry in the economic structure does not directly affect income inequality. The factors that influence poverty levels are more related to structural aspects. Economic growth (*Growth*) has a positive coefficient, which is counter-intuitive, but can be interpreted as a form of non-inclusive growth, where some groups remain left behind despite economic growth. Inequality (*Ineq*) has a high and significant coefficient, reinforcing the theory that unequal income distribution exacerbates absolute poverty. Unemployment

(Unemp) and HDI show negative coefficients, consistent with the theory that access to employment and improved quality of life can reduce poverty.

LPA and Fiscal Transfer (Log(TF)) show a positive effect on poverty, indicating that reliance on the informal sector and fiscal transfers have not been effective in reducing poverty without institutional strengthening and targeted programs. ShareAgri is again insignificant, indicating that the size of the agricultural sector's contribution to GRDP is not enough to explain fluctuations in poverty directly. These findings provide a comprehensive picture that efforts to reduce inequality and poverty require different approaches. Inequality is more sensitive to economic structure and productive sector dynamics, while poverty is more influenced by social conditions, education, and redistribution policies. Therefore, a simultaneous and integrated policy design is required. Investment in education, improving the quality of the workforce, and the sustainability of fiscal transfers based on regional performance need to be improved. At the same time, economic transformation towards a more inclusive and high value-added industrial sector must be encouraged so that economic growth can be enjoyed by all levels of society.

### Implications of Inequality and Poverty Determinants for Village Development Planning

Planning is an important aspect of village development that is often overlooked. Planning is generally conducted in a participatory manner through village consultative meetings (Musyawarah Desa) and technocratically through village officials. Village development planning is aligned with national development planning. Based on the technocratic draft of RPJMN 2025-2029, the policy direction of village development is focused on becoming the center of national economic growth with the target of increasing independent villages. There are five policy directions in realizing independent and sustainable rural development, namely the fulfillment and distribution of basic services, increasing competitiveness and productivity of the rural economy, strengthening community resilience, managing the rural environment and managing governance capacity. In designing village development programs, the village government uses guidelines based on the Regulation of the Minister of Villages and Disadvantaged Regions Number 2 of 2024. The focus of the use of village funds is detailed in the following table:

Table 3. Focus of Village Fund Utilization Year 2025

Aspect	Program Focus
Economy	Direct Cash Assistance
	Development of village potential and excellence
	Village cash labor-intensive program
Environment	Food security
	Climate change adaptation
Health	Provision of basic health services
	Stunting control and reduction
Digitalization	Technology utilization to accelerate Smart Village implementation
Government	Government operations and management support

Source: Ministry of Villages, PDT (2025)

The priority use of village funds is focused on accelerating poverty alleviation in villages and forming villages into new economic centers. Of course, the preparation of village development planning must be accompanied by an in-depth study and understanding of the problems that develop in the community, so that village development planning does not only fulfill administrative aspects. Development planning is related to the realized budget. The amount of

budget realization in a particular program shows the priority and urgency of the program to solve development problems. The following data presents the budget allocation per field of village development expenditure from 2016 - 2024.

Table 4. Realization of Village Expenditure 2016-2024

Field of Village Expenditure*	Village Expenditure Realization (Billion Rupiah)								
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Village Government	25.871	27.729	29.628	35.601	39.975	43.353	42.759	48.514	51.778
Village Development	44.697	55.784	53.875	60.650	41.889	43.649	43.43008	44.196	5.080
Community Development	3.928	4.931	5.441	8.866	6.336	6.890	6.158	7.680	9.664
Community Empowement	5.095	8163	9.290	7.985	5.285	7.525	7.898	11.976	14.447
Unexpected field	1.207	0,474	0,514	0,592	28.431	23.555	22.175	11.950	9.901
Total	80.800	0,474	98.750	113.696	121.917	124.998	121.998	124.316	136.870

Source: BPS, 2025

Expenditure in the field of village development has the largest portion each year in the village government budget structure. This indicates that infrastructure development is a priority program for villages in Indonesia. On the other hand, the community empowerment sector actually gets a fairly small portion of the overall budget realization. Because most village governments, especially in underdeveloped and developing areas, have difficulty translating community aspirations into development programs, low financial literacy in the planning and budgeting process causes village governments to prefer programs that have high absorption and facilitate the accountability process rather than accommodating programs that benefit the community. Furthermore, based on the results of the identification of village development programs conducted, it is known that village development planning is allocated to the fields of community production, market access and trade, infrastructure development, social assistance and BUMDES business capital. The details of the village programs are presented in the following table:

Table 5. Mapping of Village Program Planning in Economic Dimension

Economic Dimension	Village Fund Activities
Community Production Diversity	Fisheries assistance Appropriate technology training for inland fisheries/fishermen Increased production of food crops Increase in livestock production Appropriate technology training for agriculture/livestock Development of MSME infrastructure and cooperatives

<b>Economic Dimension</b>	<b>Village Fund Activities</b>
	Procurement of appropriate technology for economic development Village-level small industry development Formation/training of productive economic business groups Maintenance and development of village-owned tourism infrastructure Village-level tourism development Other tourism sub-sector activities
Access Trade Center and Market	Maintenance of the village market/village-owned stalls Construction/rehabilitation of village markets/village-owned stalls
Access to Banking and Credit	Strengthening Cooperatives/KUD/MSME Field study of Cooperative/KUD/MSME management Formation of Village Owned Enterprises (BUMDes) BUMDes management training
Territory Openness	Maintenance and construction of village transportation infrastructure Maintenance and construction of village roads Maintenance and construction of residential neighborhood roads Maintenance and construction of farm roads Maintenance and construction of village-owned bridges Maintenance and construction of village road infrastructure
Social Assistance	Village Direct Cash Assistance (BLT). Food/basic food assistance
Equity Capital	BUMDes equity participation

Source: Yusuf & Khoirunurrofik, (2022)

The dimensions of the economy that become programs in development planning mostly refer to strengthening the local economy. Local economic strengthening programs are expected to be a catalyst in accelerating development. However, in reality, economic programs have not been fully optimal in reducing poverty and inequality. Community economic empowerment programs have increased every year, but have not fully produced a significant impact. Existing programs still have problems in equity and utilization so that programs from village funds are not directly correlated in poverty alleviation. Another study also concluded that although village funds have been allocated on the right track, poverty reduction due to the use of village funds can be said to have not been achieved. Although there are various approaches to program planning, the majority of village governments direct budget allocations into physical infrastructure development programs. Based on the results of the analysis of factors affecting inequality and poverty, there are areas that require intervention so that targeted programs can contribute to reducing poverty and inequality. The results of the factor test- factors that can reduce poverty while reducing inequality are education (average years of schooling), Human Development Index, informal agricultural workers and the contribution of the agricultural sector to GRDP. The recommended types of programs

Table 6. Program Type Recommendations

<b>Significant Determinant Variable</b>	<b>Relevant Village Development Programs</b>
Economic Growth	Micro, Small and Medium Enterprises (MSMEs) Incubation Program based on local potential; Entrepreneurship and business management training; Development of Village-Owned Enterprises (BUMDes) based on production and distribution.
Open Unemployment (Unemp)	Village Cash Labor Intensive Program (PKTD) for basic infrastructure; Village job exchanges and vocational job skills training; Village partnership with local private sector in job creation
Human Development Index (HDI)	Village scholarships for primary-middle education and skills courses; Village health clinics: basic health, nutrition, and mother-child services; Digital literacy and financial literacy programs for village communities
Informal Agricultural Workers (LPA)	Training on modern agriculture and commodity diversification; Access to financing and farm business insurance for smallholders; Establishment of farmer cooperatives and village food barns
Fiscal Transfer (Log(TF))	Participatory village development planning meetings based on poverty data; Citizen-based village budget monitoring (transparency and accountability); Integration of Village Fund with village social protection programs (e.g. Village BLT based on integrated data)
Inequality (Gini Ratio / Ineq)	Affirmative programs for extreme poor households (production equipment subsidies, market access); Development of basic services in remote hamlets (clean water, electricity, village roads); Asset structuring and redistribution of village cultivated land for vulnerable groups.
Poverty	Village habitable houses for poor families; Women and disabled empowerment programs in the village economy; Conditional direct assistance based on education and health for poor families.

Source: researcher's data processing results (2025)

In addition to the types of programs, the planning mechanism is the most crucial aspect in preparing village development planning. Most planning at the village level often relies solely on technical-administrative aspects or even based on the interests of the village elite, so that aspects of participation such as coordination, feedback mechanisms, and strengthening planning capacity are often ignored by village governments. An important implication of the findings of this study is that the planning of village development programs needs to be based on scientific aspects, based on adequate data and directly on solving the root of the problem.

There needs to be awareness from the village government to start using village data and analyzing the factors that influence a problem so that the program is based on empirical data and can solve problems in the community.

## Conclusion

Poverty and inequality are still the main problems in development, especially at the village level. Village fund interventions provided to villages throughout Indonesia have also not been able to significantly reduce poverty and inequality. Based on the results of quantitative data analysis, there are five factors that influence inequality, namely economic growth, unemployment, human development index, the level of informal agricultural workers and fiscal transfers from the center to the regions. Furthermore, there are six determinants that affect poverty, namely economic growth, inequality, open unemployment rate, human development index, level of informal agricultural workers and fiscal transfers from central to regional governments. The implication of the results of identifying the determinants of poverty and inequality is that there is a need to prioritize the use of village funds for programs that directly solve the root causes of poverty and inequality. In addition, village programs are dominated by infrastructure development, which is not fully correlated with poverty alleviation.

## Suggestions

Recommendations based on the results of this study include: Villages need to compile village statistics that can be used in development planning, build awareness of data-based planning, analyze village-level development problems to realize targeted programs, especially in reducing poverty and inequality.

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