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Village fund transfers for building home industries: a mixed-methods analysis

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ABSTRACT

Purpose: This study examines the dependence of rural communities on village funds in Malaka Regency, East Nusa Tenggara, and identifies factors influencing rural economic empowerment. It also investigates the moderating role of community-based development in the relationship between village fund allocation and the development of home industries.

Methodology/approach: This study employs a mixed-methods approach by integrating quantitative panel data analysis of 388 village observations from 2019–2022 with qualitative insights derived from field interviews and surveys, in order to comprehensively examine the relationship between village fund allocation, community-based development, and home industry growth.

Findings: The findings indicate that village funds have a positive effect on the development of home industries, while community-based development also contributes positively. However, the moderating effect of community-based development on the relationship between village funds and home industry development is negative. Furthermore, qualitative findings reveal that despite the availability of financial support, limited community participation, low entrepreneurial motivation, and weak managerial capacity hinder the effective utilization of village funds for sustainable home industry development.

Practical and Theoritical contribution/Originality: This study contributes theoretically and practically by highlighting the importance of optimizing village fund allocation to strengthen community empowerment and support household industry development.

Research Limitation: This study highlights the importance of optimizing village fund allocation to strengthen community empowerment and support home industry development, although it is limited to a single region and primarily relies on village budget data.

Keywords: Community-Based Development; Home Industry Development; Mixed Method; Village Funds.

INTRODUCTION

The household industry is one of the drivers of the community's economy. The condition and development of household industry businesses need special attention from the government so that business continuity can be maintained to support community economic activities. The government can implement financing programmes that are directly related to the business activities carried out by the household industry. Sources of financing that can be used to stimulate the development of the household industry need to be explored and given attention in terms of increasing the budget and the accuracy of the budget distribution. Village funds are a form of financial intervention from the government aimed at developing the household industry. However, in general, the use of village funds in Indonesia is more focused on infrastructure development (Barwicka & Milecka, 2021). Without neglecting infrastructure development, the focus on developing home industries should also be important for the government to pay attention to. Therefore, a study on the influence of village funds on the development of home industries is important to conduct (Lewis, 2015).

The development of home industries cannot be separated from the potential of the community in a particular region. The potential of natural and human resources will provide an overview of the dominant livelihoods of the community. The village community in the Malaka Regency, East Nusa Tenggara Province, certainly has livelihoods that are dominated by the exploitation of the potential resources in the Malaka Regency. The livelihoods of the people in Malaka Regency are generally dominated by jobs in the agricultural sector, the livestock sector, the handicraft sector and the small-scale trade sector. The jobs commonly undertaken by rural communities in Malaka Regency are as farmers, livestock farmers, weavers and small-scale traders. People who have jobs in the aforementioned sectors require financial intervention from the government for their businesses so that they can develop their community businesses. Home industries provide a means for the community to earn income that can be used to finance their economic needs. Thus, the government needs to implement appropriate development patterns to drive home industries, particularly at the village level (Rizka Amalia Farentina, 2022).

A micro-level study of government intervention in the development of home industries shows that, in general, each village is associated with a special fund called village funds. Village funds (DD) are funds that are transferred directly from the state budget to village accounts. Village funds can be used to establish Village-Owned Enterprises (BUMDes) to generate income for economic recovery. Village-Owned Enterprises (BUMDes) distribute village funds in the form of working capital, asset purchases, training programmes, savings, and loans. Village funds can be used to support the development of home industries in villages. The accuracy of the allocation of village funds to support economic growth in rural communities needs to be a concern for village governments. Various strategies for utilising village funds can be used to support economic growth in villages. Building infrastructure in various fields, including health, education, agriculture, livestock, trade, and government facilities, has become a general target programmed by village governments. However, an analysis to determine the impact of village funds in infrastructure development on the development of home industries needs to be studied. This study focuses on the review of village funds to support the development of home industries in rural communities (Barwicka & Milecka, 2021).

Limited studies on the development of village funds in Indonesia have been conducted in several previous studies. Despite innovative budget decentralisation strategies, village funds have been criticised for their design and implementation. For example, a previous study focused on the relationship between village funds and environmental quality improvement projects in rural areas. These studies found that environmental quality improvement projects had to compete with other projects such as infrastructure. Other studies point to several potential weaknesses in the design of village funds that could enable corruption, including: 'unclear service assignments, rapidly growing and relatively large budgets, inadequate public financial management procedures, and questionable control and accountability mechanisms' (Lewis, 2015). Village funds also have a positive impact on the growth of the number of Village-Owned Enterprises (BUMDes). However, previous studies have also found that village funds have failed to provide more employment opportunities for villagers (Barwicka & Milecka, 2021).

Previous studies highlight the importance of accountability and governance in managing village funds to ensure that development programs can effectively improve rural economic conditions (Ridha, 2019). In addition, village economic development initiatives have been found to contribute to increasing community income and strengthening the economic capacity of rural communities.

Previous studies have extensively examined the role of village funds in rural development, including their impact on poverty reduction, infrastructure development, and the growth of village-owned enterprises (Lewis, 2015). However, these studies present several limitations. First, the majority focus on macro-level outcomes, such as economic growth and institutional performance, while providing limited insight into micro-level dynamics, particularly the development of home industries. Second, prior research tends to rely predominantly on quantitative approaches, which constrain the ability to capture contextual and behavioral factors influencing the effectiveness of village fund utilization. Third, although community participation is often discussed, its role as an interacting or moderating factor in shaping the relationship between village funds and economic outcomes remains underexplored. These limitations indicate a significant research gap, particularly in understanding how village funds interact with community-based development mechanisms to influence home industry growth at the local level.

This study offers both methodological and theoretical contributions by addressing the aforementioned gaps. Methodologically, it adopts a mixed-methods approach to integrate quantitative panel data analysis with qualitative field evidence, thereby providing a more comprehensive and context-sensitive understanding of rural economic dynamics. Theoretically, this study introduces community-based development as a moderating variable, grounded in contemporary participatory development perspectives (Bank, 2020a), which emphasize the importance of local participation and institutional capacity in determining development outcomes. The inclusion of a moderating variable is further justified by prior empirical studies that suggest inconsistencies in the impact of village funds, indicating the presence of contingent factors influencing their effectiveness. By integrating these perspectives, this research not only extends existing literature but also provides a more nuanced explanation of how and under what conditions village funds can effectively support the development of home industries.

The objective of this study is to explore theoretically and empirically the influence of village funds in developing home industries through community-based development programmes in Malaka Regency. Our research focuses on rural areas that include the border between the Republic of Indonesia (RI) and the Democratic Republic of Timor-Leste (RDTL). Malaka Regency was chosen as one of the regions that directly borders a neighbouring country (RDTL). The home industry in the border region between the two countries needs attention because it will demonstrate the economic defence strength of each country. When the border region of the NKRI has good economic growth, the community can enjoy a decent and superior life compared to its neighbours.

Research examining the impact of village funds on the development of the household industry is still limited and rarely examines the border areas between countries. In fact, the household industry can be a driving force for the village economy. Therefore, this study will investigate whether the proportion of village funds allocated to developing the household industry is on target and takes into account the potential of the village community.

Village funds are expected to play an important role in supporting economic activities in rural areas. The allocation of village funds can provide financial support for community business activities, including the development of home industries. With adequate financial support, home industry actors can expand production capacity, improve product quality, and increase market access. Previous studies also highlight that proper management of village funds can stimulate local economic growth and encourage the development of community-based economic activities. Therefore, the availability of village funds is expected to contribute positively to the development of home industries.

Furthermore, community-based development is considered an important approach in rural development because it emphasizes community participation in planning and implementing development programs. When development programs are designed based on community needs and involve active participation from local residents, economic initiatives such as home industries can grow more sustainably. Community involvement can strengthen local ownership of development programs and improve the effectiveness of village fund utilization in supporting productive economic activities.

In addition, the effectiveness of village fund allocation in promoting home industry development may depend on the extent to which community-based development principles are implemented. Community participation and empowerment programs may strengthen the relationship between village funds and the growth of home industries. When communities are actively involved in development processes, village funds can be utilized more efficiently to support productive economic activities. Based on these arguments, this study examines the role of community-based development as a moderating variable in the relationship between village funds and home industry development.

From a theoretical perspective, community-based development emphasizes participatory planning, local capacity building, and the active involvement of community members in economic activities. These elements can enhance the effectiveness of development programs because communities are better able to identify local economic potential and allocate resources according to their needs. Therefore, stronger implementation of community-based development is expected to improve the impact of village fund allocation on the development of home industries.

To construct a more robust analytical framework, this study anchors its hypotheses in contemporary theoretical and empirical developments. First, the relationship between village funds and home industry development is grounded in modern perspectives of fiscal decentralization and local development, which emphasize that intergovernmental fiscal transfers can enhance local economic productivity when aligned with local needs and governance capacity (Bahl & Bird, 2018 and Bank, 2018a). In rural contexts, village funds function as strategic financial instruments that enable local governments to stimulate micro-scale economic activities, including home industries.

This theoretical perspective is supported by recent empirical evidence. Studies by Santika et al., (2019) consistently show that village fund allocations contribute positively to rural economic growth, employment creation, and the development of small-scale enterprises. These findings indicate that increased fiscal transfers at the village level can strengthen local economic structures and support the expansion of home industries. Based on this reasoning, the first hypothesis is formulated as follows:

H_1: Village funds have a positive effect on home industry development

Second, the effect of community-based development on home industry development is grounded in contemporary interpretations of participatory and community-driven development theory, which stress that active community involvement enhances the effectiveness and sustainability of development programs (Mansuri & Rao, 2013). This perspective highlights that local participation improves resource allocation, strengthens ownership, and increases the success rate of economic initiatives at the grassroots level. Recent empirical studies further reinforce this argument. Research by Bebbington et al., (2018); Mansuri & Rao, (2013); and Wong, (2012) demonstrates that participatory development approaches significantly improve local economic outcomes, strengthen community capacity, and promote sustainable micro-enterprise development, including home industries. Thus, the second hypothesis is proposed as follows:

H_2: Community-based development has a positive effect on home industry development

Third, the moderating role of community-based development is explained through contemporary developments in institutional and governance theory, which argue that the effectiveness of fiscal policies depends on institutional quality, social participation, and local governance capacity (Acemoglu & Robinson, 2012 and Rodrik, 2015). In this framework, community-based development acts as an institutional mechanism that can either strengthen or weaken the impact of financial transfers depending on how effectively communities participate and manage resources.

This moderating effect is supported by recent empirical findings. Studies by (Rodríguez-Pose & Garcilazo, 2015) show that the success of fiscal decentralization programs in rural areas is highly contingent upon institutional and participatory factors. These findings suggest that without strong community engagement and governance capacity, financial interventions such as village funds may not yield optimal outcomes.

Accordingly, the third hypothesis is formulated as follows:

H_3: Community-based development moderates the relationship between village funds and home industry development

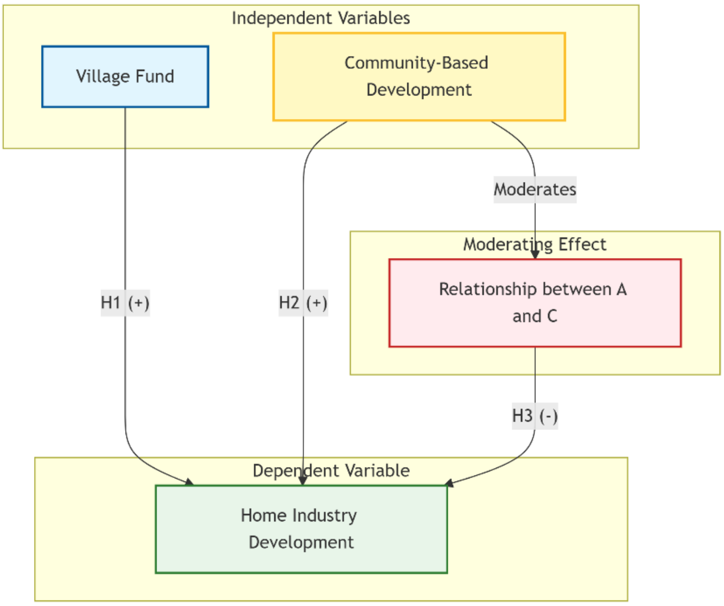

Figure 1. Conceptual Framework

METHOD

The samples in this study were determined using purposive sampling techniques. The criteria used to select the samples were villages that had allocated village funds for community economic empowerment, villages that had home industry business units, and villages located within the border area between Indonesia and Timor-Leste. The samples were selected from the population of villages in Malaka Regency, East Nusa Tenggara Province. This study used primary and secondary data. Primary data was obtained through multi-level interviews and field surveys involving sources related to the implementation of village funds in Malaka Regency. Secondary data was obtained by hand-collecting data from the annual regional budget (APBD) of villages during the 2019-2022 period. Data from each variable was grouped according to the size of each variable studied. The research sample obtained in this study consisted of 388 village observations from 127 villages spread across 12 sub-districts in the Malaka Regency.

The use of a qualitative and quantitative (mixed method) approach in this study led to a descriptive disclosure of the allocation of village funds to develop home industries and testing of hypotheses linking the variables presented in the research model. The variables studied needed to be measured accurately to provide an accurate estimate of the proposed model (Barwicka & Milecka, 2021).

The quantitative analysis in this study utilizes panel data regression to examine the relationship between variables. The regression model includes village funds as the independent variable, community-based development as both an independent and moderating variable, and home industry development as the dependent variable. Model selection was conducted through standard panel data procedures, including the Chow test, Hausman test, and Lagrange Multiplier test. Given the indication of heteroscedasticity in the data, the estimation was performed using robust standard errors to ensure unbiased and consistent results (Wooldridge, 2010). The inclusion of an interaction term between village funds and community-based development enables the analysis of moderating effects within the empirical model.

In the qualitative phase, this study adopts a thematic analysis approach to systematically interpret interview data. The analysis begins with data familiarization through repeated reading of interview transcripts, followed by an open coding process to identify key patterns related to community participation, entrepreneurial motivation, and managerial capacity. These initial codes are then grouped into broader themes that reflect structural and behavioral constraints in the utilization of village funds. The interpretation stage links these themes to the quantitative findings, particularly in explaining unexpected or inconsistent results, such as the negative moderating effect of community-based development. To enhance the credibility and validity of qualitative findings, this study applies data triangulation by comparing interview results with quantitative evidence and secondary data sources, as well as maintaining consistency in coding procedures (Miles et al., 2014 and Nowell et al., 2017).

The integration of quantitative and qualitative data is carried out through a connecting and merging strategy, where the results of the quantitative analysis serve as the basis for selecting and interpreting qualitative evidence. Quantitative findings first establish the direction and significance of relationships between variables, while qualitative findings provide explanatory depth regarding why such relationships occur and under what conditions they are strengthened or weakened. This integrative approach enables a more comprehensive understanding of rural economic development, moving beyond purely statistical interpretation toward context-sensitive analysis.

To ensure conceptual clarity, each variable in this study is defined and operationalized based on established literature. Home industry development is conceptualized as the growth of small-scale, household-based economic activities that contribute to rural income generation and economic resilience (Tambunan, 2019). This variable is measured using the total allocation of village funds received by home industry actors, expressed in logarithmic form to reduce data variability. Village funds are defined as fiscal transfers from the central government to villages aimed at financing governance, development, and community empowerment programs (Bank, 2018a), and are measured by the total annual amount of funds received by each village (Bank, 2018b). Community-based development refers to development processes that emphasize community participation, empowerment, and local decision-making (Mansuri & Rao, 2013), and is operationalized as the proportion of village funds allocated to community empowerment programs, reflecting the extent to which participatory principles are implemented (Bebbington et al., 2018; Mansuri & Rao, 2013).

The validity of the measurement approach is strengthened by aligning the selected proxies with those used in prior empirical studies on rural development and village fund utilization. Although the quantitative data are derived from secondary sources, reliability is supported through the use of official financial records. For the qualitative component, reliability is ensured through systematic coding procedures and iterative analysis, while credibility is reinforced through triangulation and consistency in data interpretation.

Statistical hypothesis testing uses panel data regression testing tools with the help of STATA 17.0 software. The research model tested statistically to prove the relationship between Village Funds and Home Industry Development with the moderating variable of Community-Based Development is as follows (Bank, 2018b):

$$PIRTit = \beta0 + \beta1DDit + \beta2PBMit + \beta3ADDit * PBMit + \varepsilon it$$

Where:

PIRTit: Home Industry Development through Village Fund Assistance i in year t (in rupiah).

DDit: Village Fund i in year t (in rupiah).

PBMit: Community-Based Development through Village Fund Assistance i in year t for the Community Economic Empowerment Programme (in rupiah).

εit: error

Index i represents the village and t represents the year.

RESULT AND DISCUSSION

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Descriptive Statistical Analysis

The results of descriptive statistical tests provide an overview or description of the data in terms of mean, standard deviation, minimum value, and maximum value. Table 1 presents the results of descriptive statistical tests of the dependent variable, independent variable, and moderating variable.

Note: Ln_PIRT measures home industry development, Ln_DD measures village funds, and Ln_PBM measures community-based development.

Research Model Feasibility Testing

Model feasibility testing is conducted as a key part of determining the choice of quantitative research model. Testing the specifications of the household industry development model is carried out to find the appropriate model to use in the research data analysis process. Household industry development testing can be carried out using the Common Effect-Ordinary Least Square Model (CEM-OLS), Fixed Effect Model (FEM), and Random Effect Model (REM) approaches. The selection of the appropriate model begins with (1) the Chow test, (2) the Lagrange Multiplier (LM) test, and (3) the Hausman test applied to the research hypothesis testing model. In summary, the research model feasibility testing is presented in Table 2 below.

Table 1. Summary of descriptive statistical tests

Variable	Sample Size	Mean	Median	Minimum	Maximum	Standart Deviation
Ln_PIRT	388	18,59	19,36	13,88	20,57	1,78
Ln_DD	388	20,58	20,56	20,30	21,24	0,17
Ln_PBM	388	19,19	19,45	14,76	20,59	0,93

Source: STATA 17.0 (processed data, 2024)

Table 2. Hypothesis Model Feasibility Testing

	Chow Test Nilai F Fixed-effects	Lagrange Multiplier Test Breusch-Pagan	Hausman Test Chi-sq Statistic
Model hipotesis	1,33	238,28***	38,88***

Significant at p<0.01***; p<0.05**; p<0.1*

Source: STATA 17.0 (data processed, 2024)

Table 3. Results of Classical Assumption Testing

Variabel	Normalitas (Shapiro-Wilk)	Multikolinearitas			Heteroskedastisitas *(chi-square)*	Autokorelasi (nilai F)
		Ln_PIRT	Ln_DD	Ln_PBM		
Ln_PIRT	9,298***	1			12,13***	0,567 (0,4544)
Ln_DD	5,210***	0,338	1			
Ln_PBM	8,651***	0,135	0,117	1		
Ln_DD*Ln_PBM	7,993***	-	-	-		

Significant at p<0.01***; p<0.05**; p<0.1*

Source: STATA 17.0 (data processed, 2024)

Testing Classical Assumptions

Regression model testing can be carried out after considering the results of classical assumption testing. Classical assumption testing is carried out to detect possible violations of the regression equation. The regression equation is expected to approximate the BLUE criteria, namely best, linear, unbiased and estimated.

Testing classical assumptions of regression models involves testing normality, multicollinearity, heteroscedasticity, and autocorrelation. In summary, testing classical assumptions of regression models is presented in Table 3 below.

Normality testing using the Shapiro-Wilk test yielded a z-value with a p-value of 0.000 for each variable in each hypothetical model, indicating that the residuals were not normally distributed. Given that this study used a large sample size (over 100), even though the residuals were not normally distributed, the OLS estimator can still be considered unbiased. Essentially, normality testing for panel data is less useful. The characteristics of panel data, consisting of cross-sectional and time-series data, make the data distribution prone to outliers and sharp differences between these outlier values and the mean.

The results of the multicollinearity test on the variables used in the hypothesis testing found no correlation between the variables greater than 0.8. The multicollinearity test for the variables used in the hypothesis testing showed no correlation between the independent variables used in the regression equation model.

Heteroscedasticity testing of a research model aims to determine whether there is inequality in variance between residuals from one observation to another (Ghozali, 2018). Heteroscedasticity testing, using the Breusch-Pagan/Cook-Weisberg test, in this study found that the hypothesis test model exhibited heteroscedasticity.

Autocorrelation testing aims to detect whether a regression equation exhibits a relationship between residuals in period t and residuals from the previous period t-1 (Ghozali, 2018). Autocorrelation detection is performed using the Wooldridge test for serial correlation in panel data models. Table 3 shows that the hypothesis model test has an F-probability value above 0.01 (0.4544), indicating that there is no autocorrelation in the equation of hypothesis 1 model.

Hypothesis Testing

Based on the results of classical assumption testing and research model feasibility, this research hypothesis testing uses the Robust Variance Estimates (VCE(robust)) approach. This approach was chosen for hypothesis testing based on the consideration that the results of classical assumption testing showed that the hypothesis testing model experienced heteroscedasticity. The results of the hypothesis testing, which show empirical evidence of the relationship between village funds, community-based development and household industry development, are presented in Table 4 below (Mansuri & Rao, 2013).

Table 4. Hypothesis testing results

Variable	Koefisien (*β*)	t-stat.	p value
Intercept (cons.)	-492,5947	-2,43	0,016
Ln_DD	24,6653	2,51	0,013
Ln_PBM	22,8772	2,17	0,031
Ln_DD*Ln_PBM	-1,1025	-2,16	0,031
R-squared	0,13		
n (sampel)	388		

Dependent Variable: Ln_PIRT measures household industry development.

Independent Variables: Ln_DD measures village funds, Ln_PBM measures community-based development.

Source: STATA 17.0 (processed data, 2024)

The results of hypothesis 1 testing show that the village fund variable has a positive and significant effect on the development of home industries. The coefficient value is 24.6653 and the t-test value is 2.51 (5% significance level). These results indicate that hypothesis 1 is supported because village funds are found to have a positive effect on the development of home industries. Hypothesis 1 proposes that village funds are positively related to the development of home industries. These findings explain that the development of home industries increases when there is an increase in the amount of village funds.

The results of hypothesis 2 testing show that the community-based development variable has a positive and significant effect on the development of home industries. The coefficient value is 22.8772 and the t-test value is 2.17 (significance level of 5%). These results indicate that hypothesis 2 is supported because community-based development is found to have a positive effect on the development of the home industry. Hypothesis 2 proposes that community-based development is positively related to the development of the home industry. These findings explain that household industry development increases when villages have work programmes that focus on community-based development.

The results of hypothesis 3 testing show that the community-based development variable moderates the relationship between village funds and household industry development. The coefficient value is -1.1025 and the t-test value is -2.16 (5% significance level). These results indicate that hypothesis 3 is supported because community-based development was found to moderate the relationship between village funds and household industry development. The negative relationship indicated by the coefficient value suggests that there is a decline in household industry development when village funds are utilised with consideration for the community-based development process.

Description of Research Findings on the Aspects of Household Industry Development

Household industry development runs smoothly when funding and assistance through community empowerment programmes are carried out properly. The results of interviews with respondents involved in household industry development activities are presented below:

1. Respondent: Alas Village Head

The number of Home Industries (IRT) in Alas Village is still relatively small and dominated by small businesses (kiosks). A contributing factor to the low number of IRTs is the community's low motivation to start a business. Most people still feel embarrassed to earn money, while their enthusiasm for using it is high. Some capital assistance provided by the government through village funds is simply wasted without any significant impact on the growth of the household industry.

"...the economy here is unstable, and the problem is that there's no enthusiasm for turning money around. They were given capital assistance through village funds, but it was quickly exhausted. IRTs here are still few, just average. They only have small kiosks, furniture, and weaving businesses. It's difficult here because people are embarrassed to earn money but have a strong enthusiasm for using it..." (South Alas Village Head)

2. Respondent: Housewives

   An interview with one housewife who makes traditional weaving revealed that the costs of running a traditional weaving business are high, while the income from the weaving does not cover these costs. The housewife has never received any government assistance to develop her business.

   "...my mother never received any direct cash assistance (BLT), social assistance, the Family Hope Program (PKH), or village fund assistance because she's probably a retired civil servant. So we don't get any assistance, we only have our own capital. I never sell at the market; I just weave like this and people come to buy..." (Informant, housewife weaving) (Bebbington, 2004)

Discussion

The Effect of Village Funds on Home Industry Development

The findings indicate that village funds have a positive and significant effect on home industry development. From a theoretical perspective, this result can be explained through contemporary fiscal decentralization frameworks, which argue that local fiscal transfers enhance allocative efficiency by allowing local governments to tailor development programs to community-specific needs (Bank, 2020b). In this context, village funds function as a catalyst for micro-level economic activities by providing financial access that is often unavailable through formal financial institutions.

Empirically, this finding aligns with recent studies showing that fiscal transfers at the village level contribute to rural enterprise growth and employment creation. However, beyond mere consistency, the causal mechanism lies in the ability of village funds to reduce capital constraints, enabling households to initiate or expand productive activities. The qualitative findings reinforce this explanation, revealing that access to financial support allows home industry actors to increase production capacity and sustain their business operations. Nevertheless, interviews also suggest that financial support alone is insufficient without adequate managerial skills, indicating that the positive effect is conditional rather than absolute.

The Effect of Community-Based Development on Home Industry Development

The results show that community-based development has a positive and significant effect on home industry development. This finding is consistent with participatory development theory, which posits that community involvement enhances the relevance, ownership, and sustainability of development programs (Mansuri & Rao, 2013). Active participation allows communities to align economic initiatives with local needs and resources, thereby improving program effectiveness.

Recent empirical studies support this argument, demonstrating that participatory approaches strengthen local capacity and improve the success rate of small-scale economic initiatives (Mansuri & Rao, 2013). The underlying mechanism is that participation fosters a sense of ownership and accountability, which in turn encourages more efficient use of resources.

The qualitative findings strongly corroborate this result. Field evidence indicates that villages with higher levels of community engagement tend to exhibit more sustainable home industry activities. However, the data also reveal that participation is often uneven and dominated by local elites, suggesting that the effectiveness of community-based development depends on inclusiveness and genuine engagement rather than formal participation alone.

The Moderating Role of Community-Based Development

The empirical results reveal that community-based development significantly moderates the relationship between village funds and home industry development, but with a negative coefficient. At first glance, this finding appears counterintuitive. However, from an institutional perspective, this can be explained by the concept of capacity constraints within participatory governance systems, where increased participation does not automatically translate into effective outcomes (Acemoglu et al., 2005).

Recent empirical studies indicate that the effectiveness of fiscal transfers depends heavily on institutional quality and community capacity. When community-based development is implemented in contexts with low managerial capacity, limited entrepreneurial skills, and weak coordination, it may actually slow down decision-making processes and reduce the efficiency of fund utilization.

This explanation is strongly supported by qualitative findings. Interviews reveal that many community members lack the skills and motivation required to manage business activities effectively. In some cases, participatory processes become procedural rather than substantive, leading to misallocation of resources and reduced impact on home industry development. Thus, the negative moderating effect reflects a mismatch between participatory ideals and local capacity realities.

A critical contribution of this study lies in the integration of quantitative and qualitative findings. The quantitative results establish that village funds and community-based development significantly influence home industry development, while also revealing a negative moderating effect. However, these statistical relationships alone do not fully explain the underlying dynamics.

The qualitative findings provide essential explanatory depth. They reveal that while financial resources are available, structural issues such as low entrepreneurial motivation, limited managerial capacity, and weak participation quality hinder optimal outcomes. In this sense, the qualitative results do not contradict the quantitative findings but rather refine and contextualize them.

Specifically, the positive direct effects identified in the quantitative model are supported by qualitative evidence showing that financial access and participation do contribute to economic activities. At the same time, the negative moderating effect is explained by qualitative insights into the limitations of community capacity. Therefore, the integration of both approaches leads to a more nuanced conclusion: the effectiveness of village funds is not solely determined by financial allocation, but also by the quality of community participation and institutional capacity.

CONCLUSION

This study concludes that village funds play a significant role in promoting the development of home industries in rural areas, while community-based development also contributes positively as an independent driver of local economic activities. However, the moderating effect of community-based development is found to be negative, indicating that participatory mechanisms do not automatically enhance the effectiveness of financial interventions. This finding suggests that the success of village fund utilization is not solely determined by the availability of financial resources, but is highly contingent upon the capacity, quality of participation, and institutional readiness of the community. The integration of quantitative and qualitative findings further confirms that structural constraints such as low entrepreneurial motivation, limited managerial skills, and weak participatory practices remain critical barriers to optimizing rural economic development.

Despite its contributions, this study has several limitations that need to be acknowledged. First, the research is geographically limited to a single region, namely Malaka Regency, which may restrict the generalizability of the findings to other rural contexts with different socio-economic characteristics. Second, the measurement of variables relies primarily on financial proxies, which may not fully capture the multidimensional nature of home industry development and community participation. Third, although this study adopts a mixed-methods approach, the depth of qualitative exploration remains constrained by the number of informants and the scope of field data collected. These limitations indicate that the findings should be interpreted with caution, particularly when applied to broader policy contexts.

Based on these limitations, future research is strongly recommended to expand the scope of analysis by incorporating comparative studies across multiple regions or provinces in order to enhance external validity. In addition, future studies should consider using more comprehensive measurement indicators, including qualitative indices of participation, social capital, and entrepreneurial capacity, to better capture the complexity of rural development processes. Further research is also encouraged to explore alternative moderating or mediating variables, such as governance quality, digital literacy, or market access, which may provide a deeper understanding of the conditions under which village funds can be utilized more effectively.

The implications of this study are both theoretical and practical. Theoretically, this research contributes to the development of rural economic and institutional frameworks by demonstrating that participatory approaches must be supported by adequate capacity and governance structures to produce optimal outcomes. Practically, the findings suggest that policymakers should not only focus on increasing the allocation of village funds but also prioritize capacity-building programs, entrepreneurial training, and the strengthening of community institutions. Without these supporting factors, financial interventions risk being inefficient or even counterproductive. Therefore, a more integrated approach that combines financial support with institutional strengthening is essential to ensure sustainable and inclusive rural economic development.

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CONCLUSION

This study concludes that ESG practices influence maqashid-oriented financial performance in a context-dependent manner. Islamic governance does not exhibit a consistent effect across all models, indicating that its impact on financial performance varies across regulatory contexts, although it remains an important mechanism of accountability. Environmental accountability also does not consistently affect financial performance, suggesting that its benefits are more long-term and indirect, while its impact may differ depending on firm conditions. In contrast, sustainability resource management shows clear variation and has a significant positive effect, especially in firms without PROPER, indicating that operational efficiency and resource optimization are key drivers of financial performance. Furthermore, ethical sustainability disclosure plays a dual moderating role. It strengthens the relationship between Islamic governance and environmental accountability with financial performance in firms without PROPER but weakens or does not enhance the relationship in firms with PROPER. Meanwhile, disclosure weakens the relationship between sustainability resource management and financial performance, indicating the presence of additional cost burdens.

Theoretically, these findings support the relevance of the Tawhidic String Relationship, which emphasizes the integration of ethical, economic, and spiritual values in corporate decision-making. From a practical perspective, firms are encouraged to integrate ESG practices into core operational strategies rather than relying solely on disclosure, while regulators should emphasize substantive sustainability implementation. This study is limited by sectoral scope and observation period. Future research recommend to expand sectoral coverage, extend longitudinal analysis, and explore additional variables such as governance quality, innovation, or ethical leadership to better explain sustainability-driven financial performance.

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