

# Village Fund and Poverty Alleviation in Indonesia

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This is a part of my work with KOMPAK in Indonesia to provide advices to Ministry of Finance in intergovernmental fiscal relations

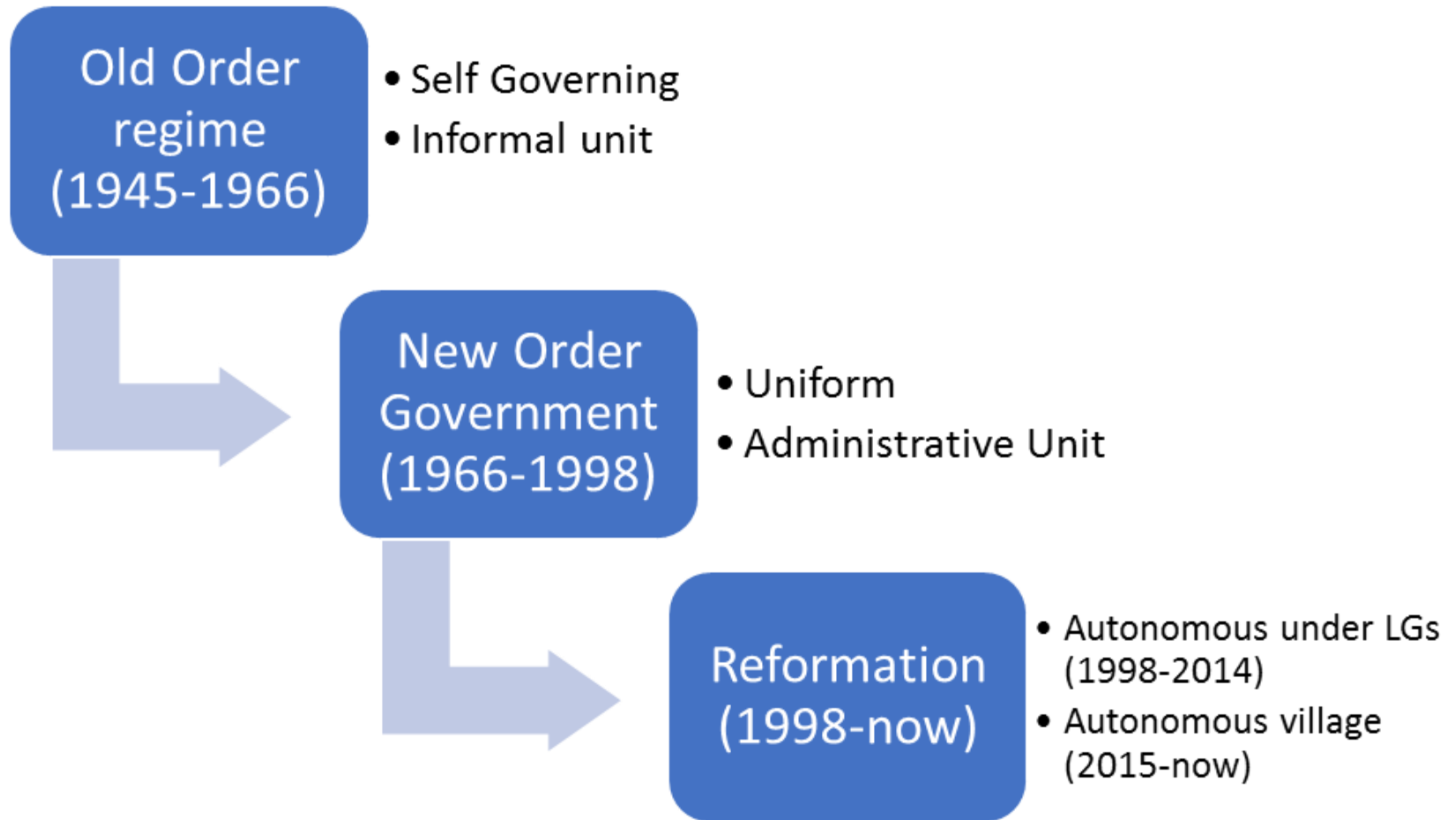
# Outline

- Objective
- Background
- Methods
- Analysis and Discussion
- Conclusion

# Objectives

- To describe the role of Village Fund in supporting Village Government and the implication for Central Government
- To assess the formula to allocate the fund and evaluate the impact of distribution of fund by regions as well as by provinces.
- To examine the allocation and the utilization of village fund
- To discuss to the extent to which the fund affects the level of poverty in Indonesia.

# Background: Chronology of Village Governance in Indonesia



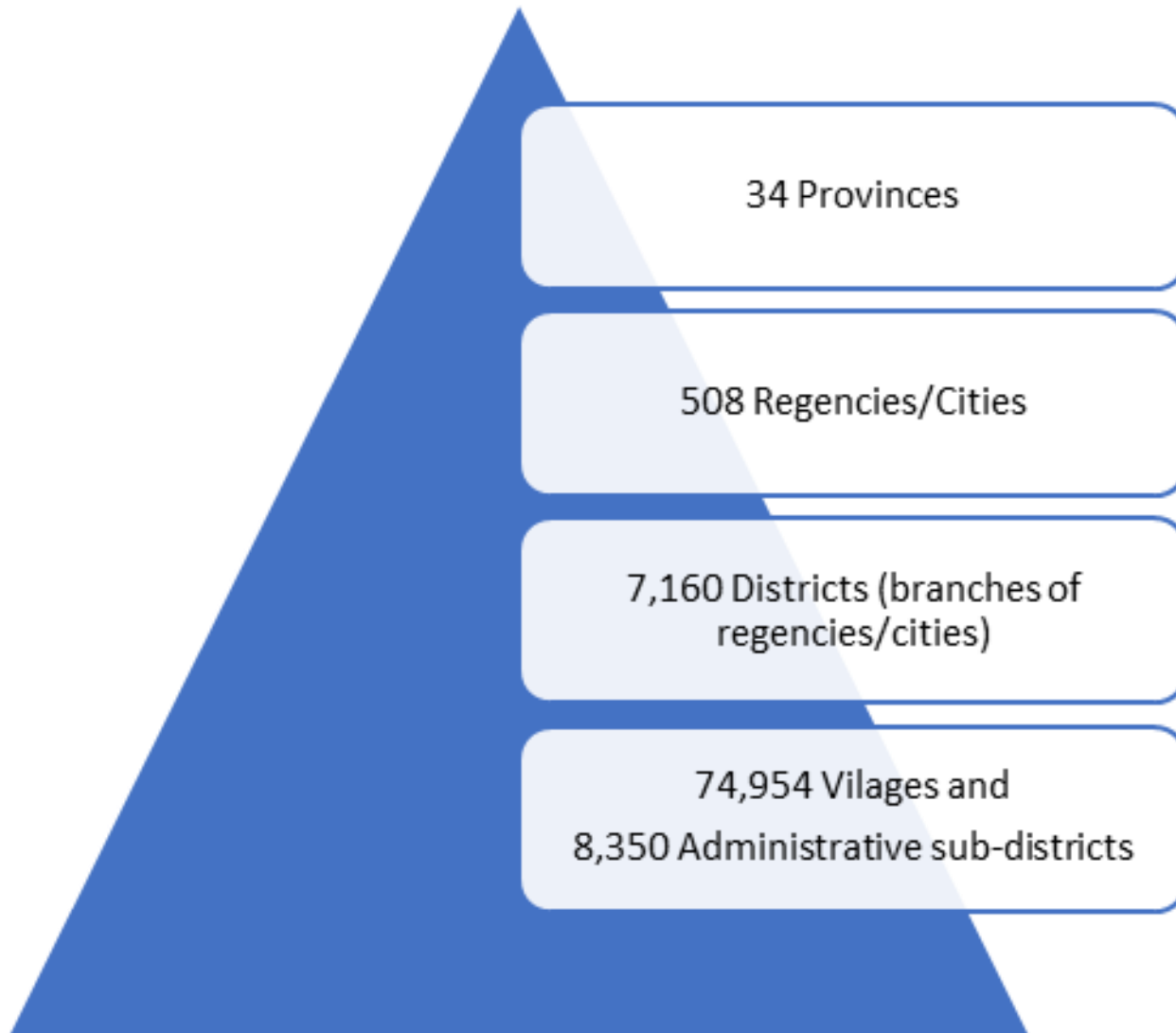
# Background

- Self-governing community in a demarcated area (with various names: Desa, Nagari, Gampong, Marga, Huta, Dusun, etc) had existed in Indonesia a long before independent.
- The Old Order Regime let the village as an informal unit. Although It started to rule the Village with Law 19/1965 about 'Desapraja' as the third tier of autonomous government, it has never been implemented by the New Order Government.
- The New Order Government introduced a uniformity of the village government with Law 5/1979 and recognized as a lowest administrative unit of the Government. The regime provided the development fund for each village (Inpres Desa) through Local Governments (LGs), succeed in broadening local services as well as a political control mechanism to society.
- After reformation, the Government introduced the Law 22/1999 and abolished the Law 5/1979, and the village affair was let to be ruled by each Local Government. Since then, the Village's role and existence was ruined by Central Ministries and LGs. There were various Central Ministries' program at the village level during SBY Era including PNPM (national program for people empowerment).

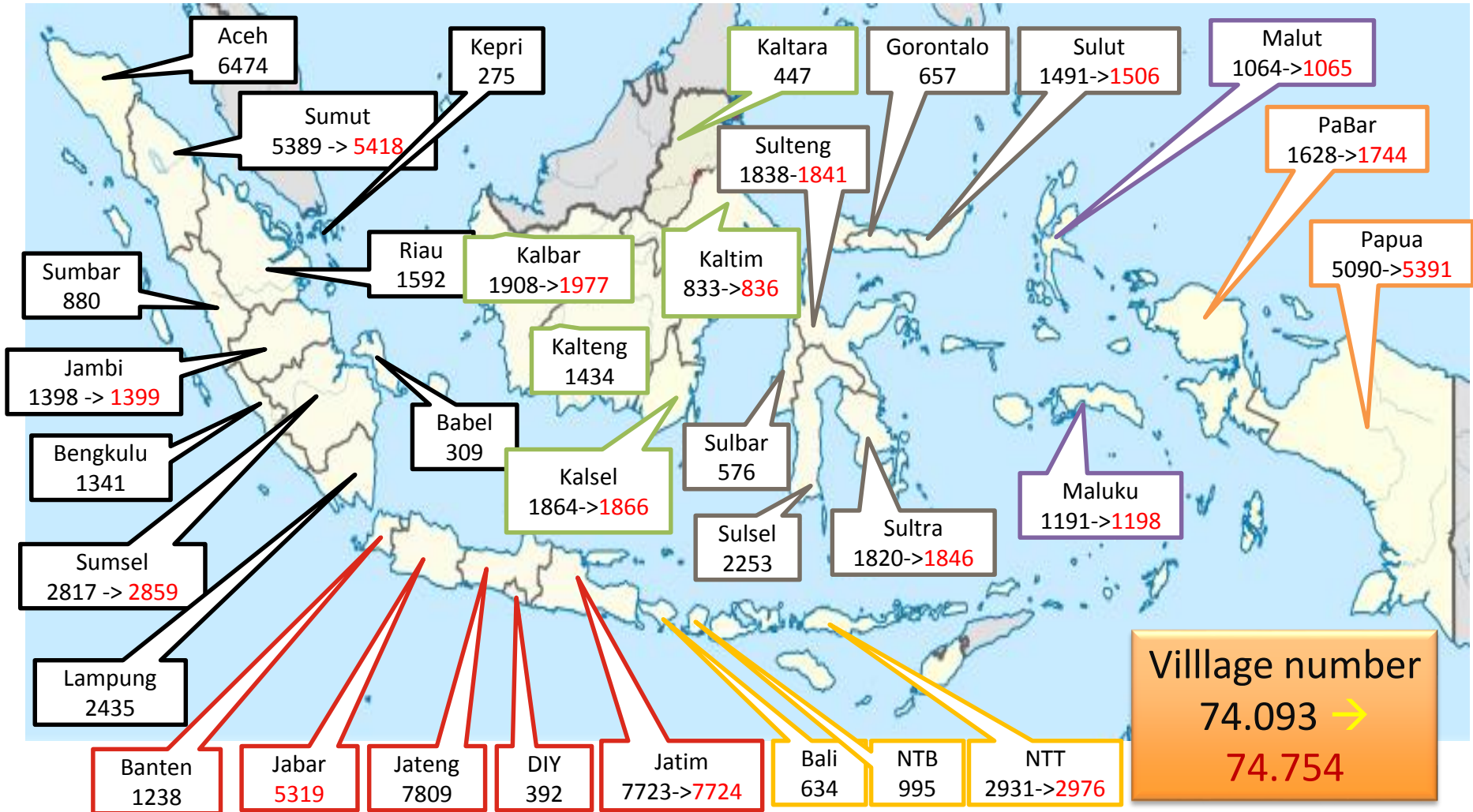
# Background

- Autonomy status for village has been demanded by Village Government Association since 2010 (the main request is a direct grant from Central Government because they have not received a reliable financial support from Local Governments and many Central Ministries had a program at the village level and abandoned the role of Village Government).
- Since the enactment of Law 6/2014 (Village Law), Village Fund (a 'direct' grant to villages from Central Government) has been provided since FY 2015.
- Village fund is broadly directed by Law (to help financing the village government operation, village development, community empowerment and other society activities). The amount is determined by the Law, which is 10% on top of inter-governmental transfers to provincial governments and LGs (Cities and Regencies).
- Such Grant to Village Governments (distributed by LGs), provided only for autonomous villages not for Kelurahan (the lowest de-concentration unit of Local Government).
- Village Government has started to take the role as the sole agent of development, the development fund of Line Ministries at the village level has been abolished (PNPM program was closed in 2015).

# Administrative Division of Indonesia in 2017



# VILLAGE NUMBER IN EACH PROVINCE (IN 2015)





# Variations of Villages in Indonesia

Village	Maximum	Minimum	Average	Standard Deviation	Coeff of Variation
Population (2014)	89,050	13	2,421	2,990	1.23
Poor Population (2014)	10,913	0	394	539	1.37
Area 2014 (km2)	3,901	0.01	24	83	3.39
VF 2015 per capita (Rp)	20,009,842	4,456	362,630	561,325	1.55

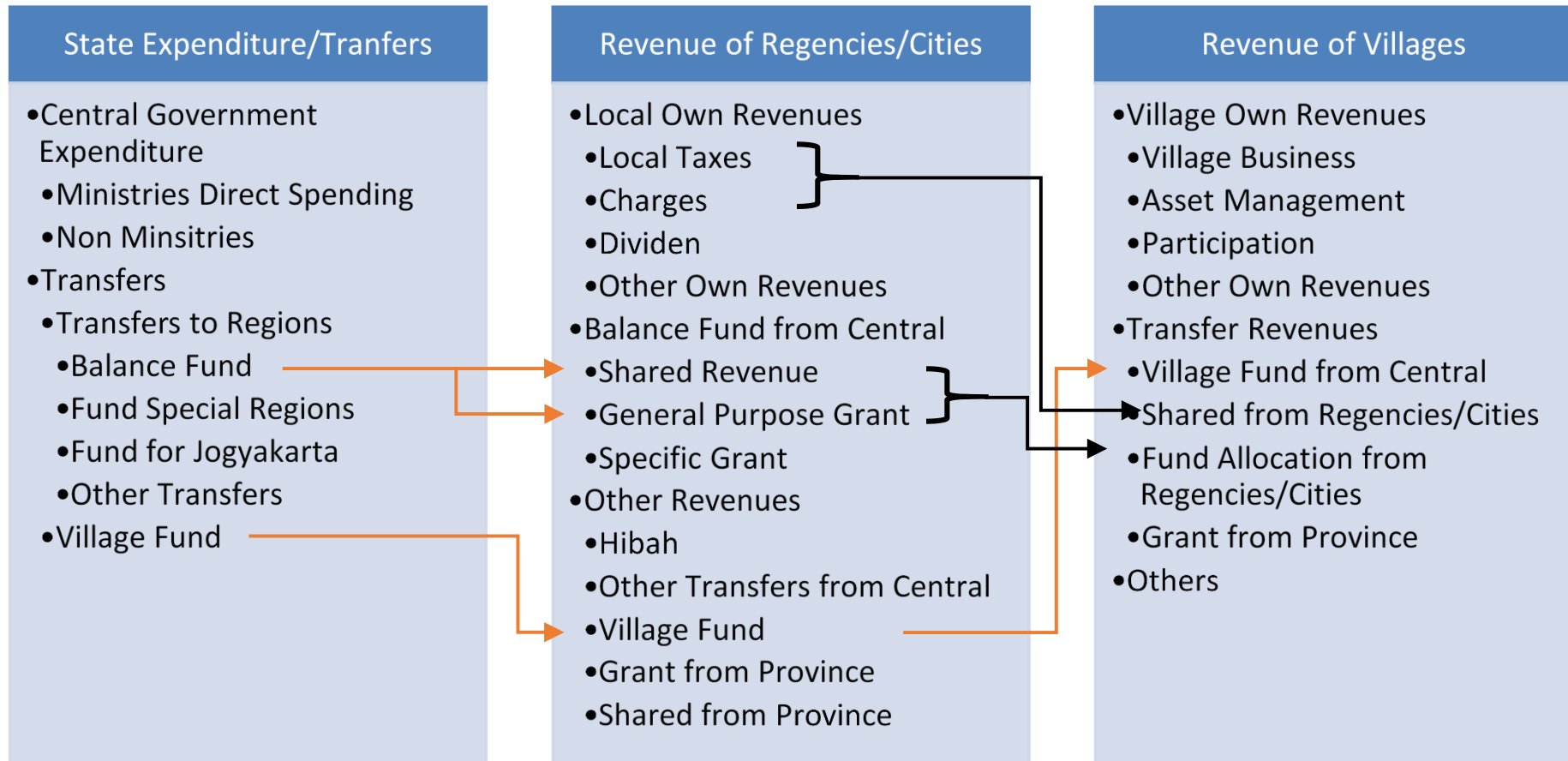
Source: Writer's calculation from BPS Pokdes 2014 and MoF

- Population varied from 13 to 89,050 people.
- Poor Population ranged from 0 to 10,913 individuals
- Area ranged from only 1 Ha to 3.900 km2.
- High variation of per capita village fund received from Central Government in 2015

# Methods dan Data

- Secondary data collected from various sources such as BPS and Ministry of Finance
- In-depth studies done by various agencies in Indonesia.
- Quantitative method to better understand the implementation of Village Law; particularly the flows of fund
- Descriptive and inferential methods to know correlation between the implementation of Village Law and poverty
- Analysis, at the level, region (island), province, and regencies/cities.

# Village Fund as a part of Village Revenues



Village Fund is not the only Village Revenue. There are other sources of Village Revenues (Own Revenues and Transfers from LGs (compulsory) and Provinces (not compulsory). Basically, the transfers from LGs is also from Central Government.

# Fund Managed by Villages Before and After Village Law

Village Revenues	(in Trillion Rp)						Share			
	2014	2015	2016	2017	2018	2019	2015	2016	2017	2018
Village Fund from Central Govt.	0.00	20.80	46.98	60.00	60.00	71.00	35.2%	52.9%	56.9%	56.2%
Allocation for Villages from LGs	17.10	34.20	37.60	40.50	41.10	60.30	57.9%	42.3%	38.4%	38.5%
Shared Local Revenue from LGs	5.72	4.10	4.30	4.90	5.70	6.40	6.9%	4.8%	4.6%	5.3%
Village Owned Revenues (estimated)	0.038	0.04	0.04	0.05	0.05	0.05	0.1%	0.0%	0.0%	0.0%
<b>Total</b>	<b>22.82</b>	<b>59.10</b>	<b>88.88</b>	<b>105.40</b>	<b>106.80</b>	<b>137.70</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Average per Village (Rp. Billion)</b>	<b>0.31</b>	<b>0.79</b>	<b>1.19</b>	<b>1.41</b>	<b>1.43</b>	<b>1.84</b>				
Ratio to GDP	0.23%	0.51%	0.72%	0.78%	0.73%	0.87%				

Source: Writer's Calculation from Budget Document, MoF. Note: Data 2019 is an estimation

- Before the implementation of Village Law, the LGs provided the grant to Villages. The amount was Rp. 17.1 T in 2014. This grant has been strengthened by the Law, however not all LGs fulfilled the obligatory amount.
- Village Fund in 2015 increased the village government revenues more than twice from Rp. 0.31 billion (2014) to Rp. 0.79 billion per Village.
- The share of village fund in village revenues increased from 35.2% in 2015 to about 57% in 2017, then decrease in 2018 to 56%.
- The amount of village fund in budget 2017 and 2018 was lower than what has been planned in the Road Map of village fund produced by MoF in 2015.
- Total fund managed by the Villages is about 0.78% GDP in 2017 and expected to be about 0.87% GDP in 2019, while it slightly decreases in 2018.

# Implications for Central Government Expenditures

- The compulsory grant to villages started at the time when the State Revenues declined in 2015.
- The size of CG Expenditure and Transfers to Provinces and LGs Revenue (in %GDP) also declined in response to the shortfall of revenue.
- The provision of village fund in 2015 had an impact on CG Expenditure since its' provision was by shifting/abolishing various types of Line Ministries Expenditure.
- The amount will go up in line with the Transfers to Provinces and LGs (as required by the Law)
- Until 2018, the CG has not been able to fulfil the amount (It should be at least Rp70.6 T in 2008)
- Village fund is a general purpose grant, but then there is a general direction from Ministry of Village

In Trillion Rupiah	2014	2015	2016	2017	2018
State Internal Revenue	1,545.5	1,496.0	1,511.5	1,733.0	1,893.5
Taxes	1,146.9	1,240.4	1,249.5	1,472.7	1,618.1
Non Taxes	398.6	255.6	262.0	260.2	275.4
State Expenditure	1,777.3	1,806.4	2,035.8	2,133.3	2,220.7
Central Govt Expenditure	1,203.6	1,183.3	1,325.6	1,367.0	1,454.5
Transfer to Province/Cities/Regencie	573.7	602.4	663.6	706.3	706.2
Transfer to Villages		20.8	46.7	60.0	60.0

In % GDP	State Internal Revenue	State Expenditure and Transfers			
		Central Govt Expenditure	Transfer to Prov/Cities/R egencies	Transfer to Villages	Total
2012	16.2%	12.3%	5.8%	0.0%	18.1%
2013	15.4%	12.3%	5.5%	0.0%	17.8%
2014	15.3%	11.9%	5.7%	0.0%	17.6%
2015	13.0%	10.3%	5.2%	0.2%	15.7%
2016	12.2%	10.7%	5.3%	0.4%	16.4%
2017	12.8%	10.1%	5.2%	0.4%	15.7%
2018	12.9%	9.9%	4.8%	0.4%	15.1%

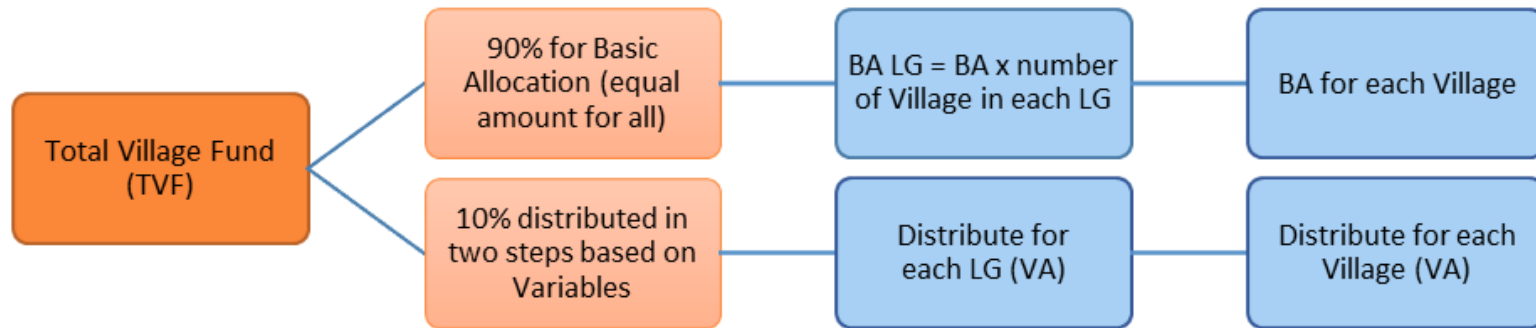
Source: MoF and BPS Data Processed

Note: Data 2014-2016: Realization, 2017: Revised Budget, 2018: Budget

# Second Wave of Fiscal Decentralization?

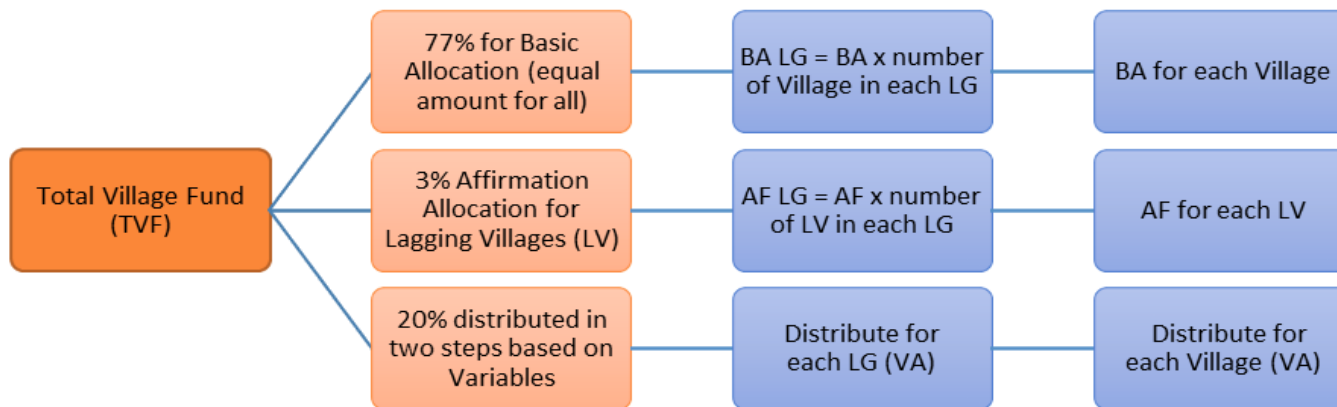
- First Wave of Fiscal Decentralization in Indonesia is to Local Government which started in 2001
  - LGs has been given the authorities to run many functions
  - Central government (CG) started to double the grant to regencies/cities to match the need for financing the transfer of authorities
  - There were about 1.1 million civil servants transferred to local government in line with decentralized functions (Handra, 2005).
- Second Wave of Fiscal Decentralization is to Village Governments (VGs) started in 2015
  - Expenditure Assignment: VGs has received authorities to spent and had its own budget as an autonomous institution
  - Revenue Assignment: VGs has been given the authorities to collect the revenue from the residents.
  - To secure the VG to run the functions, Central Government (CG) and LGs provide the grant (village fund from CG and allocation from LGs)

# Formula to Allocate Village Fund in 2015-2017



Stage 1. Calculation of Village Fund Received by Each LG ( $VF_k$ )	Stage 2. Calculation of Village Fund Received by Each Village ( $VF_j$ )
<p> <math>VF_k = BA_k + VA_k</math>  <math>BA_k = BA \times n_k</math>  <math>VA_k = VA \times (0.25Pop_k + 0.35Poor_k + 0.1Area_k + 0.3CPI_k)</math> </p> <p>Where:</p> <ul style="list-style-type: none"> <li>- BA = Equal amount for all Village</li> <li>- <math>BA_k</math> = Basic Allocation for <math>LG_k</math></li> <li>- <math>n_k</math> = The number of villages in <math>LG_k</math></li> <li>- VA = Total Fund allocated by Variables</li> <li>- <math>VA_k</math> = Variable Allocation for <math>LG_k</math></li> <li>- <math>Pop_k</math> = Population of <math>LG_k</math></li> <li>- <math>Poor_k</math> = Poor population of <math>LG_k</math></li> <li>- <math>Area_k</math> = Area of <math>LG_k</math></li> <li>- <math>CPI_k</math> = Construction Price Index of <math>LG_k</math></li> </ul>	<p> <math>VF_j = BA + VA_j</math>            BA = Basic Allocation (Equal amount for all villages)  <math>VA_j = VA_k \times (0.25Pop_j + 0.35Poor_j + 0.1Area_j + 0.3GDI_j)</math> </p> <p>Where:</p> <ul style="list-style-type: none"> <li>- <math>VA_k</math> = Variable Allocation for <math>LG_k</math></li> <li>- <math>VA_j</math> = Variable Allocation for Village j</li> <li>- <math>Pop_j</math> = Population of Village j</li> <li>- <math>Poor_j</math> = Poor population of Village j</li> <li>- <math>Area_j</math> = Area of Village j</li> <li>- <math>GPI_j</math> = Geographical difficulty index of Village j</li> </ul>

# Changing Formula in 2018



Stage 1. Calculation of Village Fund Received by Each LG (VF <sub>k</sub> )	Stage 2. Calculation of Village Fund Received by Each Village (VF <sub>j</sub> )
<p> <math>VF_k = BA_k + AA_k + VA_k</math>  <math>BA_k = BA \times n_k</math>  <math>AA_k = AA \times m_k</math>  <math>VA_k = VA \times (0.1Pop_k + 0.5Poor_k + 0.15Area_k + 0.25CPI_k)</math>            Where:           <ul style="list-style-type: none"> <li>- BA = Equal amount for all villages</li> <li>- BA<sub>k</sub> = Basic Allocation for LG<sub>k</sub></li> <li>- n<sub>k</sub> = The number of villages in LG<sub>k</sub></li> <li>- AA = Affirmation Allocation for each Lagging Village</li> <li>- AA<sub>k</sub> = Affirmation Allocation for LG<sub>k</sub></li> <li>- m<sub>k</sub> = the number of lagging villages in LG<sub>k</sub></li> <li>- VA = Total Fund allocated by Variables</li> <li>- VA<sub>k</sub> = Formula Allocation for LG<sub>k</sub></li> <li>- Pop<sub>k</sub> = Population of LG<sub>k</sub></li> <li>- Poor<sub>k</sub> = Poor population of LG<sub>k</sub></li> <li>- Area<sub>k</sub> = Area of LG<sub>k</sub></li> <li>- CPI<sub>k</sub> = Construction Price Index of LG<sub>k</sub></li> </ul> </p>	<p> <math>VF_j = BA + AA + VA_j</math>            BA = Basic Allocation (Equal amount for all Villages)            AA = Affirmation Allocation for each Lagging Village  <math>VA_j = VA_k \times (0.1Pop_j + 0.5Poor_j + 0.15Area_j + 0.25GDI_j)</math>            Where:           <ul style="list-style-type: none"> <li>- VA<sub>j</sub> = Variable Allocation for Village j</li> <li>- VA<sub>k</sub> = Variable Allocation for LG<sub>k</sub></li> <li>- Pop<sub>j</sub> = population of Village j</li> <li>- Poor<sub>j</sub> = poor population of Village j</li> <li>- Area<sub>j</sub> = Area of Village j</li> <li>- GDI<sub>j</sub> = Geographical difficulty index of Village j</li> </ul>           Note:            If a village is a lagging village (LV), it will receive BA and AA         </p>

## Village Classification:

- Independent Villages
- Developed Villages
- Developing Villages
- Lagging Villages
- Very Lagging villages



# Changing Formula of Village Fund 2018

		Total Fund (Billion Rp)	Per Village (000 Rp)	Average Per Village (000 Rp)
Basic Allocation (Lumpsum)	77%	46,200	618,027	
Formula Allocation	20%	12,000		160,527
Affirmation Allocation	3%	1,800		
-LV (in top 30% of poor)	9,013 Vill	1,326	147,071	
-VLV (in top 30% of poor)	1,613 Vill	474	294,142	

Sources: Writer's calculation based on data provided by DJPK MoF

- Basic Allocation: Rp 46,2T (77% of Rp.60T) or Rp. 618 Million per Village
- Affirmation Allocation: Rp. 1,8T (3% of Rp 60T). All lagging village(LV) and very lagging villages (VLV) in the top 30% of poor population was given the allocation.
- There are 9,013 LV and 1,613 VLV in the top 30%. The amount for VLV is twice LV.

# Village Fund Distribution and Implication of Changing Formula in 2018

Region	Village Fund 2018		Village Fund 2017		Village Fund 2016		Rural Poor 2017 (II)		Population 2015	
	Million Rp.	%	Million Rp.	%	Million Rp.	%	(000)	%	(000)	%
Sumatra	17,779,165	29.6%	18,534,524	30.9%	14,509,474	30.9%	3,920	24.0%	55,273	22,5
Java-Bali	19,227,999	32.0%	18,649,587	31.1%	14,618,936	31.1%	7,247	44.4%	139,119	56,7
Kalimantan	5,268,056	8.8%	5,258,364	8.8%	4,103,079	8.7%	666	4.1%	15,343	6,3
Sulawesi	6,838,886	11.4%	6,872,789	11.5%	5,355,842	11.4%	1,680	10.3%	18,724	7,6
Maluku-NT	5,271,330	8.8%	5,019,377	8.4%	3,934,943	8.4%	1,733	10.6%	12,805	5,2
Papua	5,614,564	9.4%	5,665,360	9.4%	4,459,807	9.5%	1,063	6.5%	4,021	1,6
Total	60,000,000	100.0%	60,000,000	100.0%	46,982,080	100.0%	16,310	100.0%	245,284	100,0

Sources DJPK MoF and BPS, Processed

- Fund Distribution is not in line with proportion of rural poor. Maluku-NT (as a Lagging Eastern Region) and Java-Bali received less proportion of fund in comparison to the proportion of rural poor population. Papua, Kalimantan and Sumatra gained a lot from fund distribution.
- In 2018, the proportion for Jawa-Bali and Maluku-NT increase, both received re-allocation from Sumatra.

# Comparison of two Regencies

Kabupaten/Kota	Population 2016	Poor Population 2016	Village Number 2016	VF 2016 (Rp. Thousand)	VF 2017 (Rp. Thousand)	VF 2018 (Rp. Thousand)
Kab. Aceh Utara	591,081	115,050	852	498,839,552	635,314,441	561,531,420
Kab. Lombok Barat	662,560	110,850	119	84,996,512	108,749,278	128,689,903

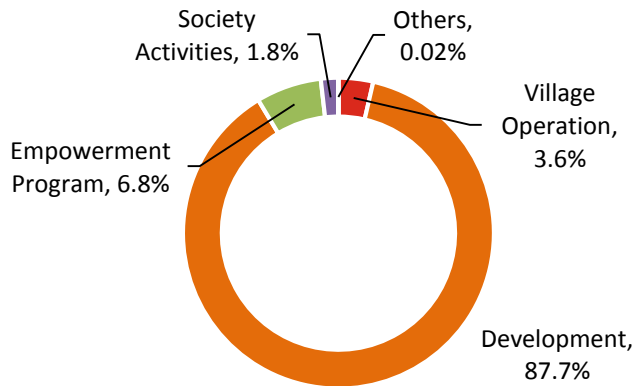
Sources: Writers' calculation based on data provided by DJPK MoF and BPS

- Two Regencies with comparable population and the number of poor, have different number of villages, received very different funds.
- Aceh Utara received the fund about 5.6 times higher than Lombok Barat during 2015-2017. This was due to 90% of fund allocated for basic allocation (the same allocation for all village).
- Nevertheless, the Comparison of two regencies confirms the improvement in 2018 formula. The gap between two regencies reduced by the decrease of basic allocation.

# How is the Village Fund spent?

The Structure of Village Revenue and Expenditure in Three Regencies 2016

## Expenditure Allocation of Village Fund Nationally in 2016



Sources: DJPK MoF

Village Revenue and Expenditure (Budgeted) 2016		Pangkep	Bieruen	Pemalang
Revenue	Village Owned Revenues			
	Shared Taxes and Charges		1%	1%
	Allocation from General Revenue of Kabupaten	27%	22%	35%
	Village Funds from Central Government	73%	77%	52%
	Other Revenues		0%	13%
	Total	100%	100%	100%
Expenditure	Village Government Salaries and Adm. Cost	23%	24%	23%
	Village Development	49%	69%	67%
	People Empowerment Program	23%	7%	10%
	Society Activities	4%	1%	1%
	Total	100%	100%	100%

Sources: Writer's calculation from KOMPAK monitoring and evaluation program 2017

- There was variations in case of three regencies in different provinces (Aceh, South Sulawesi and Central Java). The case shows different share of village fund in total village revenues. Especially in Central Java, the share of Village fund is relatively low in comparison to Aceh and South Sulawesi.
- Nationally, the Village fund was mainly used for village development (physical infrastructures, 87.7%) in 2016. Empowerment Program has not get much attentions.
- Similarly, at the village level, the case shows that the expenditure for development was still the biggest part (from 49% to 69%).

# Output of Village Funds

Village Fund has been prioritized for two purposes: (1) financing village development and (2) empowerment program. Village Government should employ villagers to execute the activities.

## Estimated Output of Village Fund for Village Development 2015-2016



Sources : DJPK-MoF (Based on local government reports)

# Examples of Empowerment Activities



Kursus/pelatihan kerajinan tangan (handycraft)



Pelatihan kewirausahaan desa untuk pemuda



Pelatihan e-marketing & pembuatan website industri rumah tangga.



Pelatihan benih kerapu, tukik dan budidaya cemara laut dan bakau.

## DANA DESA

BIDANG  
PEMBERDAYAAN  
MASYARAKAT

Pelatihan kuliner dan pengembangan makanan lokal



Pelatihan pengolahan dan pemasaran hasil pertanian



Pelatihan pemanfaatan limbah organik rumah tangga



Pelatihan Business Plan



Sources: DJPK MoF

- Various kinds of training skill have been conducted at the village level

# Challenge and Problem of Village Fund

## Problems in Fund Management

- **From State account to Local Government account :**
  - The use of fund at previous stage has not been reported to Central Government.
  - Late request for fund at the second stage.
  - The formula to calculate VF done by local government did not comply with regulation.
- **From Local Government Account to Village:**
  - Late preparation and approval of village budget
  - There is no planning document to direct the budget
  - The use of fund at previous stage has not been reported to Local Government.
  - The election of new village head

## The Use of Fund

- Budget for activities not in priority (not in planning document)
- Fund use for activities which are not in budget document
- There is no evidence of expenditure or inappropriate evidence
- Using the third party to execute the activities
- Problem of tax obligation.
- Lack of cash management

# Line Ministries Program at Village Level Before Village Law

Year	PNPM (National Program for People Empowerment) in Million Rp					
	Grant to Urban Society	Social Economics Infrast	Lagging Regencies	Grant to Rural Society	Rural Infrast	Total
2007	1,946,000	-	118,800	1,957,000	-	4,021,800
2008	1,842,000	162,000	234,800	3,621,000	406,000	6,265,800
2009	1,850,000	355,500	119,800	6,479,000	800,000	9,604,300
2010	1,356,000	355,500	11,380	9,694,000	417,000	11,833,880
2011	1,219,000	355,500	24,500	8,245,000	470,400	10,314,400
2012	1,415,000	355,500	-	8,025,000	145,000	9,940,500
2013	1,391,000	355,500	-	7,812,000	144,500	9,703,000

Source: Satu Data Indonesia, <https://data.go.id/dataset>

- In comparison to Village Fund, during 2007-2013, there was a national program for people empowerment (PNPM), executed by relevant Ministries (MoHA, MoPW, MoAgr, etc) involving experts/professionals/staffs from outside of the Government.
- The program addressed various needs of rural society, including the development of rural infrastructures and grant to rural society as revolving fund to support financing micro and small business of rural people.
- The program stopped in 2014 and expected to be replaced by Village Fund executed by Village Governments. Nevertheless, the PNPM was allocated more for empowerment program not for the development of village infrastructure.



# Characteristics of Poverty in Indonesia

Household Characteristics		Sep-14		Sep-15		Sep-16		Mar-17	
		Poor	Non-Poor	Poor	Non-Poor	Poor	Non-Poor	Poor	Non-Poor
Average household member (person)		4.76	3.73	4.59	3.68	4.57	3.68	4.57	3.69
Household head characteristics									
	Percentage woman	14.97	14.55	15.83	14.75	15.98	15.13	16.12	15.07
	Average age	49.06	46.93	49.74	47.15	49.7	47.45	49.93	47.6
	Average length of study	5.23	7.91	5.07	7.8	5.49	8.27	5.52	8.21
	Level of Education	-	-	-	-	-	-	-	-
	a. Below Elementary school (< 6 Years)	40.57	22.59	40.81	21.27	37.81	19.83	37.44	20.05
	b. Elementary School (6 Years)	37.89	29.02	39.78	33.54	37.12	27.73	37.46	28.27
	c. Second Elementary School (9 Years)	12.33	15.36	10.35	14.24	13.13	16.1	13.52	15.86
	d. High School (12 Years)	8.56	24.45	8.47	21.93	10.88	26.71	10.86	26.61
	e. Higher Education (> 12 Years)	0.65	8.59	0.59	9.02	1.06	9.63	0.73	9.21
Household sources of main income (%)		-	-	-	-	-	-	-	-
	a. No job	12.03	11.53	14.22	12.52	13.13	12.11	14.38	12.8
	b. Agriculture	51.67	29.86	49.6	29.52	50.42	28.93	49.89	29.16
	c. Industry	6.07	9.82	7.1	9.68	6.53	9.88	7.12	10.43
	d. Others	30.23	48.8	29.07	48.27	29.92	49.08	28.61	47.61

Sources: BPS, Processed

- Poor household has higher number household members and dominantly worked in agriculture sector.
- The head of poor household has lower education attainment

# Comparison Rural and Urban Poverty by Region 2014-2017

Region	Urban				Rural				Total
	Sep-14	Sep-15	Sep-16	Sep-17	Sep-14	Sep-15	Sep-16	Sep-17	
Sumatra	33.1%	32.8%	33.2%	34.3%	66.9%	67.2%	66.8%	65.7%	100.0%
Jawa-Bali	46.2%	46.8%	47.6%	48.6%	53.8%	53.2%	52.4%	51.4%	100.0%
Kalimantan	28.5%	30.5%	29.3%	32.6%	71.5%	69.5%	70.7%	67.4%	100.0%
Sulawesi	18.8%	18.3%	18.6%	20.3%	81.2%	81.7%	81.4%	79.7%	100.0%
Maluku-NT	25.0%	22.6%	23.8%	24.0%	75.0%	77.4%	76.2%	76.0%	100.0%
Papua	4.6%	4.4%	4.9%	5.3%	95.4%	95.6%	95.1%	94.7%	100.0%
Indonesia	37.4%	37.2%	37.8%	38.6%	62.6%	62.8%	62.2%	61.4%	100.0%

Sources BPS, Processed

- Generally, poverty in rural areas is much higher than in urban areas, especially in the Eastern Region. However the proportion in rural tend to decrease.
- In Jawa-Bali, the proportion of poverty in rural tend to be the same as the proportion of it in urban

# Poverty Reduction by Region (2014-2017)

Region	Annual Growth of Poor People				
	Sep-14	Sep-15	Sep-16	Sep-17	Average
Sumatra	-1.9%	3.9%	-1.5%	-4.0%	-0.9%
Jawa-Bali	-2.5%	1.2%	-3.4%	-6.0%	-2.7%
Kalimantan	-0.6%	2.1%	-2.4%	1.9%	0.2%
Sulawesi	-4.0%	6.7%	-4.8%	0.9%	-0.4%
Maluku-NT	-0.9%	7.4%	-0.8%	-2.7%	0.7%
Papua	-15.7%	3.1%	1.3%	-1.3%	-3.4%
Indonesia	-2.9%	2.8%	-2.6%	-4.3%	-1.8%

Poverty Line: Percapita Expenditure per Month (Rp)							
Urban				Rural			
Sep-14	Sep-15	Sep-16	Sep-17	Sep-14	Sep-15	Sep-16	Sep-17
326,853	356,378	372,114	400,995	296,681	333,034	350,420	370,910

Sources: BPS, Processed

- Using the BPS survey data on September each year during 2014-2017, the number of poor people in Indonesia has reduced by 1.8% per year.
- Nevertheless, there was an increase in the number of poor in 2015. This was the year where the village fund started to be allocated. There were many problems at the beginning and most of fund were not disbursed before October 2015.
- The greatest average reduction was in Papua (-3.4%), then Jawa-Bali (-2.7%). However, the decrease of poor people in Papua was mainly in 2014.

# Share of Rural Poverty by Region 2014-2017

Region	Share of Rural Poverty by Region			
	Sep-14	Sep-15	Sep-16	Sep-17
Sumatra	23.4%	23.7%	24.0%	24.0%
Jawa-Bali	47.5%	46.2%	45.6%	44.4%
Kalimantan	4.0%	3.9%	4.0%	4.1%
Sulawesi	9.6%	10.0%	9.8%	10.3%
Maluku-NT	9.5%	10.2%	10.3%	10.6%
Papua	6.0%	6.0%	6.3%	6.5%
Indonesia	100.0%	100.0%	100.0%	100.0%

Sources BPS, Processed

- In 2017, Jawa-Bali shared the highest rural poverty followed by Sumatra, Sulawesi, Maluku-NT, Papua
- However, share of rural poverty in Jawa-Bali tend to decrease in line with the reduction of poverty

# Village Fund Distribution and Poverty Reduction

Region	VF percapita (Rp)		Poverty Reduction	
	2016	2017	2016	2017
Sumatra	252,236	322,004	-1.5%	-0.7%
Jawa-Bali	107,143	137,143	-3.2%	-1.3%
Kalimantan	262,821	337,179	-0.8%	1.6%
Sulawesi	288,172	369,355	-1.9%	0.2%
Maluku-NT	302,308	386,154	-1.5%	-0.6%
Papua	1,093,137	1,389,706	1.7%	-1.0%
Total	190,283	242,915	-2.3%	-0.9%

	Share of Village Fund		Poverty Reduction	
	2016	2017	2016	2017
Municipalities	1.1%	1.1%	-2.3%	-0.6%
Regencies	98.9%	98.9%	-2.3%	-0.9%
Total	100.0%	100.0%	-2.3%	-0.9%

Sources: DJPK-MoF and BPS, Processed

- The reduction of poverty is much higher in Jawa-Bali although it receives the lowest per capita of VF
- The reduction of poverty in regencies is not different from it in municipalities in 2016, although the regencies has received village funds much higher than municipalities

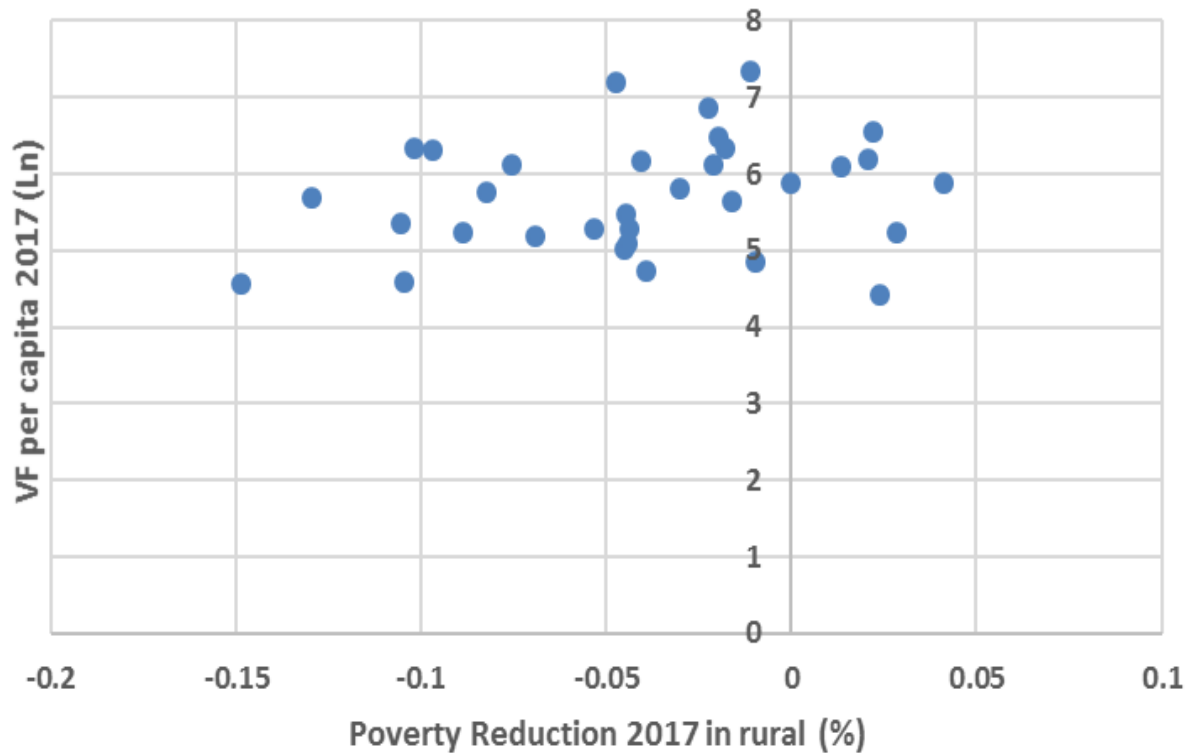
# Annual Growth of Urban and Rural Poverty 2013-2017

Region	Annual Growth of Rural Poverty				
	Sep-13	Sep-14	Sep-15	Sep-16	Sep-17
Sumatra	0.2%	-1.8%	4.4%	-2.1%	-5.6%
Jawa-Bali	-4.3%	-1.7%	0.2%	-4.8%	-7.9%
Kalimantan	2.5%	0.0%	-0.7%	-0.6%	-2.9%
Sulawesi	3.3%	-5.5%	7.4%	-5.2%	-1.1%
Maluku-NT	2.0%	-2.7%	10.8%	-2.3%	-3.0%
Papua	8.4%	-15.7%	3.3%	0.7%	-1.8%
Indonesia	-0.9%	-3.1%	3.0%	-3.4%	-5.6%

Region	Annual Growth of Urban Poverty				
	Sep-13	Sep-14	Sep-15	Sep-16	Sep-17
Sumatra	0.2%	-2.2%	3.0%	-0.3%	-0.7%
Jawa-Bali	1.8%	-3.5%	2.5%	-1.7%	-3.8%
Kalimantan	11.3%	-2.0%	9.3%	-6.3%	13.5%
Sulawesi	11.0%	3.1%	3.9%	-3.0%	10.0%
Maluku-NT	-11.5%	4.9%	-2.8%	4.4%	-1.7%
Papua	-5.0%	-14.7%	-1.1%	13.8%	7.5%
Indonesia	1.2%	-2.6%	2.5%	-1.3%	-2.0%

- The reduction of rural poverty in Indonesia during 2013-2017 was faster than of urban poverty
- The reduction of rural poverty after the provision of village fund (2016-2017) was higher than before the provision (2013-2014).
- The reduction of rural poverty in Jawa-Bali was higher than any other regions after the provision of village fund, although it received less proportion of fund than other regions

# Correlations between the Size of Village Fund and The poverty reduction in rural area



- Expectation: the bigger the size of village fund (+) and the higher the poverty reduction (-)
- From the graph, at least in Year 2017, it is an unclear correlation between the size of village fund received per Province (per capita) and the poverty reduction in rural area in each province.
- The correlation is 0.228 (insignificant)

Sources: Proceed from the Data provided by BPS and DJPK

# Mapping Village Fund Distribution and Percentage Poverty Reduction in 2016

	<i>VF Per capita below national average</i>	<i>VF per capita above national average</i>
<i>Percentage reduction of poor population above national average (2016)</i>	<p><b>I</b></p> <p>Bali Riau Sulawesi Selatan Jawa Barat Banten Jawa Timur</p>	<p><b>II</b></p> <p>Sulawesi Utara Kalimantan Tengah Sulawesi Tenggara Jambi Sulawesi Barat Kalimantan Barat Sumatera Utara</p>
<i>Percentage reduction of poor population below national average (2016)</i>	<p><b>III</b></p> <p>Nusa Tenggara Barat Jawa Tengah Kalimantan Timur DI Yogyakarta Lampung Kepulauan Riau Bangka Belitung Sumatera Barat</p>	<p><b>IV</b></p> <p>Kalimantan Selatan Aceh Sumatera Selatan Gorontalo Nusa Tenggara Timur Papua Barat Bengkulu Maluku Sulawesi Tengah Papua Maluku Utara Kalimantan Utara</p>

- At the first box (the green) are the provinces experiencing the reduction of poor population above national average but the allocation of village fund is below national average.
- The forth box are the provinces experiencing the reduction of poor population below national average but the allocation of village fund is above national average.



# Conclusion

- ❑ Village Fund, as request by Law 6/2014, has increased and secured Village Government revenues. It had an impact on the reduction of the CG expenditure during 2015-2018.
- ❑ The size of village fund in 2016-2017 was relatively small (only 0.4% GDP) in comparison to transfers to Provinces and LGs (5.2% GDP) . Nevertheless, it has been a very important fund for villages to develop rural infrastructures and empower the rural society.
- ❑ The formula of village fund in 2015-2018 has not allocated the fund in proportion with the number of poor people as well as the population since the basic allocation (equal amount for all) was dominated the distribution formula. Therefore, the distribution has not comparably matched with the fiscal need of villages to address the poverty.
- ❑ Village fund has been mainly used for village development. The empowerment program received a small portion of fund. Various problems are faced at the beginning and such problems are still continuing to emerge.
- ❑ The relationship between village fund and the poverty reduction is still inconclusive

# Conclusion

- ❑ There are so many challenges for a better outcome of fiscal decentralization to village level in Indonesia (second stage of fiscal decentralization), such as to improve the fund allocation and management.
- ❑ In term of effort to reduce the poverty in rural area, the challenges are
  - ❑ to redistribute village fund in proportion with the poor population.
  - ❑ to use the village fund to help improving the access of the poor to basic services (health, education, basic infrastructures) and increase the productivity of agriculture sector



Thank you