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The Effect of Village Funds on Rural Poverty: Empirical Evidence From Java Island

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Abstract. The function of fiscal decentralization from the central government to regional governments with a number of village funds is for infrastructure development and community empowerment whose ultimate goal is the welfare of the community and a decrease in the number of poor people. This study aims to analyze the effect of the implementation of fiscal decentralization in the form of village funds on the amount of poverty in rural areas at the provincial level in Java. The data used in this research is penel data. The analysis tool used is simple linear regression with panel data and the method used is the Fixed Effect Model (FEM) which is supported by data collection during 2015 - 2018 taken from 5 provinces in Java. This study found that village funds had a negative and significant effect on poverty on Java. Thus, the central and regional governments need to increase village funds accompanied by monitoring and evaluation so that village funds can have a significant impact on the village, especially the decline in the number of poor people.

Keyword: 1 Fiscal Decentralization · 2 Rural Poverty · 3 Java Island

1. INTRODUCTION

With the regional autonomy policy, it has an impact on the shifting of the government system from centralized systems to decentralized systems. This has implications for changes in the regional development management system. Within the framework of village autonomy, all forms of village government affairs are the authority of the village, including in terms of managing village finance (Martowardojo, 2012). Based on this, the village has the authority to regulate and take care of the local community according to social and cultural conditions included in financial arrangements. Village finance has an important role in financing the implementation of village government duties, both for operational expenditure of the village administration and in the context of empowering rural communities and village development.

According to Mardiasmo (2004), the policy of granting regional autonomy and decentralization that is broad, real, and responsible to the regions is a strategic step in two respects. First, regional autonomy and decentralization are solutions to the problems faced by the Indonesian nation in the form of threats of national disintegration, poverty, inequality in development, low quality of life in society, and problems in the development of human resources. Second, regional autonomy and decentralization are the strategic steps of the

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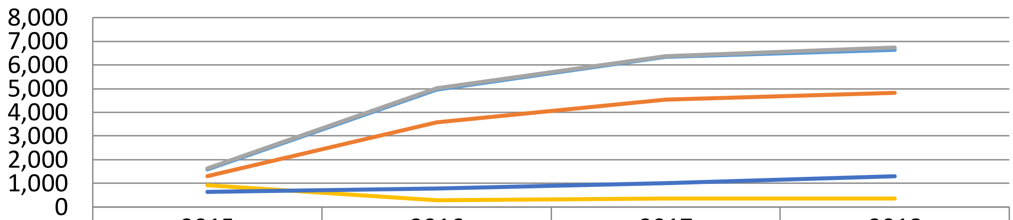
Indonesian nation to meet the era of economic globalization by strengthening the regional economic base.

Villages as autonomous regions that are at the lowest level will automatically become the object of the ongoing fiscal decentralization system obtained from the central government and regional governments. The village is one of the spearheads of government organizations in achieving success from central government affairs. This is because the villages are closer to the community, so the program from the government is delivered faster.

One of the fiscal instruments is village funds. Village Funds are funds sourced from the State Budget. Village funds intended for villages are transferred through the Regency Regional Revenue and Expenditure Budget. Village Funds (VF) are intended as stimulant assistance or stimulant funds to encourage funding of Village Government programs. The purpose of using the Village Fund in it is to finance government administration, implementation of development, community development and community empowerment. Village funds are prioritized for rural development (Government Regulation Number 60 of 2014). In addition, the other village income sources are village Funds (VF). The following is Figure 1 which shows village funds on Java.



	2015	2016	2017	2018
Jatim	1,587	4,969	6,339	6,638
Jabar	1,303	3,586	4,547	4,823
Jateng	1,629	5,002	6,384	6,737
DIY	920	287	368	361
Baten	640	791	1,009	1,301

Figure 1. Village Funds on Java Island in 2015-2018
Source: Ministry of Finance, 2019

Table 2 shows village funds in Java Island consisting of five provinces. In general, village funds from five provinces increased from 2014 to 2018. However, DIY Province village funds experienced fluctuations.

According to the Minister of Village, Development of Disadvantaged Regions and Transmigration Regulation Number 16 of 2018 which covers the Priority of the Use of Village Funds. In the regulation, it is explained that village funds are used for (1) Village infrastructure development and village community empowerment, (2) can provide the maximum benefit for the village community in the form of improving quality of life, improving welfare and poverty reduction and improving public services at the Village level. Thus village funds are fully used by the village government to improve welfare and reduce

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the number of poor people. reducing the number of poor people. The following table shows the number of rural poor.

Table 1. Percentage of Rural Poor on Java Island Year 2015-218

Province	2015	2016	2017	2018
Central Java	14,96	14,86	14,35	12,9
East Java	16,01	15,92	15,7	15,26
West Java	11,72	11,76	11,26	10,16
Special Region of Yogyakarta	16,74	16,45	15,99	14,92
Banten	7,45	7,39	7,33	7,31

Source : Central Bureau of Statistics, 2019

Table 1 shows the percentage of rural poor in Java which consists of five provinces. Of the five provisions in Java Island, the percentage of poor people in rural areas has experienced a declining trend from 2015 to 2018. Thus, more intensive policies are needed to reduce the number of poverty in rural areas to be more significant.

If referring to Ministerial Regulation No. 16 of 2018 concerning the use of village funds which mentions that village funds are used to develop infrastructure and improve quality of life, increase welfare, improve public services at the village level. With these regulations it is expected that the number of unemployed and poverty in rural areas will decline. The relationship between village funds and poverty has been examined by Nanga (2006), Hong (2010), Sari and Abdullah (2017), Dewi and Irama (2018) showing that there is a negative relationship between fiscal decentralization to the regions with a reduction in the number of poor people in the regions rural area. Thus, the purpose of this study was to analyze the effect of village funds on poverty on Java..

2. RESEARCH METHOD

This research is a quantitative research that emphasizes causal effects. Aim to test the hypothesis and is a research that explains phenomena in the form of relationships between variables (Gujarati, 2011). This research was conducted in the Government of Java. The population used in this study was village funds and the percentage of rural education in Java which consisted of 5 provinces from 2014-2016. Poverty is measured in percentage units and village funds are measured in rupiah units. The data analysis technique used in this research is a simple panel regression analysis which is a combination of cross section data and time series that uses regression models such as Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) . With the equation as follows:

$Y = \alpha + \beta 1VF1 + e$

Where Y is Poverty, α is Constant, $\beta 1$ is regression coefficient, VF is Village Fund, and e is coretion error. Data analysis was performed using the Common Effect method, Random Effect, Fixed Effect, test the model criteria using LM Breush-Pagan test, Chow test, and Hausman test to find out the best test in model selection (Gujarati, 2011).

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3. RESULT AND DISCUSSION

Analysis of the effect of village funds on poverty using panel data from 2014 to 2018. Based on the results of simple linear regression estimation using panel data using the Fixed Effect model, it is intended to look for the best model without ignoring the priority principle that exists. The simple regression estimation results show village funds have a negative and significant effect on poverty on Java. The following is a simple equation between village funds for poverty:

Y = 5, 03625 - 0,0093VF

The village fund coefficient value is -0.00,0093. This shows that if village funds increase by 1 percent, poverty will decrease by 0.0093 percent. Of course, the influence that VF has on poverty is very small. The coefficient of determination is 45.6 percent, meaning that the behavior of poverty can be explained by village funds by 45.6 percent and the rest is determined by other factors not included in the model. These factors include; there are assistance programs for other poverty alleviation such as the National Independent Development Program (PNPM), the Direct Cash Assistance Program (BLT), the People's Business Credit Program (KUR), the Kecamatan Development Program and others.

Village funds have a significant impact on rural poverty. This is because village funds are able to stimulate and even make a large contribution to infrastructure development and community empowerment, so that people can get income, and can enjoy the development of village infrastructure in supporting the economy in the village. This research is in line with the findings of Nanga (2006), Hong (2010) which states that fiscal decentralization has a close relationship in alleviating poverty in a region. Specifically, this study also supports the results of Prasetyanto's study (2012) which states that village funds are able to improve the fiscal performance and regional economy, able to reduce the number of poor people. The study also found results that poverty in rural areas is higher than urban areas in Pakistan. This is due to differences in (1) average household income and consumption, and (2) availability of infrastructure in the public sector, subsidies, and services. The high level of poverty in rural areas is because the majority of the rural poor work in the agricultural sector as farm laborers.

In addition, the findings of Gbettor (2014) show that fiscal decentralization influences poverty reduction in 165 countries studied. In general, the successful implementation of fiscal decentralization occurred in developing countries such as Ghana, South Africa, Tanzania. Fiscal desentalization is used in community empowerment programs with responsive principles and participation. In this principle, the community is invited to actively participate in the implementation of government programs that are developed based on community needs and the potential that exists in the area. Thus, the policy can increase the level of welfare and increase community income. Steiner (2005) also shows that fiscal decentralization is negatively related to poverty. He further outlined a fiscal decentralization strategy in reducing poverty as: First, giving poor people the opportunity to improve their quality of life by providing access to jobs, markets, financial services, infrastructure (roads, electricity, telecommunications), social services (education, health) and land. Second, increasing security by reducing the vulnerability of the poor to various threats, such as economic shocks, natural disasters, poor health, disability, and personal violence.

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The allocation of government spending on infrastructure is very influential in reducing the number of poor people in rural areas. Various projects funded by the government require labor, so there will be an increase in welfare and poverty reduction. Therefore, fiscal decentralization can reduce poverty through appropriate expenditure allocations by local governments and the central government because it has been proven that government spending reduces poverty (Odior, 2014). Meanwhile, economic performance can be increased significantly if public expenditure is allocated from the unproductive sector to the productive sector.

According to Aziz (2016) with the village income and village funds, the village government can provide excellent service by empowering the community to actively participate in development activities programs. This development has three development goals, namely unemployment, poverty and inequality. Azwardi and Sukanto (2014) also analyzed that village funds are related to regional expenditure for village development. Even in the village administration, village funds are generally the main source of village government to overcome poverty. Bempah (2013) explained that village funds can at least improve the rural economy as measured by increasing the income of the poor through community empowerment programs such as the Joint Business Group (KUBE) and Farmer Women Group (KWT).

The use of village funds when referring to Law Article 78 concerning the Village Fund states that village funds used for village development aim to improve the welfare of rural communities and the quality of human life and poverty reduction through meeting basic needs, building village facilities and infrastructure, developing local economic potential, and sustainable use of natural and environmental resources. The Act is supported by the Village Minister Regulation Number 21 Year 2015 regulating that villages prioritize the implementation of village-scale programs and local activities in the field of village development and empowerment of rural communities with emphasis on (1) construction, development, and maintenance of infrastructure or facilities and physical infrastructure for livelihoods, including food security and settlements; (2) development, development and maintenance of public health facilities and infrastructure; (3) development, development and maintenance of educational, social and cultural facilities and infrastructure; and (4) community economic development, including the construction and maintenance of production and distribution infrastructure; (5) development and development of renewable energy infrastructure and environmental conservation activities. If all villages refer to the management of village funds by the Law, then it will have a direct impact on reducing the number of poor people in Rural Areas.

However, this finding is not consistent with Jutting et al (2004) who analyzed the effect of fiscal descentalization on poverty using cross-country data. His friends explained that the relationship between fiscal decentralization and eradicating poverty was ambiguous. This is based on several poor countries, institutions that lack quality and political conflicts, causing poverty alleviation policies not to reach their targets. Therefore, it can be concluded that the impact of poverty on decentralization depends on the quality of the infrastructure of a country that affects the production capacity and capacity of policy makers and government policies oriented to poverty and special attention needs to be paid to eradicating poverty.

With the policy of fiscal decentralization in the form of village funds, the central government should have local governments be encouraged to stimulate the economy to improve people's welfare by managing income and expenditure effectively and efficiently. This is very important for local governments to allocate their expenditures to productive sectors to

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increase economic growth and gradually reduce poverty. According to Fosu (2010) explained that the growth of per capita income is a driving factor in reducing the number of poor people. In addition, according to Putra, et al. (2013) explained that fiscal decentralization in the form of village funds was used a small portion of village funds for community empowerment and the most village funds used for village government operational costs and Village Consultative Bodies (BPD), so that the use of village funds was not in accordance with the allocation, thus funds the village did not have a significant effect on the village community especially the decline in the number of poor people.

Fiscal decentralization requires supervision from the central government, regional government and the Financial Supervisory Agency. This is based on (1) budget allocations that are right on target but are corrupt; the budget has been allocated correctly, but people from either the government or the private sector miss doing or destroying it and (2) minimum profit budget allocations; the budget for school or health has a weak incentive, motivation or capacity to provide effective services; as a result, the project produces minimal profits.

4. CONCLUSION

The results showed that fiscal decentralization in the form of village funds had a negative and significant effect on rural poverty in five provinces in Java. Thus, the central government and local governments need to increase village funds accompanied by rational and realistic village fund use program planning. In addition, there is also a need for supervision and evaluation of the use of village funds so that the program from the use of village funds is achieved to the maximum, so that it will have a significant impact on the village, especially the decline in the number of poor people.

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