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The Impact of Village Fund Allocation on Poverty in District/Cities Province Maluku, Indonesia

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Abstract
This study purpose was to determine the impact of village funds allocation and village funds on poverty in districts / cities of Maluku Province, Indonesia. The samples are data panel from fourteen districts / cities in Maluku Province, Indonesia. The data was collected for Statistic Center Agency of Indonesia, Budget Department of Indonesia, Village Ministry of Underdeveloped Local Development and other related institutions. The research results confirm that (1) the village funds allocation of 10% from matching grant were transferred through the Regional Revenue Expenditure Budget has no impact to reduce poverty, and (2) village funds from the State Revenue and Expenditure Budget that transferred directly to villages have the potential to reduce poverty levels in districts / cities in Maluku Province, Indonesia
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1. Introduction

Regional development is an integral part of national development. The national development aims to improve economic performance to create jobs and providing a decent life to improve people's welfare. The sufficient natural resources managed by human resources have great potential to achieve the development progress (Nurrohman, R and Arifin Z, 2012). The development in each region will increase economic growth in the area. Economic growth is the development of activities in economy to produce goods and services to increase the community prosperity (Zakaria, S, 2013). The process of economic progress of a region is measured by Gross Regional Domestic Product (GRDP). Higher GRDP in an area means the greater the potential sources of regional income and vice versa, lower GRDP in an area means lower increase poverty.

Poverty is a low standard live with a material deprivation in a number or group of people compared to general standard live in the society. This low standard of live directly affects the level of health, moral living, and self-esteem of poor people (Suliswanto, 2010). Poverty is caused by the differences in resources and low indicators of human development indicators. These differences can lead to various multi-dimensional problems to lead inability to access economical, social, and cultural and community participation in development. The efforts to alleviate poverty will not run rightly if not supported by budget policies that pro-poor budget. Therefore, an approach is needed to measure the relationship between fiscal policies through the village funds allocation as a step to reduce poverty,

Empirical studies conducted by previous researchers related to the impact of village funds allocation and village funds on poverty showed different results. On one hand, the village government income derived from the village funds allocation and village funds has a positive impact to reduce poverty levels. Aziz (2016) found that village income and village fund allocation of village government can provide excellent services by empowering the community to actively participate in development activities programs. This development has three development targets namely unemployment, poverty and inequality. Azwardi and Sukanto (2014) also analyzed that village funds allocation related with regional spending for village development. Generally, village government administration of village funds allocation is the main source of village government to overcome poverty.

In addition, another empirical study found that village funds have a negative impact on poverty (Agus Hermawan, et al, 2019). However, Bempah R (2013) found that village fund allocation program can improve the village economy, it does not directly affect proportionally on the level of poverty in rural areas.

Data shows that Maluku Province has fourth ranks of the poor areas in Indonesia with an average of 18.12% or 399,176 inhabitants (BPS Indonesia, 2018). The high poverty rate in Maluku Province shows the widening gap between regions in Indonesia. Based on background above, authors are interested to conduct a research on "The Impact of Village Funding Allocation on Poverty in Maluku Province / City, Indonesia"

2. Theory Review

2.1. Village Funds and Village Funds Allocation

2.1.1. Definition and Essence of Village Funds

Government Regulation Number 60 year 2014 on Funds states that village funds source is State Revenue and Expenditure Budget (APBN) for villages transferred through the Regional Revenue and Expenditure Budget (APBD) of district / city to finance government administration, infrastructure development, community development, and community empowerment. The government allocates Village Funds nationally in state budget every year. The amount of budget allocation for village is 10% from and outside the Regional Transfer Fund (on top) in the concurrently. The APBN budget for villages are calculated based on number of villages and allocated based on population, poverty rate, area size, and geographical difficulty level in order to improve the welfare and equitable development of Village. The total population, area and poverty rate are calculated as follows: 30% for population of district / city, 20% for area of the district / city, and 50% for district / city at poverty level. The level of geographical difficulty is indicated by construction cost index. The Village Fund that is transferred through the Regency / City APBD aims to: (1) improve public services in village, (2) alleviate poverty, (3) advance the village economy, (4) overcome the continuity of inter-village development, and strengthen rural communities as the development subject.

2.1.2. Village funds allocation

2.1.2.1. Definition and Purpose of Village Fund Allocation

Village Fund Allocation (ADD) sources are central and regional balance funds at 10% received by region in APBD after deducting the special allocation funds. Distribution of ADD in regional autonomy and fiscal decentralization eras are very important for village governments to encourage the progress in governance, development and community empowerment. Suryaningrat (2014) stated that Village Fund Allocation from regional government comes from the central and regional financial balance funds and can serve as stimulant funds to encourage funding of Village Government program supported with autonomous community participation to implement government activities and community empowerment. Government Regulation Number 60 of 2014 Article 19 emphasizes that ADD is used to finance governance, development, community and community empowerment and prioritized for community development and empowerment. Minister of Home Affairs Regulation No. 37 year 2007 on village financial management emphasizes that objectives of village funds allocation are: (1) alleviating poverty and reducing inequality, (2) increasing development planning and budgeting at village level and community empowerment, (3) increasing the rural infrastructure development, (4) increasing the experience of religious values, social and cultural in order to realize social improvement, (5) improving the peace and order of community, (6) improving services to rural communities in order to develop social and economic activities of community, and (7) encouraging the higher self-sufficiency and community cooperation.

2.1.2.2. Financial Management of Village Fund Allocation

Financial management of village fund allocation (ADD) is an inseparable part of Village Expenditure and Revenue Budget (APBDesa). Therefore, financial management of village funds allocation (ADD) must meet the principles of village fund allocation management as follows: (1) all activities funded by Village Fund Allocation (ADD) are planned, implemented and evaluated openly with principles from, with and for community, (2) all activities must be accountable administratively, technically and legally, (3) the Village Fund Allocation (ADD) is implemented using the principles of saving, directed and controlled, and (4) the activities type of Village Fund Allocation (ADD) is very open to improve community service facilities to meet basic needs, strengthening village institutions and other activities needed by village communities which are decided through village deliberations.

2.2. Theory of Poverty

2.2.1. Definition and Measurement of Poverty

Poverty has a very broad meaning and multidimensional. The definition of poverty also has multiple interpretations and expanding along with complexity of causes and other problems around it. The dimension of poverty does not only concern to the economic aspects, but also the social, cultural and political dimensions. Poverty can be measured through two approaches, namely the income or wealth economic approach and a non-economic approach characterized by powerlessness that afflicts low-income households. The poverty in the income economic approach is more often discussed for the easy to measure. Poverty in the income economic approach can be divided into absolute poverty and relative poverty. Absolute poverty is defined as the inability to meet income the needs such as cloth, food, house, health and education to ensure survival and work properly (Todaro and Smith, 2006. Arsyad, 2010: 299). In addition, poverty can be seen as an absolute income level or standard of living (Van den Berg, 2005: 509). The relative poverty sees the poverty from a measure that is affected by other measures related to proportion or distribution (Nugroho and Dahuri, 2012: 184).

Todaro and Smith (2006) stated that a person's poor status can be determined by income level or utilities owned as in conventional view. At least someone's poor status is more determined by capability to function and economic growth, but it is not considered as the ultimate goal. The most important is not the amount of income earned or one's utility for an item, but what people can do with income or goods they have. Poverty is a form of failure where the basic capabilities do not function, or someone is said to be poor if they lack the opportunity to achieve or obtain basic capabilities.

2.2.2. Poverty Causes

Kuncoro (2003) stated that micro-poverty can occur due to inequality in resources ownership pattern to causes an unequal distribution of income. The poor only have limited and low quality resources. Poverty also arises due to differences in human resources. The low quality of human resources affect on low productivity and low wages. Sharp et.al (1996) in Kuncoro (2003: 131-132) identified the causes of poverty from economic standpoint. First, on a micro level, poverty arises because of inequality in resources ownership pattern to create an unequal distribution of income. The poor only have limited and low quality resources. Second, poverty arises as a result of differences in quality of human resources. Low quality human resources mean low productivity and low wages. The low quality of human resources is due to low levels of education, disadvantaged, discrimination or heredity. Third, poverty arises from differences in access to capital.

The three causes of poverty produce a vicious circle of poverty theory. This theory was discovered by Nurkse and Ragnar (1953) who said "a poor country is poor because it is poor". Underdevelopment, market imperfections and lack of capital cause low productivity. Low productivity causes low income. The low income will have implications to low savings and investment. Low investment creates underdevelopment. Therefore, every effort to reduce poverty should be directed to cut this poverty cycle and trap.

Arsyad (2010: 300) also stated that poverty occurs as a result of community members cannot participate in process of change caused by inability to possess production factors or inadequate quality. Sen in Todaro and Smith (2006: 23) stated the poverty is not a condition of lack or satisfaction in commodity, but poverty is more likely to be a condition of society that is less able to maximize its function and take advantage of commodity. Dowling and Valenzuela (2010: 252-253) stated that people are poor because of low human capital, such as education, training, or the ability to build. They also have very small amounts of physical capital. Furthermore, if they have good human and physical capital, they may not have the opportunity to work because of discrimination.

2.3. Village funds allocation and Poverty

Village Fund Distribution in form of village fund allocation (ADD) and village fund (DD) is central government expenditure allocated through the regional government or district / city government, then channelled to village government in order to reduce disparities in disadvantaged areas in a hope to increase the village economy. The village economy development can reduce the poor people. Low level of poverty can improve the performance of national economy to improve the community welfare. Based on aggregate demand, village funds allocation is part of planned government expenditure or fiscal component. This means that government expenditure will increase the Gross Regional Domestic Product (GRDP) which in turn can reduce the number of poor people in village.

2.4. Research Conceptual Framework

The policy to distribute village funds is a solution to various weakness of inefficient community services, macroeconomic instability, and inadequate economic growth and reducing disparities between regions (Bird, and Vailancout, 2000; Martinez and McNab, 2001). There are two interrelated issues with policy of allocating village funds as an instrument of fiscal policy. First, it deals with division of responsibilities and sources of local government revenue. Second, amount of policy given to local governments to determine village development (Zakaria, S. 2013). The combination of these two dimensions has a significant impact on funds distribution in a broader perspective both politically, administratively and economically in rural communities.

Some theoretical and empirical literature argued that funds transfer from the central and district / city governments have a dynamic impact (Khusaini, 2006). There are two meanings that can be caused by dynamic impacts. First, amount of expenditure issued by local government can produce greater output to increase welfare of community in rural areas. The needs and desires fulfilment of rural community will meet the needs of individuals and social welfare. Furthermore, the will increase the work ethic, savings and investment of community, better workforce education, a healthy community, and availability of cheaper transportation. Second, distribution of funds to villages will encourage public spending in provision of public services and infrastructure by local governments at lower costs, high yields and better quality.

The dynamic impact caused by village fund allocations and village fund is one of determining factors to finance the potential of village development. The impactive and efficient management can reduce the poverty levels. Based on above description the Research Conceptual Framework is shown in figure 1.

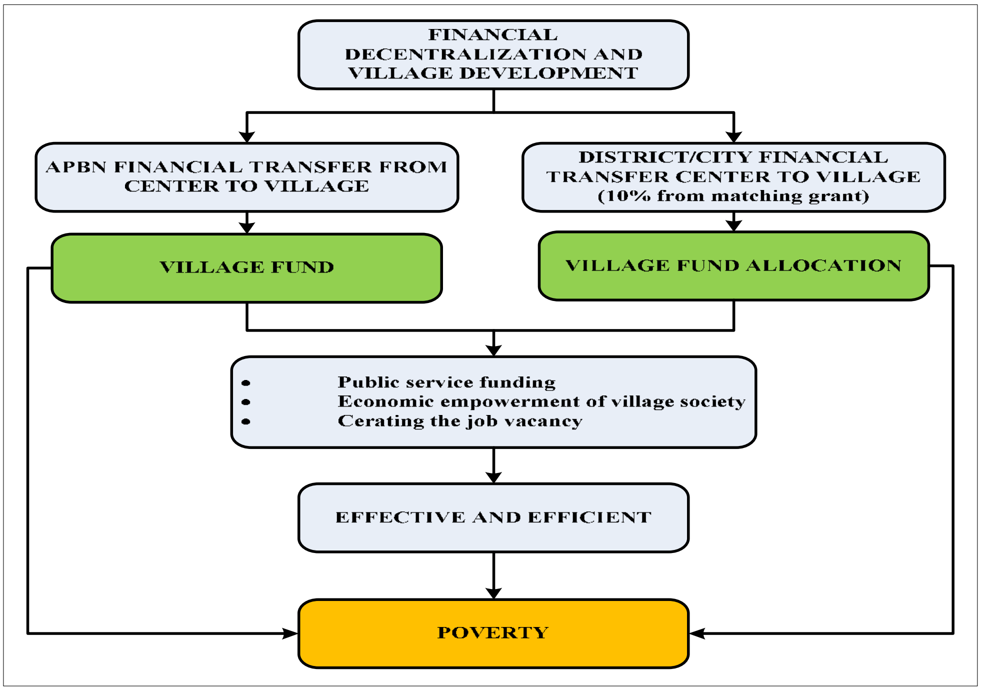


Figure .1. Research Conceptual Framework

3. Research Methods

3.1. Research Approach

This research USES the positivist approach. Neuman (2006: 82-83) stated that a positivist approach is a method to combine the logic of deduction with appropriate empirical observations of individual or group behavior to find and confirm a set of causal laws that can be used to predict general patterns of human activity. The positivist approach analyze the relationships that interdependent, coexistence and causality and also can explain the conditions in society (explanatory capability) and making predictions about the event (predictive capability) for the relationship village funds allocation with poverty.

3.2. Data Types and Sources

This study uses secondary data. Most secondary data comes from the Indonesian Central Statistics Agency (BPS), Director General of Indonesian Ministry of Finance's Budget, Ministry of Villages and Disadvantaged Regions, other relevant institutions and internet sites. The collected data includes number of poor people, village funds allocation and village funds. The data should be able to explain the impact of village financial decentralization implementation in districts of Maluku Province, Indonesia.

3.3. Variable Definition and Measurement

The definition and measurement of variables are intended to explain the studied variables. In other words, the variable definition is an implementation guide on how to measure a variable, as shown in table 1.

Table. 1. Operational Definition and Variable Measurement

No	Variables	Variables Measurement
1	Village Fund Allocation	Percentage of Village Fund Allocation of matching grant from central and regional at year i
2	Village Fund	Percentage of village funds from the APBN allocated directly to villages.
3	Poverty	Maluku Poverty Rate at year i (%)

4. Data Analysis

Data analysis is aimed to test the hypothesis as the answers to research problems. It uses time series and cross sections data, so the data analysis method used is panel data analysis method. Panel data or pooled data is a combination of time series and cross sections data. Accommodating information, both related to cross section variables and time series, panel data should reduce the problem of omitted variables because the ignorance of relevant variables (Nachrowi and Usman, 2006). In addition, it can overcome the intercorrelation between independent variables to avoid inaccurate regression estimation.

Three econometric model estimations will be used. First, Pool Least Square (PLS) is an estimation technique using the Ordinary Least Square (OLS) method. This technique combines (pool) all time series and cross sections data. Second, Fixed Impact Model (FEM) is a technique to analyze the dummy variable model to analyze a possibility of omitted variables that result in changes in intercept of time series and cross sections. Third, Random Impact Model (REM) is more focused to improve the efficiency of least square process by calculating the error of cross section and time series. Random Impact Model is a variation of generalized least square (GLS) estimation. The econometric model formulation is follows.

$\ln K_{it} = \beta_0 + \beta_1 \ln ADD/Pop_{it} + \beta_2 \ln DDit + ... + u_{it}$

5. Results and Discussion
5.1. Results
5.1.1. Testing the Analysis Model
This study uses a panel data in analysis model. It is necessary to test the analysis model. The testing results of three estimation techniques on panel data to determine the impact of allocating village funds to poverty in districts / cities of Maluku Province is shown in table 2.

Table 2
Model Analysis of Village Fund Allocation and Poverty
Regency / City in Maluku Province, Indonesia

	PLS	FEM	REM
Variabel:			
C	17950.18 (4.428532)*	29979.14 (76.19115)	29747.99 (5.877619)
ADD	0.000421 (2.501744)	-0,00133 (-0.863948)	-0,00056 (-0.390549)
DD	0.000141 (1.719538***	-0,00141 (-1.801107)***	-0,00107 (-1.424361)
Adj R^2	0.064559	0.994219****	0.006072
DW	0.165037	1.392127*****	1.045263
Uji Chow dan Hausman Test	704.389419	1.305137******	6.576523

Information:
* significant with α = 1%
** significant with α = 5%
*** significant with α = 10%
**** the best model of determinant coefficient indicator
***** the best model of Durbin Watson indicator
****** the best model according to Chow Test and Hausman specification test

Table 2 shows some information. First, the variable coefficients of FEM and REM techniques are better than the PLS technique. Although FEM and REM variable coefficients are not significant but have negative values to explain the relationship in theory. Second, the two model tests of Chow test and Hausman specification test recommend that FEM is more consistent and efficient according to null hypothesis, determinant coefficient values, R^2 and Durbin Watson are better than FEM and PLS techniques. This means that PLS and REM can be ruled out from further poverty analysis. Third, the F test for PLS and FEM techniques look quite robust. This is indicated by calculated F test value that far enough with limit shown in F table. The calculated F value of FEM is 658.5, while the F table with numerator (N1) is 2 and denominator 8, at a 95% confidence level is 19.4. Based on these indicators, FEM techniques statistically are better and more efficient to analyze the impact of village fund and village funds allocation on poverty in Maluku Province, Indonesia.

5.1.2. Estimated Results
Table 3 shows the results of estimation the impact of village funds allocation on poverty in districts / cities of Maluku Province, Indonesia. It shows the results of panel data estimation using the Fixed Impact Model (FEM) technique for 66 observations in districts / cities of Maluku Province, Indonesia.

Table 3.
Estimation the Village Funds Allocation and Poverty

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	29979.14	393.4727	76.19115	0.0000
ADD?	-0,00133	1.54E-05	-0.863948	0.3919
DD?	-0,00141	7.82E-06	-1.801107	0.0780
Weigthed Statistic				
Adjusted R-squared	0.994219			
F-statistic	658.5232			
Prob(F-statistic)	0.000000			
Durbin-Watson stat	1.392127			

Table 3 shows some important points to explain the impact of village funds allocation on poverty in districts /cities of Maluku Province, Indonesia. First, FEM technique for 66 observations shows the coefficient of determination (adjusted, R2) is 0.995731. This means that village funds allocation and village funds variables can explain poverty coefficient at 99.57 percent, while the remaining 0.43 percent is explained by other variables outside the equation model in this study. The ability of these explanatory variables is also confirmed by F statistic of 116.33 with probability of an F statistic at 99 percent confidence level or α 1 percent. Second, t Statistic test to detect the relationship between village funds allocation and village funds variables with poverty as explanatory variables, including constant (intercept) variables are (1) the variable village funds allocation has a negative value, not significant, (2) the variable village fund has a negative value and is significant at 10 percent confidence level.

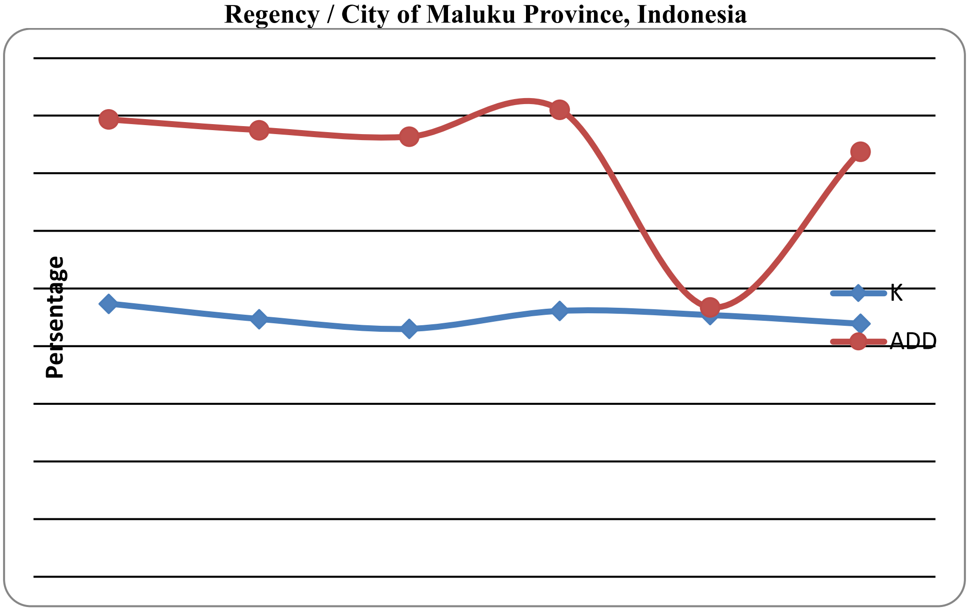
Third, specifically for fixed impact cross section, which describe the characteristics each regency / city, shows that actual intercept values of regencies / cities have different or unequal abilities, of which of 11 regencies / cities in Maluku Province, five of them has a negative value and the rest 6 districts / cities have a positive value. This indicates that village funds allocation to districts / cities has not been able to reduce poverty levels in districts / cities of Maluku Province, Indonesia.

5.2. Discussion

5.2.1. Village Fund Allocation and Poverty

Study results showed that beta coefficient on village funds allocation is -0.00141. This confirms that when the village funds allocation was increased by 1 percent, it would reduce poverty levels by -0.0014%. Although the coefficient value is negative but it does not have a significant impact to reduce the number of poor people in districts / cities of Maluku Province, Indonesia

Figure 2.
Average Village Fund Allocation and Poverty
Regency / City of Maluku Province, Indonesia



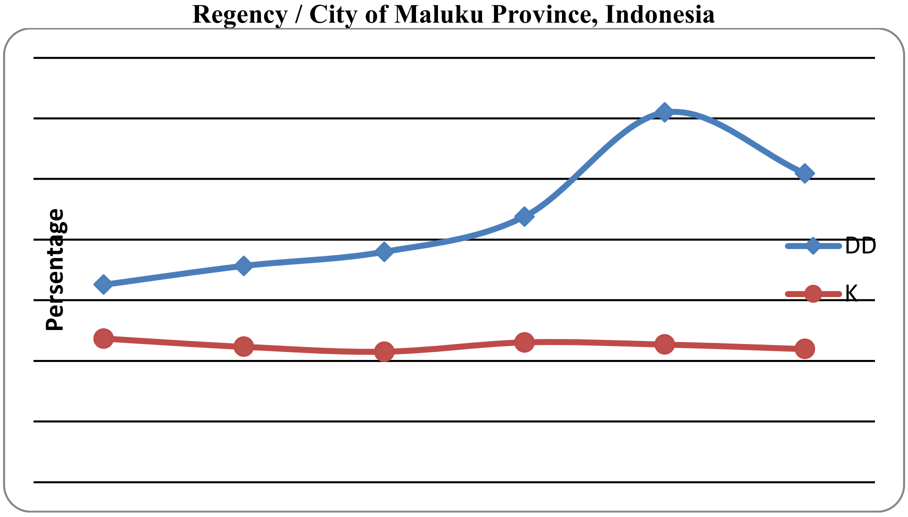
Source: Statistics Indonesia (data processed), 2013 - 2018

Figure 2 confirms that distribution of village funds allocation through the Balancing Fund (DP) has decreased with an average reduction rate of 0.56 percent per year, as well as the number of poor people decrease average 0.35 percent per year for a period of six years. This shows that decrease in number of poor people in districts / cities of Maluku Province, Indonesia does not result from the distribution of village fund allocations, but caused by rural community empowerment programs in context of poverty alleviation implemented by district / city governments. This means that village funds allocation from the Local Revenue and Expenditure Budget (APBD) with a minimum budget allocation of 10% is more focused on village spending that less productive to encourage and improve the welfare of village communities.

5.2.2. Village Funds and Poverty

Study results showed that beta coefficient of village funds is -0.00133. This confirms that when the village funds allocation is increased by 1 percent, it will reduce the number of poor people by 0.0013% or an average of 419 poor people per year from the total number of poor people in districts / cities in Maluku Province, Indonesia. Although this number is relatively small, it has a good impact to improve the level of community welfare.

Figure 3
Average of Village Funds and Poverty
Regency / City of Maluku Province, Indonesia



Source: Statistics Indonesia (data processed), 2013 - 2018

Figure 3 confirms the relationship between village funds and poverty. The distribution of village funds tends to increase during the year 2012-2017 at average of 3.67 percent per year. Conversely, number of poor people decrease from year to year at average of 0.35 percent per year. This study results confirms the village funds distribution to finance government administration, implementation of development, community development, and community empowerment can produce a multiplier impact. This means that government spending will improve the community and increase the life standard of rural communities, community's living needs can be met, which at end of poverty rate in rural areas can be reduced.

5.3. Research Implications

5.3.1. Theoretical Implications

- The village funds allocation and village funds is an instrument of fiscal decentralization policies to improve the performance of public sector, decrease poverty and encourage economic growth which in turn can improve people's welfare. These study findings are consistent with theory of fiscal federalism that fiscal decentralization will be more efficient and increase accountability because (1) local governments will manage it in according to their needs; (2) the management is adapted to local needs and preferences; (3) impactive competitive pressure motivates local governments to be more innovative and accountable to their population.
- Village funds allocation cannot reduce poverty in districts / cities of Maluku Province, Indonesia. It is not only due to lack of decentralized funds, but also because the budget management system is not on target. The implications of these findings are consistent with Alesina and Rodrik, (1991); Clark, (1995) that developing countries have budget constraints so that they are more waiting to receive the transfer funds which can have a negative impact on regional economy.

5.3.2. Empirical Implications

Village funds are an indicator of fiscal decentralization with the ability to reduce poverty. This implies that policy to distribute village funds can be one of policy instruments to reduce poverty and stimulate village economic growth.

6. Conclusions and Recommendations

6.1. Conclusion

- The fixed impact model (FEM) approach shows that village funds affects on poverty. This means that even though the village funds allocation is relatively small, they are proven to have the ability to reduce district /

city poverty levels in Maluku Province, Indonesia.
- The relationship of village fund allocations to poverty levels confirms that village fund allocations cannot reduce poverty in district / city poverty of Maluku Province, Indonesia. It is because the amount of limited funds and tends lesser and used for less productive expenditure such as salary, official travel and office equipment.

6.2. Recommendation
- The government needs to reconsider the amount of village funds allocation to districts / cities to cover fiscal imbalances based on reformulation of regional expenditure budgets, especially districts / cities in Maluku Province with a high level of geographical difficulty to improve regional economic performance.
- Management of village funds should efficient and adheres to values of Good Governance. This means that budget allocations is aimed to finance development activities and empowering rural communities that implemented with full responsibility to allocate village funds on target, avoiding corruption both politically and administratively.
- Local and village governments should have knowledge and ability to manage the village funds, they also need to have a strong commitment to optimally provide services to community.

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