Volume 3, issue 1, April 2026

ASHA PUBLISHING

JOURNAL OF SOCIAL SCIENCES AND ECONOMICS

E-ISSN: 3047-5507
Journal of Social Science and Economics (JOSSE)
https://journal.ashapublishing.co.id/index.php/josse/index

Political Economy of Village Fund and Socioeconomic Transformation of Communities in South Buton Regency

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ABSTRACT

This study examines the political economy of village fund implementation and its effects on the socioeconomic transformation of communities in South Buton Regency, Southeast Sulawesi Province, Indonesia. Village funds, disbursed under Law No. 6 of 2014 concerning Villages, represent the most significant transfer of fiscal resources to the village level in Indonesian history, yet their transformative impact is mediated by local political economy dynamics that remain poorly understood. Using a qualitative case study approach with in-depth interviews, focus group discussions, and document analysis, this research investigates how political economy factors, including elite capture, power relations, participatory governance, and inter-governmental coordination, shape the allocation and outcomes of village funds across six sub-districts in South Buton Regency. The findings reveal that village fund outcomes are significantly determined by the political economy of local governance: villages with stronger participatory planning processes, active village representative councils, and transparent financial management achieved substantially better socioeconomic outcomes than those where village funds were captured by local elites or dominated by the village head with limited accountability. Despite these political economy constraints, the data show measurable improvements in poverty reduction, infrastructure development, and small business growth across the regency between 2015 and 2023. The study contributes to the political economy of decentralization literature and offers practical recommendations for strengthening participatory governance mechanisms to maximize the socioeconomic transformation potential of village funds in island and coastal communities such as those in South Buton.

Keywords: village fund, political economy, socioeconomic transformation, participatory governance

INTRODUCTION

Indonesia's village fund program, established under Law No. 6 of 2014 on Villages and implemented from 2015 onward, constitutes one of the most ambitious fiscal decentralization experiments in the country's history. By channeling significant central government funds directly to the approximately 74,000 villages across Indonesia, the program aims to accelerate rural development, reduce poverty, and strengthen grassroots democracy. Nationally, village fund disbursements have grown from IDR 20.7 trillion in 2015 to over IDR 70 trillion annually in recent years, representing a substantial and growing commitment of public resources to village-level governance and development.

However, the translation of this fiscal commitment into meaningful socioeconomic transformation is neither automatic nor uniform. The outcomes of village fund implementation are fundamentally shaped by political economy dynamics at the local level, including the distribution of power between village government institutions and community

groups, the presence or absence of elite capture, the quality of participatory planning processes, and the strength of accountability and oversight mechanisms. These political economy factors mediate the relationship between village fund allocations and development outcomes in ways that aggregate national data cannot reveal.

South Buton Regency, established as a separate administrative unit in 2007 and located on the southeastern coast of Buton Island in Southeast Sulawesi Province, presents a particularly instructive case for examining the political economy of village fund implementation. The regency encompasses six sub-districts and 70 villages, the majority of which are small coastal and island communities characterized by economies based on fishing, seaweed cultivation, and small-scale trade. These communities exhibit significant internal differentiation in terms of social organization, traditional governance structures, and integration into formal bureaucratic processes, creating variation in political economy dynamics that make comparative analysis within the regency both feasible and analytically valuable.

Previous research on village fund implementation in Indonesia has addressed national-level patterns of allocation and spending (Mustaking et al., 2023), the impact of village funds on poverty reduction (Sa'diyah et al., 2025), and governance challenges including corruption and elite capture (Istifazhuddin & Mardiyanta, 2025). However, there is a relative scarcity of empirically grounded political economy analyses of village fund implementation in island and coastal regencies of Eastern Indonesia, where institutional conditions, community social structures, and development challenges differ significantly from those in Java-centric studies that dominate the existing literature.

This study addresses this gap by asking: How do political economy dynamics shape the allocation and utilization of village funds in South Buton Regency? What is the relationship between political economy factors and socioeconomic transformation outcomes at the village level? And what institutional arrangements are associated with more equitable and effective village fund outcomes? By addressing these questions through a qualitative case study combining interviews, focus group discussions, and secondary data analysis, the study aims to generate contextually grounded insights that can inform both academic debates on fiscal decentralization and practical policy efforts to improve village fund governance in island and coastal communities.

The political economy framework used in this as the analysis of the interaction between political and economic processes in social settings, with particular attention to how power relationships shape resource allocation, institutional performance, and developmental outcomes (Kalanta, 2026; Legg & Roberts, 2021). Applied to the village fund context, this framework directs attention to the interests and strategies of different actors in village governance, the formal and informal rules that structure their interactions, and the ways in which power asymmetries produce systematic patterns of inclusion and exclusion in village fund decision-making and benefit distribution (Elder, 2022).

The significance of this study extends beyond academic literature. South Buton Regency is emblematic of a broader category of island and coastal regencies in Eastern Indonesia where village fund programs represent a critical vehicle for closing the development gap between peripheral communities and more prosperous regions. Understanding how political economy dynamics constrain or enable village fund effectiveness in such settings is essential for designing governance reforms that can unlock the transformative potential of this program for some of Indonesia's most marginalized communities.

METHODS

This study employed a qualitative case study research design, which is appropriate for investigating complex, context-dependent political economy dynamics that cannot be adequately captured by quantitative methods alone. The case study approach enables an in-depth, multi-perspective examination of how village fund governance operates in practice across different village contexts within South Buton Regency, while also allowing for systematic comparison across cases to identify the political economy factors associated with different levels of socioeconomic transformation outcomes.

The research was conducted in South Buton Regency, Southeast Sulawesi Province, Indonesia, across all six of its sub-districts: Batauga, Sampolawa, Lapandewa, Siompu, Siompu Barat, and Kadatua. Within each sub-district, two villages were selected as primary research sites through purposive sampling: one village with relatively strong village fund governance and socioeconomic outcomes and one village with weaker governance and outcomes, as assessed through preliminary analysis of government financial reports and development indicator data. This purposive selection strategy was designed to maximize analytical variation and enable comparative insights into how political economy factors shape outcomes across different governance quality levels.

A total of 36 informants participated in the study. These comprised: twelve village heads (kepala desa) and village secretaries; six members of village representative councils (BPD); six members of village community empowerment groups (LPMD); six community members representing diverse occupational and demographic backgrounds; four sub-district officials from each sub-district supervisory office (kecamatan); and two officials from the South Buton Regency Local Government covering village administration and community empowerment. Data were collected through three techniques: (1) in-depth semi-structured interviews with all 36 informants; (2) four focus group discussions, one per selected village cluster, bringing together community members and village officials; and (3) document analysis of village fund planning documents, village budgets (APBDes), financial realization reports, and regional development data.

Data were analyzed using thematic analysis informed by the political economy framework, with themes identified both deductively from the framework and inductively from the data. The analysis focused on three analytical dimensions: the political economy of allocation (who decides and how); the political economy of utilization (whose interests are served by spending decisions); and the political economy of outcomes (how power relations mediate the distribution of village fund benefits). Quantitative secondary data from the South Buton Regency Statistics Agency (BPS) and the Ministry of Villages was used to contextualize and triangulate the qualitative findings. Ethical protocols included informed consent, anonymization of informant identities, and community validation of preliminary findings.

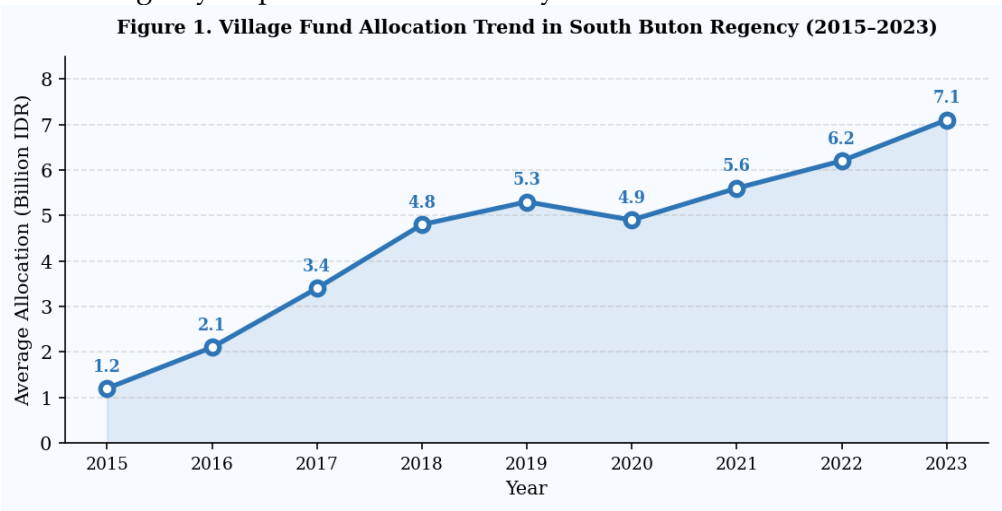
RESULT AND DISCUSSION

Results

The research findings are organized around three analytical dimensions of the political economy framework: allocation, utilization, and outcomes. Data visualizations are presented below to illustrate key patterns identified in the secondary data analysis.

Figure 1 shows the trend in average village fund allocation per village in South Buton Regency from 2015 to 2023. Allocations grew consistently from IDR 1.2 billion in 2015 to IDR

7.1 billion in 2023, with a slight dip in 2020 due to COVID-19 related reallocation of village funds to emergency response and social safety net activities.



Source: Ministry of Villages PDTT and South Buton Regency BPS, 2026

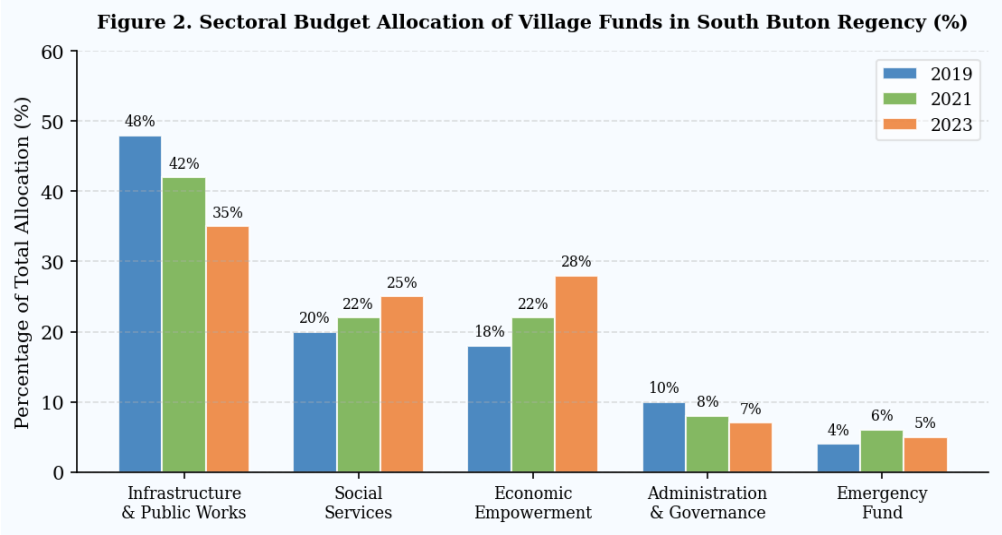
Table 1 presents the village fund absorption rates in South Buton Regency from 2019 to 2023. A positive trend in absorption efficiency is evident, with the rate rising from 92.5% in 2019 to 97.2% in 2023, indicating improving financial management capacity at the village level.

Table 1. Village Fund Allocation and Absorption Rate, South Buton Regency (2019–2023)

Year	Allocation (Billion IDR)	Realization (Billion IDR)	Absorption Rate (%)	Remaining Balance (Billion IDR)
2019	47.8	44.2	92.5	3.6
2020	44.1	39.8	90.2	4.3
2021	50.4	47.9	95.0	2.5
2022	55.8	53.1	95.2	2.7
2023	63.9	62.1	97.2	1.8

Source: South Buton Regency Financial Management Office (BPKD), 2026

Figure 2 illustrates the shift in sectoral allocation of village funds between 2019 and 2023. A notable trend is the gradual decline in the proportion allocated to physical infrastructure (from 48% to 35%) alongside a corresponding increase in economic empowerment spending (from 18% to 28%) and social services (from 20% to 25%). This sectoral shift reflects both national policy guidance and the results of stronger community participation in village planning, which has increasingly directed funds toward livelihood improvement and social service programs.



Source: South Buton Regency Village Fund Realization Reports, 2019–2023

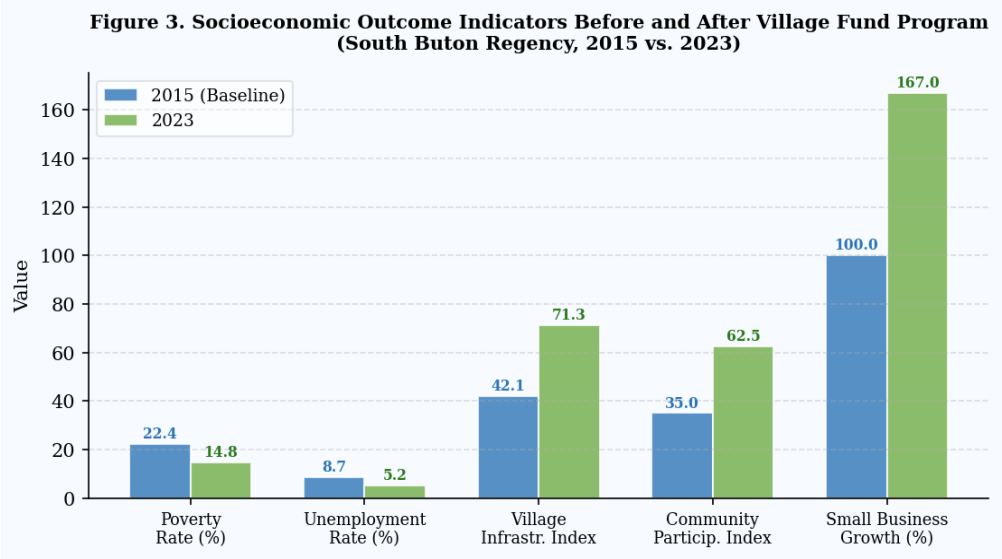
Table 2 presents village fund per capita allocations and poverty rate changes across the six sub-districts of South Buton Regency between 2019 and 2023. All sub-districts recorded poverty reductions, with the largest reductions in Kadatua (9.1 percentage points) and Siompu (8.6 percentage points), which also had the highest per capita village fund allocations. This correlation suggests a positive relationship between village fund intensity and poverty reduction, though the political economy analysis reveals that the quality of governance mediates this relationship significantly.

Table 2. Village Fund Per Capita and Poverty Rate Changes by Sub-District, South Buton Regency

Sub-District	Village Fund per Capita (IDR '000)	Poverty Rate 2019 (%)	Poverty Rate 2023 (%)	Reduction (pp)
Batauga	1,842	18.3	12.1	6.2
Sampolawa	2,105	21.7	14.4	7.3
Lapandewa	1,674	24.2	17.8	6.4
Siompu	2,340	26.8	18.2	8.6
Siompu Barat	2,218	25.4	17.1	8.3
Kadatua	2,456	28.1	19.0	9.1
Average	2,106	24.1	16.4	7.7

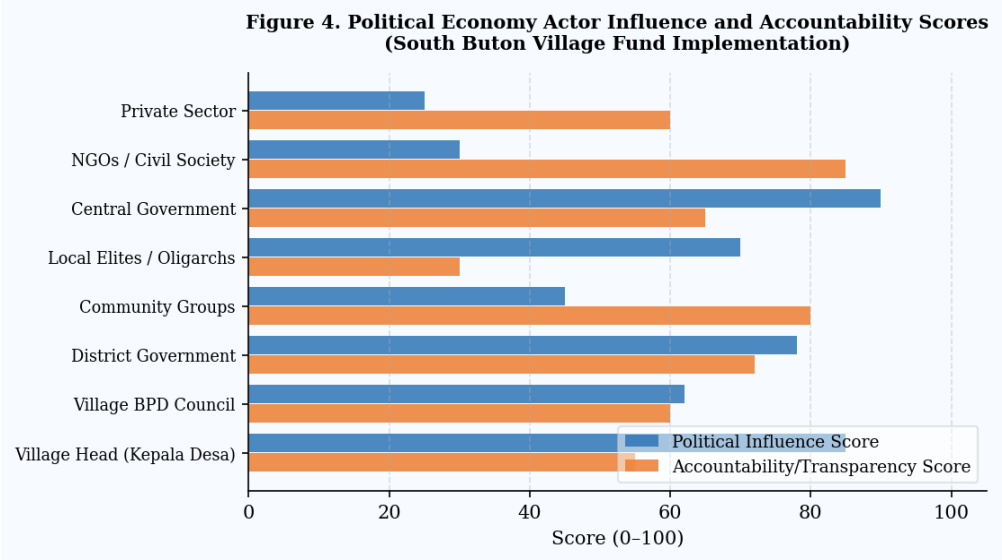
Source: South Buton Regency BPS and Village Fund Reporting System (OMSPAN), 2026

Figure 3 provides a comparative view of key socioeconomic outcome indicators for South Buton Regency at baseline (2015) and in 2023. The data show meaningful improvements across multiple dimensions: the poverty rate declined from 22.4% to 14.8%, the unemployment rate fell from 8.7% to 5.2%, and the village infrastructure index rose from 42.1 to 71.3. Community participation index and small business growth also recorded significant positive movement over the period.



Source: South Buton Regency BPS, PODES Survey, and Primary Data, 2026

Figure 4 presents the political economy actor influence and accountability scores derived from the qualitative interview and document analysis data. The central government and village heads emerged as the actors with the highest political influence scores, while NGOs and community groups recorded the highest accountability and transparency scores. Notably, local elites showed a high influence score combined with a low accountability score, indicating the presence of capture dynamics that the political economy analysis explores in greater depth.



Source: Primary Data (Author's Assessment Framework), 2026

Discussion

The political economy analysis of village fund implementation in South Buton Regency reveals a complex interplay between formal governance institutions and informal power dynamics that fundamentally shapes both the process and outcomes of village fund utilization. Three dominant political economy patterns emerged from the data: elite-dominated governance, participatory governance, and contested governance, each associated with distinct patterns of fund allocation and socioeconomic outcomes (Mdee et al., 2021).

Elite-dominated governance was most evident in villages where the village head held strong traditional authority and faced limited formal or informal accountability mechanisms. In these villages, village fund allocation decisions were concentrated in the hands of the village head and a small circle of trusted associates, with village planning meetings (musyawarah desa) serving as procedural formalities rather than genuine deliberative forums. The village budgets in these cases showed disproportionate allocations to infrastructure projects that provided private benefits to elite networks, such as road construction contracts awarded to companies connected to village officials. These findings align withErku et al., (2025) and Subhan et al., (2022), who documented similar patterns of village fund capture in Java and Sulawesi, and with the broader political economy literature on fiscal decentralization in low-capacity governance contexts (Amable & Palombarini, 2023; Varkkey et al., 2018).

Participatory governance patterns were observed in villages where BPD councils were active and independent, community empowerment groups (LPMD) maintained regular engagement with village planning processes, and civil society organizations played a monitoring role. In these villages, village fund allocations more closely reflected community-identified priorities, with higher proportions directed to economic empowerment programs and social services. Village financial reports were more regularly published and accessible to community members, and informants reported greater confidence in the fairness and accountability of village fund management. These villages also recorded the largest improvements in poverty and infrastructure indicators, consistent with the argument that participatory governance strengthens the pro-poor orientation and developmental effectiveness of village fund spending (Putri et al., 2020; Risnawati, 2025).

The sectoral shift toward economic empowerment identified in the aggregate data (Figure 2) is particularly significant from a political economy perspective. Several informants noted that this shift was driven by cumulative pressure from community members in village planning forums, who increasingly advocated for programs that directly supported household income generation, such as seaweed cultivation support, fishing equipment grants, and small business seed capital, over physical infrastructure projects whose benefits were more easily captured by contractors with elite connections (Syahza et al., 2025). This dynamic illustrates how even incremental improvements in participatory governance can produce meaningful shifts in spending patterns over time, supporting the argument that the political economy of village fund implementation is not static but can be gradually reformed through sustained institutional capacity building and civic engagement (Elder, 2022; Niu, 2022).

The correlation between village funds per capita allocations and poverty reduction rates shown in Table 2 must be interpreted with caution considering the political economy analysis. The sub-districts with the highest per capita allocations and the largest poverty reductions, Kadatua and Siompu, also exhibited stronger participatory governance characteristics and more active BPD councils than the lower-performing sub-districts. This suggests that the positive relationship between village fund intensity and poverty outcomes is conditioned by governance quality, and that increasing allocations without addressing political economy constraints will yield diminishing developmental returns. This finding reinforces the policy recommendation that governance strengthening must accompany, rather than follow, increases in village fund disbursements.

CONCLUSION

This study has demonstrated that the socioeconomic transformation potential of village funds in South Buton Regency is substantially mediated by local political economy dynamics. While aggregate data confirm meaningful improvements in poverty, infrastructure, unemployment, and community economic participation between 2015 and 2023, the qualitative political economy analysis reveals that these outcomes are distributed unequally across villages and are systematically associated with the quality of participatory governance, the independence and capacity of village oversight institutions, and the degree to which local elite capture constrains the pro-poor orientation of spending decisions.

Three key conclusions emerge from the study. First, elite capture remains a significant constraint on village fund effectiveness in South Buton Regency, particularly in villages were village heads exercise strong traditional authority without effective formal or informal accountability mechanisms. Second, villages with stronger participatory governance institutions, characterized by active BPD councils, engaged community empowerment groups, and accessible village financial reporting, achieve better socioeconomic outcomes and exhibit more pro-poor spending patterns. Third, the positive relationship between village fund allocations and poverty reduction is conditioned on governance quality, and increasing allocations without governance reform will produce diminishing developmental returns.

These conclusions carry important policy implications. The Ministry of Villages and South Buton Regency Government should prioritize capacity building for village representative councils (BPD) and community empowerment groups (LPMD) to strengthen participatory governance at the village level. Village financial transparency requirements should be actively enforced, with public disclosure of APBDes and realization reports made a condition for fund disbursement. A village governance quality index should be developed and used to calibrate fund allocations in ways that reward governance improvement. Civil society organizations and local universities should be supported to provide independent monitoring of village fund governance. Finally, culturally adapted participatory planning methodologies that are appropriate for the island and coastal community contexts of South Buton should be developed and mainstreamed in village planning guidance.

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