Indonesia's Village Fiscal Transfers: A Fiscal Decentralisation Review

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ABSTRACT

This study intends to discuss the empirical aftermath of Indonesia's first policy implementation of the Village Law 2014 the village fiscal transfers: the new village fund (Dana Desa) from the state with the prior fiscal transfers from the regency for the villages, focussing on allocation and expenditure action in Banjar Regency, South Kalimantan Province. The study findings show that the village fiscal transfers are dominantly allocated equally/same amount for every village and some allocated proportionally depend on the weight of village variables. Despite resulting inequality in allocation, the main considerations of the allocation method are to have village fiscal sufficiency and maintain state-regency-villages relation. The high increase of expenditures is mostly in infrastructure development and remuneration for village officials. In spending, the village government has to improve the accountability especially the punctuality of upward accountability and starts to initiate the downward accountability. Overlapping authorities between regency and village, and limitations in human resources should be solved immediately to smooth the process of decentralisation to villages.
Keywords: Village Fiscal Transfers, Decentralisation.

ABSTRAK

Penelitian ini bertujuan untuk membahas secara empiris setelah implementasi kebijakan pertama terkait dengan Pemerintah Desa tahun 2014 transfer fiskal desa: dana desa baru dari negara dengan transfer fiscal sebelumnya dari kabupaten untuk setiap desa, yang berfokuskan pada alokasi dan tindakan pembelanjaan di Kabupaten Banjar, Provinsi Kalimantan Selatan. Temuan penelitian ini menunjukan bahwa transfer fiscal desa secara dominan dialokasikan sama untuk setiap desa dan sebagian dialokasikan secara proporsional bergantung pada berat variable setiap desa. Meskipun menghasilkan ketidaksetaraan dalam alokasi, pertimbangan utama metode alokasi adalah memiliki kecukupan fiscal desa dan memelihara hubungan antara kabupaten/kota. Tingginya kenaikan belanja sebagian besar dalam pembangunan infrastruktur dan remunerasi bagi apparat desa. Dalam pembelanjaan, pemerintah desa harus memperbaiki akuntabilitas terutama ketepatan tanggung jawab ke atas dan mulai melakukan

pertanggungjawaban ke bawah. Otoritas yang tumpeng tindih antara kabupaten dan desa, serta keterbatasan sumber daya manusia harus segera diatasi untuk memperlancar proses desentralisasi ke desa-desa.
Kata kunci: transfer fiscal desa, desentralisasi.

INTRODUCTION

In 2015, after fourteen years of decentralisation, the government initiated the implementation of Law 6/2014 with regards to promoting villages and reversed the national development strategy from top to bottom at the grass-roots level. This was comparable to the previous decentralisation policy, in which the central government distributed functions and responsibilities regarding financial resources to provinces, regencies, and cities. The village decentralisation has a similar pattern but comes with different principle and approach. In addition, the policy attracts attention from the national to local level. Lewis (2015) has conducted research on village fund allocation and argued that the implementation of this policy is too rushed, all money and no plan. He concluded that village fund is dominantly distributed unequally regardless the actual size of villages. While it may be true, the big question is: are villages ready for decentralisation?

Other research from Antlov et.al. (2016) predicts the implications of 2014 Village Law referred to the impact of previous village policy. He said the impact of the Village Law 2014 is promising for the villager in the condition that the implementer has a strong financial management system and competent regulations.

Theoretically, decentralisation has positive impact for the local entity like it could increase local financial resources, it creates flexibility for the local entity to act effectively in responding to local voices and needs (Rondinelli & Cheema, 2007). On the other hand, Smoke et al. (2006, pp. 3-4) argued: "decentralization is neither a panacea for public sector ills nor an inevitable obstacle of effective government". Expectation and result of decentralisation might be different. Smoke (2006) named some unwanted results of desentralisation, for example subnational deficits and debt, and local corruption that might threaten ei-

ther national and local fiscal stability. These two opinions remind that the result of decentralisation differ and it depends on the implementer.

Further, Rondinelli & Cheema (2007) states that decentralisation is more than authority/responsibility transfer but it is also division of authority and resources in public policy. Governance decentralisation practices appear in four forms: political, administrative, fiscal and economic. Fiscal decentralisation is defined as sharing public revenues among government tiers and fiscal delegation in expenditure allocation. In reality, there is a gap between local government fiscal resources with local government expenditure fiscal needs. Therefore, fiscal transfers play the role to minimize the gap. Takahashi (2012) thinks that fiscal transfer schemes is crucial for successful fiscal decentralisation. Also, Uchimura (2012) noted the need for fiscal transfers is emphasized for the purpose of equity and maintenance of certain national standards for public service across regions.

In this study, the research is undertaken at the regency and village levels of the village decentralisation policy regarding fiscal transfers for villages with the objective of identifying issues empirically, while also providing criticism and discussion. The fiscal transfers could be considered an essential part of village decentralisation. This paper limits its discussion to the allocation of fiscal transfers and outcomes after expenditures spending. The research questions of this paper are how are the village fiscal transfers allocated to villages? How is the equity applied in the allocation method? How do the villages spend the village fiscal transfers? What problems or limitations arise in this early implementation? While it has been said that it is too soon to judge the outcomes, the author believes that this research paper will contribute to the improvement of Indonesian village decentralisation policy. Indonesia has 80,000+ rural and urban villages (BPS, 2015), so it would take a lot of effort to explain the exact phenomena. As such, a case study is appropriate, with the

Banjar Regency chosen as the site, even though it is not a representation of all villages in Indonesia.

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Indonesia's administration classifies its territory into 34 provinces *(provinsi)*, 416 regencies *(kabupaten*: in other English literatures, the appellation of *kabupaten* is district, in this paper district stands for *kecamatan*) and 98 cities *(kota)* ([MoHA, 2015](#)). Granted as autonomous areas, provinces and regencies/cities have local government systems with local elected head and representative councils. In general, a regency and city in Indonesia are differentiated by a couple of characteristics. A city is in an urban area (some coincide as a province's capital city) and regency is in a rural area. In addition, a city and regency in Indonesia differs in area size: a regency is always bigger than a city.

Before explaining the foundation of the Indonesian village governance system, a very brief Southeast Asia village governance comparison is important to recognise. [Marx & Ghosh (2014)](#) present an example of village governance comparison. First, Cambodia has around 14,000 villages and it is located under the commune/*sangkat*. Commune is located in the district and *sangkat* is under the *khan*. The district is located in province and *khan* is located in the municipality. The village is a legal entity but not an official government administration. Village chief is appointed by the commune council. The village chief has twin roles. First, as a community leader, village chief accommodates and facilitates of handling disputes and issues that arise in his/her village. The second role as the representative of the government, village chief prioritizes government project placement in the village and supervise the implementation. Also, village chief is the contact for villagers to the government. For remuneration, village chiefs receive financial support only from the government. All in all, village government is limited, since Cambodia's decentralisation policy has been currently expanded until commune level.

Marx & Ghosh for the second case presented the Philippines. This country divides its area into provinces and Highly Urbanized Cities. Under the provinces are the cities and municipalities then under municipalities is the *barangay* as the bottom level of government unit. There are 42,028 *barangays* that are categorized as a village. Commune is the lowest level of government in Cambodia, while in the Philippines is the *barangay*. *Barangay* considers as an autonomous local government unit and under it are the neighbourhoods named *sitios* or *puroks*. The chief executive of *parangay* is the *punong barangay* and the legislative council is the *sangguniang barangay* that is elected every 3 years. Different with other countries, the *barangay* has judicial body named *katarungang pambarangay*, it is a community-based mechanism for speedy resolution of disputes among community members. *Barangay* is authorized to raise its own revenues; however, *barangays* is still highly dependable on a formula share government fiscal transfer the internal revenue allotment (IRA). *Barangays* can practice discretion in IRA utilisation rather than specific purpose direct grants.

Another case of village is from a developed country like Japan that has two layers of local government. First layer is the prefectures (*-to/ -do/ -fu/ -ken*) and the second layer is the municipalities namely city (*-shi*), town (*-cho* or *--machi*), and village (*-mura* or *-son*). Since village is considered as a municipality, it means village is a local administrative unit that stands equal to (not under) city and town. The different is only the population and area size of village is the smallest than other municipalities. Village mayor is the executive organ and village assembly is the legislative organ both have the term length of four years and they are directly elected by the residents. Japan tried to promote decentralisation by abolishing agency delegated function to local government in the year 2000 ([Konishi, 2010](#)). Japan is facing aging society and high fiscal burden with an outstanding internal debt. Thus, coincide with the promotion of decentralisation, Japan has implemented the wide-area administration (see

Yokomichi, 2010) and municipal merger policy. As a result, the number of villages continuously decreasing like in the event of Great Showa Consolidation (1953-1960) from 7,616 villages to 981 villages and in the Great Heisei Consolidation (1999-2006) from 568 to 198. Moreover, a sign of the society transition from rural to urban is shown by the increase of a number of cities from 671 to 777 in the year 1999-2006 (see Yokomichi, 2007). In the fiscal side, the central government tried to reduce the general fiscal transfer for local governments called the Local Allocation Tax (LAT) in the case of Trinity Reform (2003-2006), the purpose is to increase local fiscal independence and improve central fiscal health (Ikawa, 2007).

Indonesia's villages are located under the regencies and coordinated by districts (*kecamatan*) as the representation of regency government. Village head as the village chief executive with the term length of 6 years and the legislative organisation is the village council *Badan Permusyawaratan Desa* (BPD) with the term length of 5 years. Units under the village are community unit or *rukun warga* (RW) and neighbourhood unit or *rukun tetangga* (RT). An Indonesian village is called *desa*. According to Village Law 2014, there are two kinds of villages: *desa*, or administrative villages, and *desa adat*, or customary villages. In this study, we discuss *desa* without *desa adat*. This consideration is due to the number of administrative villages exceeding the number of customary villages. Only in some parts of Indonesia do customary villages remain. No customary villages are included in this case study.

Different from the governance at higher levels, village governance employs a hybrid system combining self-governing community with local self-government (Marx & Ghosh, 2014) (Silahudin, 2015) (MoHA, 2015). As a *self-governing community*, the village is formed as community organisation. The village is viewed as an independent entity whose traditions are drawn purely from the community. Villages are established by the community, arranged by the community, performed by the commu-

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nity, and function for the collective purpose or interest of the community. The empirical interpretation of this system is that all the village government apparatus must come from their own people. Villages also have the right to draft their own legislation based on local traditions, as long as it does not contradict with higher regulations (Antlov, Wetterberg, & Dharmawan, 2016)

As a *local self-government,* villages also constitute as government organisation. Dual interpretation about village's position in Indonesia's governance system. The Local Government Law 23/2014 states regency/city divided into districts, and further districts divided into villages and sub-districts *(kelurahan),* this means a village is a division unit of a regency and is the lowest and closest representative body of the people. The state and local government could assign responsibilities to village. Therefore, village government is accountable for the assigned responsibilities to the regency via district government. Village Law 2014 states that a village stands independently as a government entity that administers their own tasks and necessities to provide public services. It is the smallest organisation that has a certain degree of autonomy (MoHA, 2015).

Unlike the previous decentralisation of state/central government to local government, which included transfer of authorities and residual principles, decentralisation to a village employs two keystone principles: recognition and subsidiarity (Silahudin, 2015, p. 11). *Recognition* stands for acknowledging and honouring a village's existence based on its origin and traditional right. Recognition emerges due to the preservation of villages pluralism (especially in a customary villages) whose coexistence is older than the republic of Indonesia (Eko, 2015, p. 39). Indonesian villages operate under a variation of governing models; for example in term of appellation of village: *Nagari* in West Sumatera, *Gampong* in Aceh, *Pakraman* in Bali, *Marga* in South Sumatera, etc. Although in some areas customary villages have vanished, to a certain degree, their customs still exist in administrative villages. For instance, village heads are referred to as *Pambakal* in

Banjar, *Kuwu* in Cirebon, *Lurah* in Yogyakarta, etc. In the context of administrative law, villages are recognised as self-governing communities, as social entities permitted to run their own government as a legal community entity. Provinces, regencies, and cities are also legal community entities, allowed to perform local governance and named autonomous areas. In contrast, villages are not considered autonomous areas but in practice has special privileges to run their own system of governance or a certain degree of autonomy. Markell (2008) understands recognition as granting an entity the capability to act on its own rather than based on an identity. This recognition principle has brought the consequence that village have its own responsibilities. In order to operates the responsibilities, the nation supported by the allocation of the new transfer *Dana Desa* from the state level exclusively for villages in addition to the regular consequences from the regency-level *Alokasi Dana Desa* (Eko, 2015, p. 41).

Subsidiarity is the principle that power should be decentralised wherever possible (Begg et al., 1993) and that decisions should be made at the lowest possible effective level (Holmes, 2004). Proponents of subsidiarity believe that the village and impacted societies in general identify local problems more clearly and logically know better how to solve it. Therefore, issues can be solved more effectively and efficiently by the village than by a higher party. Consequently, the state stipulates that any authority that the village is capable of exercising shall not be undermined or transferred to outside authorities or to higher government tiers. Colombo (2012) expressed that subsidiarity is a principle for regulating the distribution of public powers, endowing local structures with the autonomy and the resources necessary to carry out their responsibilities. The application of subsidiarity in Indonesian villages is the existence of *Kewenangan Lokal Berskala Desa,* or village-scale authorities (Eko, 2015, p. 114), which cluster their own authority in 1) village governance activities, 2) village development (infrastructure), 3) social services (relations), and 4) community empowerment. In order to operate the vil-

lage-scale authorities, village is given revenues from the following sources: 1) original village revenue, 2) allocation from national budget, 3) revenue sharing from regency taxes, 4) allocation from fiscal balance fund for regency, 5) financial aid from third parties, and 6) other legitimate revenue sources.

CASE STUDY PROFILE AND RESEARCH METHODOLOGY

Banjar Regency is one of thirteen regencies/cities in the South Kalimantan Province positioned at the southeast side of Borneo Island and comprises 20 districts, 277 villages and 13 sub-districts. The regency spans 4,706.05 km^2 and as of 2014 had a population of 547,862. The economic structure of Banjar Regency is dominated by four sectors: trade, agriculture, mining and the service industry (Banjar, 2014). Because most of the data used in this study was not available on the internet, the author collected data from the Community Empowerment and Village Governance Agency *(Badan Pemberdayaan Masyarakat dan Pemerintahan Desa Kabupaten Banjar/*BPMPD*)* and attended some internal meetings with regency and district officials and village heads in February-March of 2016, during which time survey and interviews were conducted. The author also visited the BPMPD South Kalimantan Province in Banjarbaru and three ministries in Jakarta (i.e., the Ministry of Home Affairs (MoHA); the Ministry of Villages, Development of Disadvantaged Regions, and Transmigration (MoV); and Ministry of Finance (MoF)) for interviews and synchronise information about the village.

Although interviews are held at village, regency, provincial, and ministerial level, the main qualitative data are from informants: BPMPD head, village governance division head at BPMPD and regency level village facilitator *(pendamping desa)*. The interaction with 66 village heads via open survey and some with unstructured interviews to explore how the village fiscal transfers policy implemented. For quantitative data, for allocation part the author used the village fiscal transfers allocation for villages in Banjar Regency namely village fund *(Dana Desa/*DD*)* Fiscal

Year (FY) 2015 and 2016, village fund regency allocation (*Alokasi Dana Desa/*ADD) and shared regency tax revenues (*Bagi Hasil Pajak Daerah dan Retribusi Daerah/*BHPRD) from FY2011 to 2016. For expenditures part the data used are total regency level village budget (*Anggaran Pendapatan dan Belanja Desa/APBDes)* FY2014, samples of 98 villages' budget FY2015, and villages' report of village fiscal transfers realisation FY2015.

RESULTS AND DISCUSSION
VILLAGE'S INTERGOVERNMENTAL FISCAL RELATIONS

The milestone interpretation of Village Law is the DD. The government promised that the fund would increase every year until the slogan "one village one billion" (*satu desa satu milyar*) was actualised. Previously, the only village intergovernmental fiscal relations were between the regency and village through ADD and BHPRD. Subsequently, state-village fiscal relations were developed through the village fund, in addition to the prior regency-village fiscal relations.

TABLE 1. TOTAL BANJAR REGENCY VILLAGE REVENUES (IN RP. BILLION)

No.	FY	DD	ADD	BHPRD	Total Village Revenues	Average Received per Village (in Rp. million)	Annual Change of Total Village Revenues (%)
1.	2011	-	34.375	3	37.375	134.9	NA
2.	2012	-	32.683	3	35.683	128.8	-4.5
3.	2013	-	32.600	3	35.600	128.5	-0.2
4.	2014	-	35.609	3	38.609	139.3	8.4
5.	2015	73.258	99.247	3	175.505	633.6	354
6.	2016	164.329	97.904	3	265.233	957.5	51

Source: BPMPD Banjar

The figures from Banjar Regency show progressive changes regarding allocation for villages. In FY 2015, the allocation was nearly four times that of the year before. DD is the dominant transfer for villages than the other financial resources from the regency. The average funds received per village grew almost ten-fold, from an average of 100 million per year to about 950 mil-

lion in 2016. Moreover, with the character of the village fiscal transfers as a general purpose transfer that tend to be unconditional transfer and the village government in utilizing has a particular discretionary or freedom degree of spending. Therefore, this growth opened new challenges for all parties—not only the village but also the state and local government must guide the implementer to the real purpose of the transfers. Next, the author explains three types of village fiscal transfers:

VILLAGE FUND *(DANA DESA)*

Allocated from the national budget (*APBN)*, DD's minimum value is 10% from the value of all fiscal transfers for local governments, but the DD allocation is outside not included in the fiscal transfers for local governments. In fact, the allocation is still below 10% but increased from Rp. 20.76 Trillion or 3.1% in 2015 to Rp. 46.9 Trillion or 6.4% in 2016. The distribution mechanism starts when MoF transfers DD to the regency, and the regency then distributes DD to the villages. MoF has the jurisdiction to determine the DD allocation formula for regencies. Likewise, regencies are tasked with calculating the DD allocation formula for villages.

Lewis (2015) had examined the formula and criticised that, oddly, the DD allocation mechanism predominantly exercises equal measures per village, disregarding the villages' disparities and ignoring other sources of revenue for villages. Unequal distribution of DD and other transfers could result.

$$DD_i = [0.9 * (\frac{DD_T}{V_T}) * V_i] + [0.1 * DD_T * (\sum_h \frac{\propto_h . PROXY_{hi}}{PROXY_{hT}})] (1)$$

Equation source: Lewis (2015)

The formula shows 90% DD_T for regencies divided equally per village. The remaining 10% of is distributed based on the weight of variables according to equation (1). Continuing Lewis's (2015) equation, for this paper is DD allocation for regency i, while is total village funds nationally. is the total number of Indonesian villages, is the total number of villages in regency *i*.

represents DD proxies in regency i, where h covers the following variables: village population, village poor people number, village area size, and the geographical difficulty index with the weights 25%, 35%, 10%, and 30%. represent those proxies' weights, which add up to one. is the sum value (i.e., across all regencies in Indonesia) of PROXY h.

At the regency level, the allocation for every village goes like equation (2) below. is DD allocation for village d. represents DD proxies in village d. The weights of every variable or have the same percentage as in the state-to-regency allocation formula. 90% of is split samely and 10% is divided based on the proxies' weight of villages or proportioned formula amount.

$$DD_d = [0.9 * (\underbrace{\tfrac{DD_i}{V_i}})] + [0.1 * DD_i * (\underbrace{\sum_h \tfrac{\propto_h . PROXY_{h\,d}}{PROXY_{h\,i}})}] \qquad (2)$$

$$\underbrace{\phantom{DD_d = [0.9 * (\tfrac{DD_i}{V_i})]}}_{\text{base amount}} \quad \underbrace{\phantom{[0.1 * DD_i * (\sum_h \tfrac{\propto_h . PROXY_{h\,d}}{PROXY_{h\,i}})]}}_{\text{proportioned formula amount}}$$

VILLAGE FUND REGENCY ALLOCATION *(ALOKASI DANA DESA)*

The previous law, government regulation *(Peraturan Pemerintah)* GR 72/2005, had stipulated that ADD came from 10% of the fiscal balancing fund after deducting regency apparatus spending. The fiscal balancing fund comprises general grant *(Dana Alokasi Umum)* and shared revenues from tax and natural resources *(Bagi Hasil Pajak dan Sumber Daya Alam)*. The 2014 Village Law changed the ADD's determination from 10% of the fiscal balancing fund without deducting regency apparatus spending. As a result, ADD hiked from Rp. 35 billion for 2014 to Rp. 99 billion for 2015 and 2016.

In 2015, Banjar Regency changed ADD allocation from an even distribution to a partial formula based method, which consists of 60% of the base amount and 40% of the proportioned formula amount. and are the village fund regency allocations for village d and total in regency i, respectively. represents ADD proxies in village d and is the total value of in Banjar Regency. r = village population, village poverty number, village size, village

government wage, geographical difficulty index with the weights for FY 2016 (35%, 7.5%, 7.5%, 35%, and 15%, respectively. The equation is below:

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$$\text{ADD}_d = [0.6 * (\frac{\text{ADD}_i}{V_i})] + [0.4 * \text{ADD}_i * (\sum_r \frac{b_r . \text{PROXY}_{rd}}{\text{PROXY}_{ri}})] \quad (3)$$

$\underbrace{\hspace{2cm}}_{\text{base amount}}$ $\underbrace{\hspace{4cm}}_{\text{proportioned formula amount}}$

SHARED REGENCY TAX REVENUES *(BAGI HASIL PAJAK DAERAH DAN RETRIBUSI DAERAH)*

The regency has to give 10% of its tax revenue to the villages, and the regency government seemed to not pay attention to the escalation of regency tax revenues for the development of BPHRD allocation. In 2013, 2014, and 2015, regency tax revenues *(Pajak & Retribusi Daerah)* increased to Rp. 51.7 billion, Rp. 66 billion, and Rp. 54.2 billion (DISPENDA Banjar, 2015), respectively. However, each year the BPHRD allocation remained constant at Rp. 3 billion.

Similar to the ADD distribution method, the BPHRD allocation method has changed from an even distribution method to a formula-based method, with 60% of the base amount and 40% of the proportioned formula amount. and are the amounts of village fund regency allocation for village *d* and the total in regency *i*, respectively. Due to the limited data of regency tax revenues collected in each village, the regency government decided to use the data from the land property tax collected from each village to use as, which represents BPHRD proxies in village *d* and is the total value of in regency *i*. r = village population, property tax target, property tax realisation, property tax quittance degree with the weights for FY2016 (30%, 30%, 20%, and 20%, respectively. BPHRD allocation method as shown below:

$$\text{BPHRD}_d = [0.6 * (\frac{\text{BPHRD}_i}{V_i})] + [0.4 * \text{BPHRD}_i * (\sum_p \frac{y_p . \text{PROXY}_{pd}}{\text{PROXY}_{pi}})] \quad (4)$$

$\underbrace{\hspace{2cm}}_{\text{base amount}}$ $\underbrace{\hspace{4cm}}_{\text{proportioned formula amount}}$

ASSESSING VILLAGE FISCAL TRANSFERS: EQUALITY AND FISCAL CAPACITY METHOD

The three transfers are merged into the *APBDes*, unlike DD, which has legal direction from government regulation PP 22/2015 to determine the percentage of the base/same amount per village 90% and the remaining 10% with determining weight of variables or proportioned formula amount. For ADD, the regency improvised the establishment of the base amount. Ideally, regarding to equity and fairness the base amount should not exist because it will weaken the objective allocation based on the real situation of villages so it should be formula only for allocation of village fiscal transfers. For instance, village with bigger size area should receive more village fiscal transfers than the smaller one since they must be having bigger scope of responsibilities than the smaller one or villages with high number of poor people should receive more fiscal transfers than villages with low number of poor people because the more one village have poor people the more they need funding for poverty alleviation programs. The present of base amount only making the distribution of fiscal transfers more not objective to villages' situation. This part examines the policy why the government implemented the base amount allocation. The approach for examines the base amount allocation using the village fiscal transfers allocation per village and per capita per village.

Firstly, the author operates the Banjar Regency village fiscal transfers allocation for FY 2016 using the equation (2), (3), and (4) above and united those transfers into village budget and determine it as "actual allocation" (the base amount with the proportioned formulated amount). Secondly, running another allocation simulation by removing the base amount so it is using proportioned formula only and named as "non-base amount allocation simulation". The result can be seen in Figure 1 and it seems fairer. The gap among the villages in the actual simulation is not as wide as the non-base amount simulation. If we use the concept of Musgrave and Musgrave (1989, p. 455) that every citi-

zen should receive same public service cost, a further simulation can be conducted with the per capita (PC) allocation approach. The result is that the PC non-base amount allocation is more equal than the PC actual allocation, but the gap is very close and relatively could be ignored, see Figure 2. Lastly, the author uses the Gini coefficient for measuring the inequality where the coefficient values from 0=perfect equality 1=perfect inequality (see Kakwani & Son, 2005). The calculation of Gini coefficient for the PC non-base amount allocation is 0.28, and the PC actual allocation is 0.30. This is a very positive result from the allocation method implemented by the regency, compared to the state's method, which divided DD FY2015 across regencies, yielding a Gini coefficient of 1.19 (see Lewis, 2015).

TABLE 2.DESCRIPTIVE STATISTICS AND VARIATION OF VILLAGE FISCAL TRANSFERS FY 2016 (IN RP.)

|	Mean		Min.		Max.		Variation Coef.		Gini Coef.	
	(in million)	PC	(in million)	PC	(in million)	PC		PC	Base w/ Formula	Non-Base, only Formula
DD	593.2	569,289	575.7	82,708	678.4	2,062,671	0.02	0.64	0.33	0.31
ADD	353.4	323,776	293.2	76,460	601.2	1,116,465	0.13	0.58	0.30	0.43
BPHRD	10.8	9,278	6.8	1,964	122.4	108,601	1.02	0.93	0.33	0.25
APBDes	957.5	902,343	878.3	168,829	1,282.9	3,203,021	0.06	0.61	0.30	0.28

Source: BPMPD Banjar

FIGURE 1. VILLAGE BUDGET SIMULATION
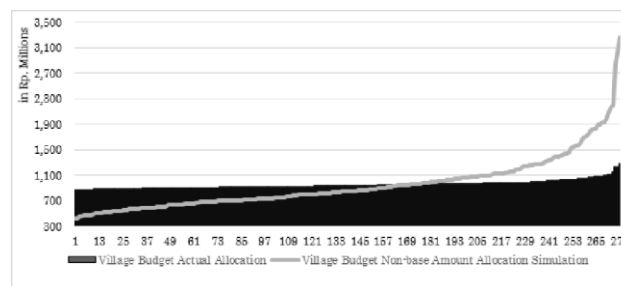
Source: Author's own simulation Population of 277 villages (1 to 277 are villages' serial number)

FIGURE 2. PER CAPITA VILLAGE BUDGET SIMULATION
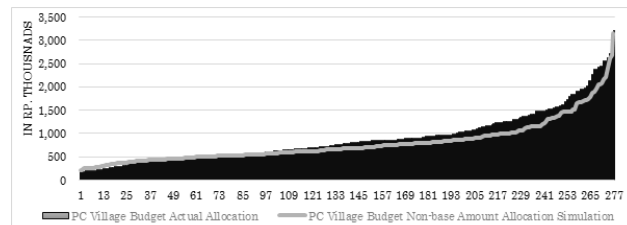
Source: Author's own simulation Population of 277 villages (1 to 277 are villages' serial number)

Table 2 shows DD from the state comprises about 62% of village revenues on average and the remaining comes from regency ADD and BPHRD. The smallest amount of DD received by villages is 575.7 million and the highest is 678.4 million, but in PC the interval is very large: the largest village received more than 20 times the DD received by the smallest. Having said that, the regency government divided the transfers better than the state. The PC ADD maximum is about 10 times the ADD minimum amount. BPHRD's value is based on property tax, which can be very dramatic, as the achievement for villages located near urban areas or the outskirts is much higher than that of villages in more remote areas. Due to this, the PC BPHRD varies dramatically among villages. Banjar Regency levied 39 tax bases (13 taxes, 26 fees) (DISPENDA Banjar, 2015); thus, in the future, BPHRD allocation should be more objective using more than one base tax parameter achievement per village.

Weight is a factor in the transfers system and a standard setting (Spahn, 2007, p. 175). Therefore, presumably the village budget non-base amount allocation simulation that determined allocation of every village fiscal transfer by weight of variables is a suitable fiscal design for village transfers. However in reality, the village budget actual allocation uses the base amount for a win-win situation so that one village to another would have not a severe wide gap of village budget (see Figure 1). Further, if the amount of village budget actual allocation minuses the amount

of village budget non-base amount simulation, we can see villages that lose or win the fiscal transfers. The result can be seen in Figure 3 (left/- for loser and right/+ for winner) that shows districts that have more villages with a larger size, larger population, and poorer population like *Aluh-Aluh* and *Sungai Tabuk* most suffered, and *Paramasan*, which comprises only four villages but is large in size, lose as well. In contrast, districts such as *Karang Intan, Simpang Empat,* and *Tatah Makmur* that have many villages with small in size with small populations benefit from this base amount decision.

FIGURE 3. VILLAGE BUDGET ALLOCATION LOSER AND WINNERS (GROUPED BY DISTRICT)
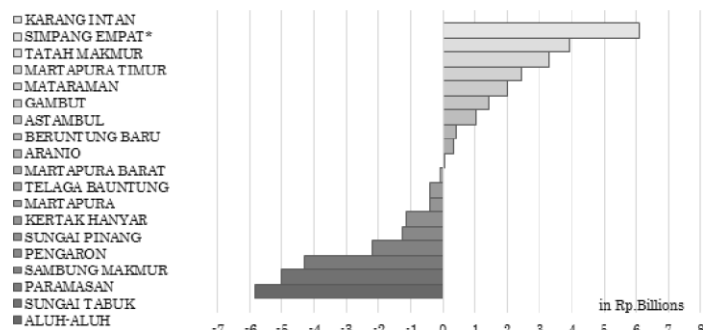
*Simpang Empat represents two districts: Simpang Empat itself and Cintapuri Darussalam Source: Author's own simulation

Fiscal capacity is the sum of the local government own revenues plus shared revenues ([Kassum, 2003](#)). MOF's through regulation No.37/PMK.07/2016 defines fiscal capacity as general description of local government financial capability. Fiscal capacity is obtained from general revenues that comprises of own revenues and transfers from other level of governments excludes special purpose transfers and then minuses with the officials' expenditures then divided with population of poor people. Modified from the above definition, this paper defines village fiscal capacity as the sum of village revenues minus the village government officials' wages divided by the village population as described in equation (5). The villages' own revenues do not con-

tribute to village fiscal capacity because there is no available data, and in general, villages in Banjar do not have their own revenue, only very few villages that have its own revenue and with unsubstantial amount of revenue.

$$FC_d = \frac{(DD_d + ADD_d + BPHRD_d) - WG_d}{POP_d} \quad (5) \qquad IFC_d = \frac{FC_d}{(\sum_d FC/V_i)} (6)$$

FC_d is fiscal capacity in village d, WG_d is wage for village d government officials, and POP_d is the village d population. Fiscal capacity or IFC_d is indexed using equation (6) with the value categories 'Low' (<0.5), (1>>0.5) 'Medium', and 'High' (>1) yields villages' fiscal capacity mapping as shown below:

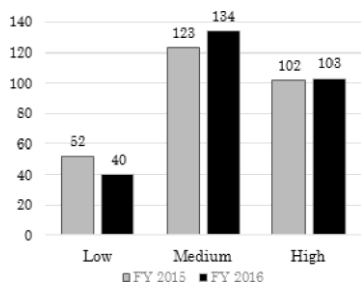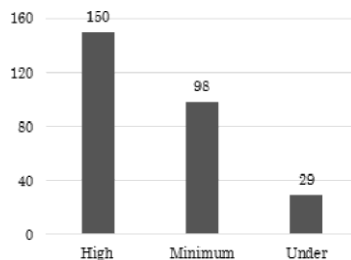FIGURE 4. VILLAGES' FISCAL CAPACITY MAPPING (IN UNIT)   FIGURE 5. VILLAGES' FISCAL PERFORMANCE (IN UNIT)

Source: Author's own calculation

The bar chart shows that the villages' fiscal capacity improved from 2015 to 2016. Only 15% villages have low fiscal capacity. The positive shift is in low fiscal capacity, from 52 to 40 villages, and the medium-level fiscal capacity had increased from 123 to 134 villages. This indicates that the regency allocation method succeeded relatively in dividing the transfers to the villages.

A short open survey was conducted with a sample of 66 village heads, collecting their perceptions of the huge increase of village fiscal transfers. The results were that 36% of village heads think that the increase has created sufficient resources for the villages, 48% still think that the resources are not enough for village need, and only 3% argued that the increase is too exces-

sive to handle by village. In response to a question regarding the need to create village own revenue after receiving "easy-unconditional transfers" from the government, 77% said village own revenue still needed to be created, and only 3% said there was no need to create village own revenue.

CONSIDERATIONS OF THE ALLOCATION METHOD

Fiscal sufficiency—the 30-70 uniformity. The state provides fiscal transfers to local governments in order to achieve greater uniformity of expenditures (Wildasin, 2006). Making the villages work with sufficient fiscal support is the main concern for the regency government. The government determines the village local-scale authorities for the basic references for utilising the transfers. The allocation plays as the strategy to create 30-70 uniformity that the village budget contains 30% for wages and village government operations/routines and 70% for village local-scale authorities (Zainuddin, 2016) and (Rahman, 2016), which include: 1) village governance activities, 2) village development (infrastructure), 3) social services (relations), and 4) community empowerment. In addition, the regency government determines the salary of every village official. In FY2015, the average percentage wage in the village budget is 23%, with a maximum value of 26%, and in FY2016 the average increased to 24% but the maximum value was 34%. There are 11 villages that have wage expenditures at and over 30%. There is no budget left for government routine for those villages because of remuneration allocation.

Maintaining state-regency-village relations. The state wants DD as a reflection of original political support from the state for all villages. The regency does not interfere with the DD's allocation method of 90% equal per village and 10% based on the weights of all the determinant variables except for the design of ADD and BPHRD the weight of variables determined by regency itself, which is originally the regency's jurisdiction. All in all, the allocation satisfied the villages with minimum objections or complaints (Zainuddin, 2016). Avoidance of jealousy of resources

distribution among villages was prioritised (Rahman, 2016). Shah and Broadway (2007) explained that transfers comprise an equalising element in which higher per capita transfers go to low fiscal capacities jurisdictions. In this case, horizontal equality (among villages) and vertical equality (state-regency-village relations) can be achieved based on the fiscal capacity index perspective. Moreover, the relations between state-village and regency-village is very important, because it reflects the relations of the state with its people, as the village is the closest entity to the people. Developing and administering the country with full financial commitment is a sign that the government is open to involvement from members of society. Endearing themselves to the society could be quite beneficial for current local and national leaders and politicians.

AFTER SPENDING
Infrastructure Development and Remuneration Dominate

High allocation comes with high responsibilities. Based on the four domains of village local-scale authorities, the emerging trend for the first-year implementation (see Figure 6) is expenditure on the development of infrastructure in the first place and then followed by governance activities. Before the new transfers, the highest spending was on wage only, but other spending such as governance operational and community empowerment and development (in one account) is covered in very small amounts that are equal in all villages, Rp. 30.8 million and Rp. 20 million, respectively.

The four domains of expenditure have their own roles in developing a village. The position of the expenditures also has its own importance. However, in terms of its implementation, it seems that infrastructure is prioritised. The imbalance of spending is very big between development and governance activities, at Rp. 334 million and Rp. 200 million, respectively, with social services and community empowerment spending as the two smallest expenditures at Rp. 51 million and Rp. 33 million, respec-

tively. The gap had reached more than 20 times from the lowest to the highest spending. Summing up, infrastructure development and remuneration are the main trends.

FIGURE 6.VILLAGES EXPENDITURE TREND BEFORE AND AFTER THE NEW FISCAL TRANSFERS
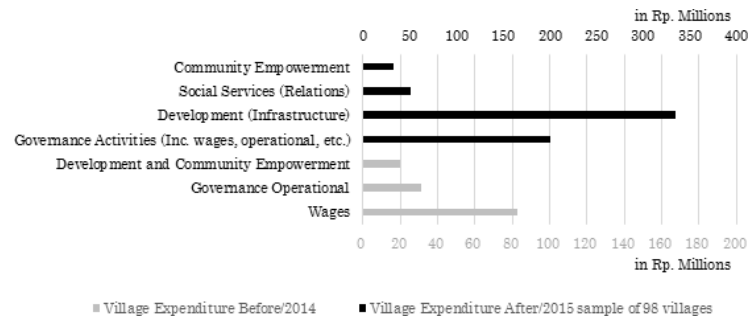
Source: BPMPD Banjar

Examples of infrastructure development include neighbourhood roads, agriculture access roads, roads' drain, small bridges, street gutters, security posts, public toilets, and clean water pipes. Governance activities also include infrastructure projects such as renovating the village head's office, building midwife houses, and building a village hall. Other governance activities include improvement of things like computers, furniture, ambulances, and other supporting materials. Social services (relations) such as financial aid for mosques, providing fire extinguishers, chairs and tents for community events. Community empowerment comes in the form of training and capacity building for community organisations to improve skills that support the village's economic improvement.

Dunleavy's rationalises (1991) that larger budgets help bureaucrats raise salaries, since increased responsibilities merit higher remuneration. The statement above can be found in this study, the sense of high responsibilities encountered by the regency government by improving the village government's salary, allowance, and/or incentives (Marx & Ghosh, 2014) with the purpose of motivating village government employees. All village gov-

ernment employees originally have another profession, for ex-ample teacher, farmer, bricklayer, household industry owner, etc. With remuneration, it is hoped that they can fully responsible to work for the village government without needing extra income from jobs outside village administration. Starting in 2015, a vil-lage government treasurer, or *Bendahara,* was recruited and paid. Then, in 2016, villages that do not have a secretary, or *Sekretaris Desa,* recruited for the position. Before 2016, only three persons were allocated for neighbourhood heads, or *Kepala Lingkungan* or *Ketua Rukun Tetangga/RT,* but currently an allowance of up to nine persons is in place. Before the transfers, the village head paid Rp. 2 million/month, but the payment increased to Rp.3 millions/month after the present of village fiscal transfers. Other officials like division heads, or *Kepala Urusan,* neighbourhood heads, and village treasurers earned under Rp. 1 million/month but are now paid Rp. 1.33 million, Rp. 1.33 million, and Rp.1.24 million/month, respectively. For *BPD members,* were previously paid under Rp. 500,000/month and are now paid under Rp. 700,000/month, depending on the chairmanship. The new po-sition of village secretary paid far better than other village offi-cials, in the amount of Rp. 1.76 million/month.

New Mindset for Village Heads

Village Law defined village government as the village head assisted by village officials obligated to enact village governance, execute village development, maintain village social relations, and empower the community. These terms are very serious, as they are not easy job to carry out. A political position that func-tioned as the territorial head (warden) made the village head figures strong and important in society, as a good public servant for the people and as a government facilitator in delivering gov-ernment projects in the village. They bear twenty-four-hour re-sponsibilities due to the commitment to helping the people whenever they need it. This is the basic task of the village head. Regarding the new fiscal policy, village financial management

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authority is held by the village head. The task developed with the demand that the village head have public finance management skills. High resources demand greater involvement of the village head in financial management. The village head is involved in the phases of public finance management coordinating from planning, budgeting, expenditure/procurement, accounting, reporting, and performance evaluation/assessment. Nevertheless, participation from the society is fundamental in the process of managing public funds at the village level.

Village heads have to start learning the skills and developing the right mindset to manage public organisation and its financial resources. This action aimed to carry out the Village Law by developing the villages and improving their economies. Lack of competence might lead to mismanagement, which may possibly create losses of public funds that may in turn be seen as corruption. On the whole, village heads have added to their responsibilities to include public finance manager.

Forgetting Two-Way Accountability
While it is relatively true that spending money is an easy job, for public provision the accounting and reporting are difficult. In Indonesian governance, spending public allocation is commonly defined as fiscal performance. The standard village fiscal performance is assigned by the government. The villages have to spend a minimum of 70% of its budget. As seen in Figure 5, only 50 villages could not reach the target of a 70% minimum (under achievement). 98 villages achieved 70% but spent under 90% (minimum achievement). On a positive note, 150 villages spent more than 90% (high achievement). Those numbers are a good prospective sign for first-time implementation despite the gap between overall village budget realisation and the actual budget in Figure 7.

On the other hand, accounting and reporting need improvement. Completion of accounting and reporting for 2015 village transfers spending that had been submitted to the regency gov-

ernment is below 100% (see Figure 8), even though the accounting and reporting are mandatory to be 100% submitted. Village governments are fighting hard to make the report achieve upward accountability. The FY is 1 January to 31 December and one month after the FY ended is given to publish the report. In fact, the regency had waited for more than three months to consolidate the reports from all villages. Moreover, the villages had only delivered the report to their superior and forgot that the report is also essential for the village government and so must be publicly published for downward accountability to the society. As Clarke and Stewart (1991) argued that local authority is more accountable to the superior than to the community.
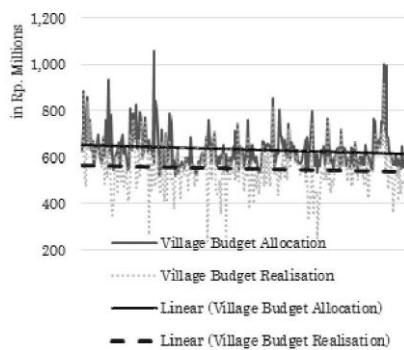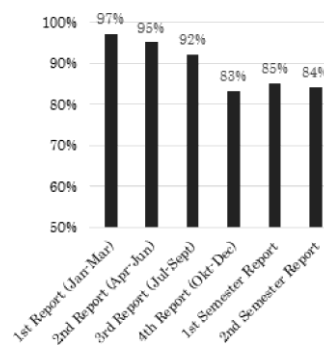
FIGURE 7. VILLAGE BUDGET REALISATION FY 2015

FIGURE 8. VILLAGE BUDGET REPORT ACCOMPLISHMENT FY 2015

Source: BPMPD Banjar

Fading Political Competition for Village Projects

Before the new village fiscal transfers were given, projects were not received every year or by every village from the regency government or even from the province and ministries. Villages have to compete with one another for projects. Village heads have to be proactive in creating high initiatives for delivering people's messages to local politicians, local officers, and ministry representatives to advocate for receiving projects. However, now that the motive of the transfers' establishment is to consolidate all government programmes into one medium especially *Program*

Nasional Pemberdayaan Masyarakat Mandiri/PNPM was replaced with DD for villages, each village can have their own projects with their own preferences with equal opportunities as other villages.

Not all programmes for villages have vanished; the government still executes programmes to maintain its function in public provision and social welfare. Villages still need to convey their messages and, if necessary, doing the bargaining to make sure they receive the projects. Recently, the competition seems to have become less fierce. Some village heads (as an example Three village heads from *Teluk Selong (Martapura Barat), Lok Buntar (Sungai Tabuk), Bawahan Selan (Mataraman)* found themselves no longer motivated to take a political approach in obtaining regency projects, and want to do the projects on their own. This is because it is tiring to "beg" without being sure of the outcome and to hand over the projects to outside parties that possibly have different interests in the village.

Overlapping Authorities

It can be said that the policy was forced to run rushly. Village Law is composed of government regulations, but at the local level it is still concerned with the progress of socialisation and learning rules, not yet reaching the phase of making regency-level regulations in response to meeting regulations with technical points; still, the FY 2015 goes on, time runs out, and implementation needs to be initiated (see Table 3). Thus, accidents in the waiting occurred. Unclear separation of village local-scale authorities and regency authorities creates overlapping authorities in projects (Zainah, 2016). This arose because the local regulations for stipulating the local-scale village authorities were not yet finished. The villages only have the more general directions from GR and *Peraturan Menteri/Permen* (Ministry Regulation). Litvack et al. (1999) states that it is important to have clear expenditure responsibilities in order to reduce the occurrence of duplication of authority.

TABLE 3. THE PROCESS OF THE FIRST IMPLEMENTATION OF VILLAGE FISCAL TRANSFERS POLICY

Semester I, 2014	Village Law 6/2014 stipulation and socialisation to local governments;
Semester II	Government Regulation 43/2014 the Operational Regulation of Village Law & Government Regulation 60/2014 Village Fund from National Budget stipulation and socialisation to local governments;
January, 2015	MoHA Regulation 113/2014 Village Finance and MoHA Regulation 114/2014 Village Development was stipulated;
February	DD, ADD, BPHRD allocation by the regency government; MoV Regulation 1/2015 Guidelines for Village Origin Authority and Village Local Scale Authorities, MoV Regulation 5/2015 The Priority of DD Utilisation stipulation;
March	The new village budget APBDes first implementation with the design of 30% village government routine and 70% village local scale authorities' expenditure;
April	Change of DD allocation formula 90% evenly and 10% formula based allocation;
May-August	APBDes realisation from ADD & BPHRD, Revision of DD allocation thus revision of APBDes, Regulation socialisation and training of village finance to villages;
September	APBDes realisation, 1st term of DD realisation;
October-November	APBDes realisation, 2ndt term of DD realisation;
December	APBDes realisation, 3rd term of DD realisation.

Source: Interview with Rahman (2016) from BPMPD Kabupaten Banjar.

The overlapping incidents happened in development (infrastructure) authority: with examples the village built gutters/drainage in the regency (across district) road, it is clear that regency road infrastructure is within the regency's jurisdiction unexceptionally the drainage is also regency's responsibility. Infrastructure support for kindergarten *(Taman Kanak-Kanak)* is the regency's job, but support for pre-kindergarten or play groups, or *Pendidikan Anak Usia Dini/PAUD,* is the village's responsibility. For the domain of social services (relations) authority, support for *Masjid* (big size) mosques is still controversial with re-

spect to whether villages are allowed to do it. Regarding governance activities authority, village offices are regency assets. It is still uncertain whether villages assume the responsibility of renovating the offices. In addition, there is no green light from the regency for villages to purchase land for infrastructure projects, as the regulation is unclear.

LIMITATIONSAND OPPORTUNITIES

Limitations in Human Resources. In the village fiscal transfers case, the human resources needed comprise of two types of experts: public finance professionals and public works professionals. To be specific, public finance (administration) shortages covers annual and mid-term planning, budgeting, accounting/financial report, and calculating tax. Public works expertise shortage covers designing construction specifications, calculating project costs, and determining the price of materials to meet with market/standardised prices and local prices. In addition, qualified manpower for coordinating at the regency level is not in balance with the villages' number. As previously stated, the first implementation of village fiscal transfers dominated by governance activities and infrastructure, and in the future if the other authorities, social services and community empowerment, are developed, other constraints might be identified due to the need for expertise in those fields. The government responded to this situation with organising training for all related actors at the regency, district and village levels, but most of all the training was given to village heads. In addition, the Ministry of Village established village facilitators *(Tenaga Pendamping Desa)* for giving assistance to BPMPD and villages especially. The impact of training and of establishing a village facilitator and its effectiveness needs to be observed further.

Opportunity for Complete Autonomy. Fiscal transfers were intended to preserve local autonomy (Boadway & Shah, 2009), and action in village fiscal transfers so far can be defined as expenditure of autonomy. Of all the collective spending of villages

are categorized as consumptive behaviour based on four village local scale authorities' domain, additionally the author sees an investment concept can be applied in the future FY. Village heads can allocate some of the transfers in capital/share investment accounts to establish village enterprises *(Badan Usaha Milik Desa/ BUMDes)* that run its business cultivating villages' potential. This proposition could create a new perspective on autonomy called "revenue autonomy"; in other words, "making money" whilst simultaneously utilising a village's potential and empowering communities to improve the village's economy. This strategy is a bit different than establishing tax at the village level, because the Indonesian revenues assignment system is very centralised, with the most productive tax collections are to the centre even though some taxes are levied by the province and regency/city (Shah, 1998). This dominance makes the potential of levying taxes for villages harder. Moreover, the tax policy is not a popular village government policy, according to the classification from William and Adrian regarding types of community orientation (Box, 1998). The village community holds traditional (basic and essential) services as its primary goal; for examples keeping taxes low, minimising restrictions, and ensuring the freedom and self-reliance of the individual.

CONCLUSIONS

The fiscal decentralisation side of Village Law 2014 has created new intergovernmental village fiscal relations in the form of fiscal transfers adding village funds (Dana Desa) from the state in addition to the prior village fund regency allocation and shared regency tax revenues from the regency to finance four domains of local-scale village authorities: 1) village governance activities, 2) village development (infrastructure), 3) social services (relations), and 4) community empowerment. This study intends to discuss the empirical aftermath of the first policy implementation at the vanguard level, focussing on allocation and expenditure action. The implementation in Banjar Regency has shown

that the allocation method of transfers using the base and proportioned (formula) amounts aimed at establishing sufficient village fiscal capacity and maintaining state-regency-village relations regardless of the seeming inequality. After spending, infrastructure development and remuneration dominated the villages' expenditures. Spending the transfers demands a new role for village heads as public finance managers in addition to their existing roles as community leaders in political governance. Though focussed on upward accountability, most villages accomplished the target of transfers spending, however failed to demonstrate downward accountability. The fiscal transfers that were included in the village budget have created equal opportunities for villages' own projects but lessened the political competition for regency projects. Overlapping authorities and limitations in human resources should be solved immediately to smooth the process of decentralisation in villages. In response to overlapping authorities, the regency must set forth and socialise village local-scale authorities. Village human resources are the limitation that most urgently must be developed in order to provide a balance of expertise with an increase of financial resource. Nevertheless, the author sees an opportunity for villages to achieve complete (revenue and expenditure) autonomy by investing the transfers in the establishment of village enterprise or BUMDes. The present of village enterprise could be beneficial to village own revenue and community economy.

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APPENDIX: SUMMARY BANJAR REGENCY'S VILLAGES STATISTICS (2015)

Variable	Units	Number of Observation	Mean	Min.	Max.	Standard Deviation	Variation Coefficient
Population (2016)	people	277	1565	284	7599	1169	0.74
Population	people	277	1582	250	9710	1118	0.70
Area	KM^2	277	16.67	0.34	261.66	28.12	1.68
Poverty Rate	people	277	51.82	0.00	455	57.83	1.11
Geographical Difficulty	Index	277	39.99	16.75	77.33	10.86	0.27
Wage	(Rp. million)	277	141.4	131	164.6	9.4	0.06
Wage (2016)	(Rp. million)	277	230	191.7	367.8	32.7	0.14
Property Tax Target	(Rp. million)	277	13.3	0	697	68.4	5.12
Property Tax Real	(Rp. million)	277	6.59	0	361.3	32.4	4.91
Fiscal Capacity (2016)	Index	277	1	0.18	3.58	0.63	0.63
Fiscal Capacity	Index	277	1	0.24	4.65	0.60	0.59
APBDs Realisation	(Rp. million)	277	552	235	915.3	100	0.18
Governance Activities	(Rp. million)	98	200.4	131	424.3	41.4	0.20
Development (Infrastructure)	(Rp. million)	98	334.3	37.78	684.75	86.65	0.25
Social Service (Relations)	(Rp. million)	98	51	8.79	178.9	33.86	0.66
Community Empowerment	(Rp. million)	98	33.25	7	179.2	32.5	0.97

Source: BPMPD Banjar