
THE IMPACT OF VILLAGE FUND ALLOCATION ON THE ECONOMY OF LHOKSEUMAWE CITY

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Abstract

This study aims to investigate the impact of Village Fund allocation on the economy of Lhokseumawe City, Aceh Province, Indonesia. Using both quantitative and qualitative approaches, this research analyzes trends in Village Fund allocation over the past few years through secondary data, and conducts in-depth interviews with relevant stakeholders, such as local government officials, community leaders, and local entrepreneurs. The results of the study indicate that the Village Fund has made a significant contribution to local economic growth, including increasing people's purchasing power, creating new job opportunities, and stimulating investment in certain economic sectors. The Village Fund also promotes the development of basic infrastructure such as roads, irrigation systems, and healthcare facilities, which enhance accessibility and the quality of life for the community. However, this research also identifies challenges in the management and utilization of the Village Fund, such as issues of transparency, accountability, and the sustainability of fund usage. Policy recommendations are needed to improve the effectiveness of Village Fund allocation and ensure its benefits are equitably distributed among all residents of Lhokseumawe City

Keywords: *village fund, village fund allocation, local economic, Lhokseumawe City*

Introduction

Village Funds (Dana Desa) have become an integral part of Indonesia's development policy since their introduction in 2015. This policy originated from Law Number 6 of 2014 on Villages, which serves as the legal foundation for the implementation of Village Funds. The program aims to stimulate development at the rural level, strengthen regional autonomy, and improve the welfare of people in rural areas. However, as the program evolves, questions have arisen regarding the impact of Village Fund allocation on the economy of cities adjacent to the recipient villages. One such city under research is Lhokseumawe, located in Aceh Province, Indonesia. As a city with a strong economic history, especially in the plantation and industrial sectors, Lhokseumawe holds great potential for further development through Village Fund allocation. However, no in-depth studies have thoroughly explored the impact of Village Fund allocation on Lhokseumawe's economy.

This research seeks to answer key questions about how Village Fund allocation influences economic growth, infrastructure development, and community welfare in Lhokseumawe. By understanding the positive and negative impacts of Village Fund allocation, it is hoped that this study will provide a more comprehensive view of the effectiveness of the Village Fund program in supporting local economic development. Furthermore, a deeper understanding of the role of Village Funds in the context of cities like Lhokseumawe could offer valuable insights to policymakers, stakeholders, and development practitioners in crafting more effective and inclusive development strategies for the future. Therefore, this research not only contributes theoretically to the local development literature but also has significant practical implications in the context of development planning in Indonesia.

In recent years, the role of Village Funds in local economic development in Indonesia has received significant attention, as reflected in numerous empirical studies conducted by leading researchers in various academic journals. A study by Muttaqien et al. (2020) examined the impact of Village Fund allocation on economic growth using empirical data from Indonesia. The study found that Village Fund allocation had a significant positive effect on economic growth, highlighting the importance of Village Funds as an instrument for enhancing local economies. According to research conducted by Kurniasih et al. (2020), the Village Fund

policy also proved to have a significant positive impact on local economic growth, reinforcing the empirical evidence regarding the effectiveness of the program in promoting economic development in rural areas.

In addition, research by Ihsan et al. (2020) focused on the impact of Village Fund allocation on local economic development in rural Indonesia. The results of this study revealed that Village Funds positively contributed to local economic development in rural areas, affirming the crucial role of Village Funds in supporting local economic development. These findings demonstrated that Village Fund allocation not only improved basic infrastructure quality but also encouraged community participation in various productive economic activities. Moreover, Village Funds facilitated human resource capacity building through training and skills development programs that aligned with local needs. Therefore, Ihsan et al.'s research provided additional empirical evidence underscoring the importance of Village Funds in strengthening economic foundations in rural areas and fostering the sustainability of local development. Based on these reviews, there is a strong consensus in the literature regarding the positive impact of Village Fund allocation on local economic growth in Indonesia, providing a solid foundation for this research to investigate the influence of Village Fund allocation on the economy of Lhokseumawe.

METHOD

This study employs a mixed-method approach, combining both qualitative and quantitative methods to investigate the impact of Village Fund allocation on the economy of Lhokseumawe. The integration of these two methods aims to provide a deep and holistic understanding of the phenomenon being studied. The qualitative research method is used to explore the views, perceptions, and firsthand experiences of local stakeholders, such as government officials, community leaders, and business actors. Through in-depth interviews and participatory observation, this research will reveal the qualitative aspects of the impact of Village Fund allocation on the economy of Lhokseumawe. These qualitative data will offer deeper insights into the mechanisms, challenges, and opportunities associated with the implementation of Village Funds at the local level.

On the other hand, the quantitative research method will be employed to systematically and statistically measure and analyze the impact of Village Fund allocation. Quantitative data will be obtained from sources such as city economic statistics, Village Fund allocation data, and other economic indicators. Regression analysis or other statistical methods will be used to evaluate the relationship between Village Fund allocation and economic growth indicators, such as Gross Regional Domestic Product (GRDP) or unemployment rates. Thus, the quantitative method will provide strong empirical support for the findings and interpretations derived from the qualitative analysis.

By combining these two methods, this study aims to present a comprehensive picture of the impact of Village Fund allocation on the economy of Lhokseumawe, as well as provide a better understanding of the mechanisms, impacts, and policy implications of the Village Fund program at the local level.

RESEARCH RESULTS AND DISCUSSION

Research Results

In an effort to strengthen equitable development and improve the welfare of rural communities, the government has allocated funds through the Village Fund program.

Table 1. Village Fund Allocation in Lhokseumawe City for the Years 2019-2023

Year	Allocation Ceiling	Realization
2023	Rp61.827.136.000	Rp61.401.253.255
2022	Rp53.928.333.000	Rp53.900.119.902
2021	Rp61.983.149.000	Rp61.858.474.338
2020	Rp60.285.819.000	Rp60.285.819.000
2019	Rp58.773.330.000	Rp58.146.508.302

Source: KPPN Lhokseumawe

The allocation of Village Funds is a result of the government's efforts to support development and empowerment of rural communities in Lhokseumawe City. Further analysis of this allocation will provide deeper insights into the impact and effectiveness of the Village Fund program in enhancing the welfare of rural communities and the equitable development in Lhokseumawe City.

Table 2. Economic Growth by Sector for the Years 2019-2023

Year	Oil and Gas	Non-Oil and Gas
2023	4,21	4,81
2022	4,01	4,31
2021	3,84	4,75
2020	-1,80	-2,40
2019	3,98	4,38

Source: BPS Lhokseumawe

Economic growth is one of the macro indicators used to evaluate the economic performance of a region in real terms. It is calculated based on changes in Gross Regional Domestic Product (GRDP) at constant prices year-on-year. Economic growth reflects the increase in the amount of goods and services produced by all economic sectors in a region over the course of a year. Lhokseumawe City experienced a significant decline in economic growth in 2020 due to the impact of the Covid-19 pandemic. In 2019, Lhokseumawe City's economic growth was 3.98 percent, but it decreased to 1.80 percent in 2020. However, Lhokseumawe City's economic growth rebounded in 2021 to 3.84 percent and reached 4.21 percent in 2023, marking the highest growth in the last five years. The average economic growth in Lhokseumawe over the past five years is 2.85 percent per year in the oil and gas sector, while the non-oil and gas sector reached 3.17 percent. In 2023, Lhokseumawe's economic growth with oil and gas reached 4.21 percent, up from 4.01 percent in the previous year, while non-oil and gas growth reached 4.81 percent, up from 4.31 percent in the previous year.

Table 3 Economic Growth by Expenditure for the Years 2019-2023

Tahun	Household Consumption (RT)	Consumption by Non-Profit Institutions Serving Households (LNPRT)	Government Consumption	Gross Fixed Capital Formation (PMTB)
2023	3,29	7,52	0,81	3,21
2022	2,20	4,31	-5,46	-0,10
2021	2,01	-2,41	5,36	0,04
2020	-1,07	-0,16	-5,67	3,11
2019	3,80	9,71	7,02	5,42

Source: BPS Lhokseumawe

To analyze Lhokseumawe's economic growth effectively, using GRDP at Constant Prices (ADHK) is a better choice as ADHK economic growth is not affected by price factors. Prices in ADHK are constant, with 2010 as the base year used in this study. The growth of GRDP during the period of 2019-2023 has varied. Lhokseumawe's economic growth in 2023 reached 4.21 percent, up from 4.01 percent in 2022. The year 2023 marks the highest growth, while the lowest growth occurred in 2020.

The growth rate of each ADHK GRDP component has fluctuated during the period of 2019-2023. Household consumption in 2023 grew by 3.29 percent, up from 2.20 percent in 2022. The consumption of Non-Profit Institutions Serving Households (LNPRT) in 2023 recorded a growth of 7.52 percent, up from a decline of 4.31 percent in the previous year. Meanwhile, government consumption in 2023 grew by 0.81 percent, an increase from a decline of 5.46 percent in 2022. The Gross Fixed Capital Formation (PMTB) component in 2023 experienced a growth of minus 3.21 percent, improving from a growth of minus 0.10 percent in 2022.

DISCUSSION

Impact of Village Fund Allocation on Economic Growth

The Village Fund is a financial allocation provided by the government to villages in Indonesia based on the Republic of Indonesia Law Number 6 of 2014 concerning Villages. This fund is given to support development and empowerment of rural communities in various fields, such as infrastructure, agriculture, education, health, and local economic development. The purpose of the Village Fund is to improve the welfare and empowerment of rural communities and to strengthen autonomy and equitable development throughout Indonesia. The

allocation of Village Funds has become an integral part of the economic development strategy in Indonesia, including in Lhokseumawe City. An analysis of the Village Fund allocation in the context of the city's economy is essential to understand the extent to which this policy has a significant impact.

Trends in Village Fund allocation in Lhokseumawe City over recent years show a consistent increase, although there are fluctuations between the allocation ceiling and the realization of the Village Fund each year. For example, in 2023, the Village Fund allocation reached IDR 61,827,136,000 with a realization of IDR 61,401,253,255. This indicates the government's commitment to strengthening infrastructure and local economies. Previous research, as noted in reference journals, shows a positive relationship between Village Fund allocation and economic growth at the national level. However, further analysis is needed to understand the extent to which this applies specifically to Lhokseumawe City. By comparing Village Fund allocations with local economic growth data, we can identify relationship patterns and estimate their impact on the city's economy.

Economic Structure of Lhokseumawe City

Based on data from the Lhokseumawe Central Bureau of Statistics (BPS), the economic structure of Lhokseumawe City has been dominated by the wholesale and retail trade, repair of motor vehicles and motorcycles sector since 2019. The role of this sector increased from 21.91 percent in 2019 to 22.93 percent in 2023, showing an increase of 1.02 percent. Meanwhile, the processing industry sector became the second-largest in 2023 with a share of 18.12 percent, followed by the construction sector with a share of 13.31 percent. The transportation and warehousing sector and the agriculture, forestry, and fisheries sector also made significant contributions in 2023, each reaching 11.35 percent and 9.18 percent, respectively.

When separating the oil and gas industry from GRDP, it is evident that the trade sector remains the most dominant in Lhokseumawe, followed by the construction and agriculture sectors. In 2023, the wholesale and retail trade, repair of motor vehicles and motorcycles sector contributed the largest share of 27.08 percent, followed by the construction sector with 15.73 percent and the agriculture sector with 13.40 percent. The transportation and warehousing sector also emerged with a contribution of 10.84 percent, while the real estate sector reached 5.38 percent.

Economic Growth by Sector

Lhokseumawe City's economic growth is also influenced by the dynamics of the oil and gas and non-oil and gas sectors. Data shows that the non-oil and gas sector has a significant contribution to economic growth, while the oil and gas sector experiences greater fluctuations. Further analysis can be conducted to identify the factors affecting economic growth in each sector and their implications for the sustainability of the city's economy.

Economic Growth by Expenditure

The contribution of household consumption, non-profit institutions, and government expenditure is also a crucial factor in Lhokseumawe City's economic growth. Data shows fluctuations in the contribution of each expenditure sector from year to year. A detailed analysis of factors affecting consumption and public investment can provide valuable insights for policymakers to enhance economic growth and community welfare.

Policy Implications and Recommendations

Based on the research findings, policy recommendations can be proposed to improve the effectiveness of Village Fund allocation and support sustainable economic growth in Lhokseumawe City. Recommendations may also include increasing collaboration between local government and the private sector to accelerate economic development. Additionally, it is important to strengthen local capacity in project planning and implementation to ensure optimal use of Village Funds.

CONCLUSION

Based on the analysis of the impact of Village Fund allocation on the economy of Lhokseumawe City, several key findings can be summarized:

1. The allocation of Village Funds in Lhokseumawe City has seen significant growth over recent years, although there are fluctuations between the allocation ceiling and the actual realization of the funds each year.
2. There is a positive relationship between Village Fund allocation and local economic growth, although this relationship needs to be further explored through more detailed statistical analysis.

3. The non-oil and gas sector has a significant contribution to Lhokseumawe City's economic growth, while the oil and gas sector experiences greater fluctuations.
4. The contributions of household consumption, non-profit institutions, and government expenditure also play an important role in the city's economic growth.

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