

# The Effect of Village Funds, Special Allocation Funds, Revenue Sharing Funds on Regional Inequality in the Regencies/Cities of South Sumatra Province

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## The Effect of Village Funds, Special Allocation Funds, Revenue Sharing Funds on Regional Inequality in the Regencies/Cities of South Sumatra Province

**Abstract.** Regions' development is a high priority for Indonesia and is critical for food, equity, and economic growth. To address the problems of economic inequality between regions, the government has created several funds to balance funding for regional development. This study aims to analyze the effect of the Village Funds (DD), Special Allocation Funds (DAK), Revenue Sharing Funds (DBH) on Regional Inequality in the Regencies/Cities of South Sumatra Province during 2015-2019. The research covers 14 regencies and cities of South Sumatra Province. This study uses secondary data, including Village Funds, Special Allocation Funds, Revenue Sharing Funds, and Regional Inequality. Meanwhile, other data is available from the Central Statistics Agency of South Sumatra Province and the Directorate General of Fiscal Balance. The data analysis method used is the Williamson Index and panel data regression analysis that has met the requirements of the classical assumption test and model suitability test. The results of this study are as follows: (1) The Village Funds have a positive and significant effect on Regional Inequality, with the regression coefficient value reaching 0.067. It means that every 1% increase in village funds will increase the value of regional inequality by 0.067. (2) Special Allocation Funds (DAK) and Revenue Sharing Funds (DBH) have a negative and significant effect on Regional Inequality. Each increase in the Special Allocation Fund and Profit Sharing Fund by 1% will cause a decrease in the Regional Inequality Index by 0.022 and 0.050. (3) Regional Inequality in South Sumatra Province is significantly determined by 72% of the variables of the Village Funds, Special Allocation Funds (DAK), and Revenue Sharing Funds (DBH). In comparison, other variables outside the model determine the remaining 28%.

**Keywords:** Village Fund, Special Allocation Fund, Revenue Sharing Fund, Regional Inequality, State Revenue and Expenditure Budget, Regional Revenue and Expenditure Budget.

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## Вплив сільських фондів, фондів цільового фінансування, фондів розподілу доходів на регіональну нерівність у регентствах/містах провінції Південна Суматра

**Анотація.** Розвиток регіонів є першочерговим завданням для Індонезії і має вирішальне значення для забезпечення продовольчої безпеки, справедливості та економічного зростання. Для вирішення проблем економічної нерівності між регіонами уряд створив декілька фондів, покликаних збалансувати обсяги фінансування регіонального розвитку. Мета цього дослідження – проаналізувати вплив сільських фондів, фондів цільового фінансування, фондів розподілу доходів на регіональну нерівність у регентствах/містах провінції Південна Суматра протягом 2015-2019 років. Дослідження охоплює 14 регентств і міст провінції Південна Суматра. У цьому дослідженні використовуються вторинні дані, зокрема, дані про сільські фонди, фонди цільового фінансування, фонди розподілу доходів та регіональну нерівність. У той же час, інші дані отримані з Центрального агентства статистики провінції Південна Суматра та Генерального управління фінансового балансу. Для обробки даних використано індекс Вільямсона та регресійний аналіз панельних даних, який відповідає вимогам класичного тесту припущень і тесту придатності моделі. Результати цього дослідження наступні: (1) Сільські фонди мають позитивний і значний вплив на регіональну нерівність, значення коефіцієнта регресії сягає 0,067. Це означає, що збільшення сільських фондів на 1% збільшує значення регіональної нерівності на 0,067. (2) Фонди цільового фінансування і фонди розподілу доходів мають значний негативний вплив на регіональну нерівність. Кожне збільшення фонду цільового фінансування та фонду розподілу доходів на 1% призведе до зменшення індексу регіональної нерівності на 0,022 та 0,050 відповідно. (3) Регіональна нерівність у провінції Південна Суматра на 72% визначається змінними, що проаналізовані у цьому дослідженні. Інші змінні, які знаходяться за межами моделі, на 28% визначають економічну нерівність.

**Ключові слова:** сільський фонд, фонд цільового фінансування, фонд розподілу доходів, регіональна нерівність, державний бюджет доходів і видатків, регіональний бюджет доходів і видатків.

### INTRODUCTION

Regional development must comply with the conditions of potential and aspirations of the people who grow and develop. If the implementation of regional development priorities is not by the potential possessed by each region, the utilization of existing resources will be less than optimal. This situation can result in the slow process of economic growth in the area concerned.

As an implementing regulation of Law No. 6 of 2014 concerning Villages, the government issued Government Regulation No. 60 of 2014 as amended by Government Regulation Number 22 of 2015 concerning Village Funds sourced from the State Revenue and Expenditure Budget. The Village Fund is a fund sourced from the State Budget (APBN), which is intended for villages transferred through the Regency/City Revenue and Expenditure Budget (APBD) and used to encourage the financing of Village Government programs. The purpose of using the Village Fund is to finance the administration of government, implementation of development, community development, and community empowerment. The Village Fund is prioritized for village development (Government Regulation No. 60 of 2014). However, along with many

Village Funds, the problem of poverty is still difficult to solve (Abidin, 2015).

In the context of financial relations between the center and the regions, the central government has currently allocated a Balancing Fund (DP) to finance regional needs to support the implementation of government decentralization and development. By Law No. 32 of 2004 concerning Regional Government, the Balancing Fund is divided into three groups, namely the General Allocation Fund (DAU), the Special Allocation Fund (DAK), and the Revenue Sharing Fund (DBH). The following is the development of Regional Transfer Funds from 2015-2019.

The development pattern of each realized fund tends to increase each year significantly. Of course, this must be under good supervision so that any funds disbursed can be used as well as possible. The DAK allocation policy is given to accommodate various national priority needs and is a regional affair but is not or has not been accommodated in the DAU formulation. Therefore, the DAK allocation policy is prioritized to assist regions with financial capacity below the national average (in this case, it becomes the general criteria for DAK recipient regions).

**Development of Revenue Sharing Funds (DBH), Special Allocation Funds (DAK), Village Funds (DD)  
of South Sumatra Province**

Year	DBH	DAK	DD
2015	931,915,470,000	69,405,320,000	775,043,818,000
2016	1,071,421,391,000	148,180,327,539	1,780,769,519,000
2017	1,697,897,817,000	855,483,708,566	2,267,261,445,000
2018	1,697,762,032,483	2,171,297,782,406	2,309,392,954,000
2019	1,695,468,982,642	2,259,489,236,940	2,681,351,917,612

Source: [djpk.kemenkeu.go.id](http://djpk.kemenkeu.go.id)

The basic principle of fiscal decentralization in Indonesia is that "Money Follows Functions". Namely, the main functions of public services are regionalized, with the support of central financing through the transfer of revenue sources to the regions. The Revenue Sharing Fund aims to be an instrument of fiscal decentralization to fund regional needs and correct vertical budgetary imbalances between central and provincial governments.

The distribution of DBH is based on the principle of origin. DB distribution is carried out based on the Actual Revenue, meaning that DBH distribution is based on revenue realization for the current fiscal year. Therefore, development must be directed towards equity, growth, and sustainability. The absence of equity in the development process will be resulting in regional disparities. Inequality between regions can lead to social jealousy, vulnerability to regional disintegration, and increasingly sharp economic disparities (Adisasmita, 2014).

Regional income disparity or regional inequality is inequality that occurs in the distribution of people's income and occurs in development between regions within the region of a country (Sirojuzilam, 2005). According to Adisasmita (2014), regions that are underdeveloped or left behind strongly depend on outside regions.

However, if the level of inequality is still high, it can be said that this economic growth still needs improvement and development. Various policies are still in process to reduce the level of inequality that exists in South Sumatra. Based on this background, this research examines the influence of village funds and special allocation funds on inequality in district/city regions in South Sumatra province because some areas in South Sumatra still need special attention.

#### LITERATURE REVIEW

Theoretically, the problem of development inequality between regions was first raised by Douglas C North in his analysis of Neo-Classical Growth Theory. In this theory, a prediction is made about the relationship between the level of national economic development of a country and the development inequality between regions. This hypothesis is commonly known as the Neo-Classical

Hypothesis (Sjafrizal, 2008). According to the Neo-Classical Hypothesis, at the beginning of the country's development, the development inequality between regions tends to increase. After that, if the development process continues, the development inequality between regions will gradually decrease (Sjafrizal, 2008). Policies undertaken by a region can also affect regional development inequality. As for calculating the level of regional inequality, several methods are used, namely the Williamson index, Entropy Theil index, and inequality based on the Concept of Relative GRDP per Capita.

#### Village Funds

Village Fund (DD) is a fund sourced from the State Revenue and Expenditure Budget designated for the Village, which is transferred through the district/city Regional Revenue and Expenditure Budget (Government Regulation No. 60 of 2014, article 19, paragraph 2). Village Fund funds government administration, development implementation, community development, and community empowerment. As intended, the Village Fund is prioritized for the development of village community empowerment. According to Sari (2017), to improve the welfare of rural communities and the quality of human life and poverty alleviation, the priority and the quality of the Village Fund are directed to the implementation of village development activity programs.

#### Special Allocation Funds

Special Allocation Funds (DAK) are funds sourced from APBN revenues allocated to certain regions to help fund special activities that are regional affairs and following national priorities. The Government Work Plan in the relevant fiscal year contains programs that become national priorities. Then, the technical minister proposes special activities funded from the DAK and determined after coordinating with the Minister of Home Affairs, the Minister of Finance, and the State Minister of National Development Planning, following the Government's Work Plan. The technical minister submits provisions on special activities to the Minister of Finance.



Revenue Sharing Funds

Funds (DBH) are funds sourced from APBN revenues allocated to regions based on percentage figures to fund regional needs in the context of implementing decentralization (Law No. 33 of 2004). DBH aims to improve the vertical balance between the center and the regions by considering the potential of producing regions. According to the basic book for the preparation of the 2012 APBD, for local governments that receive substantial revenue-sharing funds, these funds should be optimally used to improve public services and develop basic infrastructure in the regions. Revenue Sharing Funds transferred by the central government to local governments are divided into two types, namely, Tax DBH and non-tax DBH/SDA.

Previous Research

Several studies tested the regional transfer fund variable on regional inequality, including Dolfrianda (2011), who stated that Village Fund Allocation (ADD) had a positive and significant impact on inequality. Azizi (2015) tested DAK, DBH and found that these variables had a negative and significant effect on regional

inequality. Wardhana (2013) states that DAK and DAU significantly affect income inequality.

Abduh (2012) tested the balancing fund on regional income disparities. The results showed that DBH and DAU had a positive and significant effect, while DAK had a negative and insignificant effect. Setiabudi (2010) states that ADD is considered unfair to the village, thus causing the ineffectiveness of ADD distribution. This inefficiency causes a tendency to be associated with disparity. Mulya (2016) stated that village funds could reduce income inequality in non-3T areas, but this is not the case in West Papua's 3T areas.

Furthermore, Zulgani and Rosmeli (2017) research indicated that DAU, DAK, and DBH simultaneously have a significant positive effect on inequality. The study conducted by Azwardi and Sukanto (2014) stated that ADD can reduce poverty even though the effect given is still minimal.

Research Conceptual Framework

Based on previous research, the conceptual framework in this study can be seen in Figure 1.

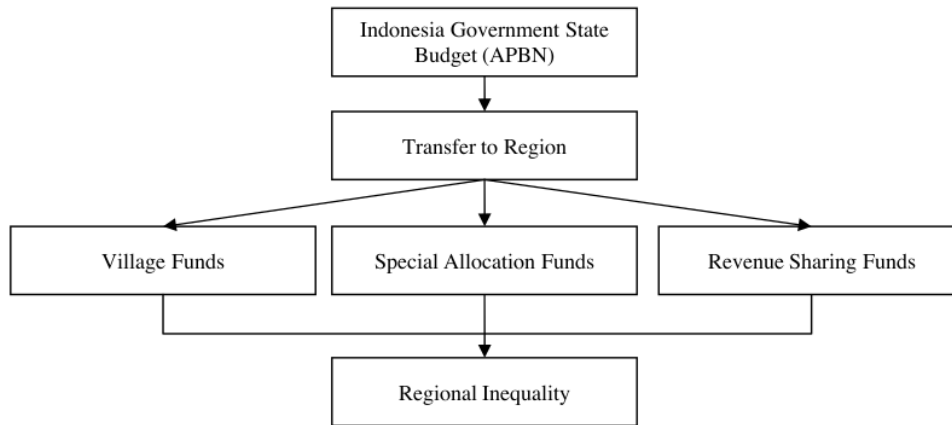


Figure 1. Research conceptual framework

RESEARCH METHODOLOGY

Data used in this study is secondary data from 2015-2019, including Village Funds, Special Allocation Funds (DAK), Revenue Sharing Funds (DBH), and Regional Inequality. Regional Inequality Indicator by calculating the Williamson Index. Meanwhile, other data is available from the Central Statistics Agency of South Sumatra Province and the Directorate General of Fiscal Balance. The method used is the panel data regression method. The following equations used in this study are:

$$KW_{it} = \alpha + \beta_1 DD_{it} + \beta_2 DAK_{it} + \beta_3 DBH_{it} + e_{it}$$

Where:

- KW Regional Inequality in South Sumatra;
- DD Village Fund;
- DAK Special Allocation Fund;
- DBH Sharing Revenue Fund;
- I Districts/city;
- t Year;
- $\beta_0$  Constants;
- $\beta_1, \beta_2, \beta_3$  Regression coefficients;
- e Error term.

**RESULTS AND DISCUSSION**

This study uses panel data analysis, where the first thing to do is choose the best model.

Table 2

**Selection of Best Model**

Selection Model	Criteria	Conclusion
Test Chow	Prob Cross Section F value (0.0000) <sig (α = 5%)	Fixed Effect is better than Common Effect
Hausman Test	Prob Cross Section F value (0.0040) <sig (α = 5%)	Fixed Effect is better than Random Effect Lagrange
test Multiplier	-	-

Based on the previous tests, the method used to estimate the model in this multiple linear regression equation is the fixed effect method. The following represents the model estimation results that have been carried out.

Table 3

**Quantitative Results of Multiple Regression**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	101.3760	3.861777	26.25113	0.0000
DD	0.067934	0.021845	3.109796	0.0030
DAK	-0.022909	0.004921	-4.655494	0.0000
DBH	-0.050208	0.018342	-2.737358	0.0084
<b>Weighted Statistics</b>				
R-squared	0.724047	Mean dependent var		351.5975
Adjusted R-squared	0.640741	S.D. dependent var		323.3730
S.E. of regression	33.02146	Sum squared resid		57792.11
F-statistic	8.691373	Durbin-Watson stat		1.094650
Prob(F-statistic)	0.000000			

Source: Eviews processed.

From the results of multiple linear regression using the panel data method, an equation model can be drawn to analyze the influence of the Village Fund, Special Allocation Fund, and Revenue Sharing Fund. The 2015-2019 Regional Inequality obtained based on Table 3 above is

$$KW = 10.137 + 0.068 DD - 0.022 DAK - 0.050 DBH$$

Then the model is tested for classical assumptions to avoid problems in the model.

Table 4

**Classical Assumption Test**

Exam	Probability	Conclusion
Normality Test	0.56112 >sig (α = 5%)	Free from normality problems
Multicollinearity Test	Value between variables < 0.8	Free from autocorrelation problems
Heterocedasticity Test	All variables have probability values >sig (α = 5%)	Free from Heterocedasticity problems

*1) Effect of Village Funds on Regional Inequality in Regencies/Cities in South Sumatra Province*

The results of quantitative analysis on districts/cities in South Sumatra Province have shown that village funds and regional inequality have a positive relationship in one direction. The increase in the Regional Inequality number is in line with the increase in the relevant village funds. This correlation is strengthened by the significant effect

of village funds on regional inequality at a significant level of 0.003 with a regression coefficient value of 0.068. It means that every 1% increase in village funds will increase the value of regional inequality by 0.068. It shows that the level of elasticity of village funds to regional inequality is relatively small.

This research is in line with research conducted by (Huruta, 2012), which states that the positive influence of

village fund allocation on regional inequality can be caused by the lack of synergy between the money coming into the village and the village allocation mechanisms, as a result in regional disparities are maintained. It is also in line with the findings (Mulya, 2018), which assume that the distribution system of village funds and fiscal transfers does not guarantee reducing inequality in a region. The results of econometric analysis showing that there is a distribution of village funds that does not reduce income inequality in the 3T region of West Papua Regency/City.

Other obstacles that can reduce the level of efficiency and effectiveness of village funds in the related Regency/City include: the use of village funds outside the priority areas; the expenditure of village funds are not being supported by adequate evidence; the priority work being carried out independently by a third party; the village is not familiar with the money supply mechanism so that the funds that have been channeled to the Village Cash Account are withdrawn and stored outside the Village Cash Account; expenditures outside the Local Government Revenue and Expenditure Budget.

2) *The Effect of the Special Allocation Fund (DAK) and Revenue Sharing Fund (DBH) on Regional Inequality in Regencies/Cities in South Sumatra Province*

The regression results of the equation of the Special Allocation Fund (DAK) and Revenue Sharing Fund (DBH) during 2015-2019 show that these funds have a negative effect with a coefficient of 0.038 and a significance level of 95% confidence level. It means that every 1% increase in the Special Allocation Fund and Revenue Sharing Fund will cause a decrease in the Regional Inequality Index by 0.022 and 0.050.

The results of this study are in line with the argument (Azizi, 2015) that the variables of the Special Allocation

Fund (DAK) and the Revenue Sharing Fund (DBH) can reduce the level of regional inequality in South Sulawesi Province. The optimal and careful management of DAK and DBH will certainly produce good results for the region. Stimulation of this budget allocation (transfer of village funds) is assumed to encourage rural economic activities and substantially create economic preconditions to reduce inequality between rural-urban areas. One of the characteristics of DAK is that it can fund specific actions which are expected to be more efficient in running a program. However, the very low coefficients of each variable serve as a special warning for the local government to be more careful in determining a policy related to fiscal transfers from DAK and DBH.

### CONCLUSIONS

Based on the regression estimation calculation results, it was found that there is a reasonably close relationship between the independent variables – Village Fund, Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH) with the dependent variable – Regional Inequality. From the discussion that has been carried out, the following conclusions can be drawn:

1) The Village Fund has a positive and significant effect on Regional Inequality.

2) The Special Allocation Fund (DAK) and Revenue Sharing Fund (DBH) negatively and significantly impact Regional Inequality.

3) Regional Inequality in South Sumatra Province is significantly determined by 72% of the variables of Village Fund, Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH), while other variables outside the model determine the remaining 28%.

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