The Jokowi Government launched the Village Fund program in 2014. The village fund aims to equalise village development and improve the welfare of village communities. Although in terms of the amount of funds distributed the fund increases every year, research shows that the use of village funds has not been effective. This paper analyses regulatory gaps on village funds, believed to be one of the sources causing ineffectiveness in the implementation of village funds. The type of research used is evaluative research. This paper found that there are several problems faced by existing regulations, namely: contradictory provisions among regulations regarding the village fund, regulations are scattered and easy to change, and the shift of paradigm toward the expected use of the village fund. At the end of this paper, several recommendations are given to improve the existing village fund regulations.

**Key words:** Village Funds, Regulations, Village Development, Welfare, Indonesia.

**Introduction**

Villages (or its other names) have existed long before the Unitary State of the Republic of Indonesia was formed (Solekhan, 2014). Historically, villages were an embryo for the formation of the political and governmental society in Indonesia (Dwipayana et.al., 2003). In Indonesia, villages have been recognised since the first law on regional government (Law Number 22 of 1948). Village governance in Indonesia has been shaped by different political regimes, which granted different types of authority to village-level government (Salim et.al., 2017). Presently, villages are specifically regulated in Law Number 6 of 2014 concerning villages (Village Law). The Village Law constructs a village as a community with its own authorities. It is legally structured and regulated in five areas: village government, the Village Representative Council, the village consultative forum, monitoring and evaluation of village
governance and planning, and creating new regulations (Salim et.al., 2017). Villages or the village government may be placed as the lowest governmental authority in Indonesia. However, villages are the spearhead for the government in carrying out development. This is because Indonesia is made up of 83,931 village-level administrative regions in Indonesia (Kusnandar, 2019). Therefore, the government needs to start from the bottom to establish general welfare because villages encompass a rural community that needs the utmost attention for infrastructure and economic welfare. The importance of villages makes village development have a vital and strategic role in regional and national development (Sofiyanto et.al., 2017).

Villages, in organising their government, certainly need financial support (Aziz, 2016). One source of village income is the Village Fund. Village Law doesn’t address the Village Fund as it is but, as an “Allocation of National Government Budget.” This Allocation of National Government Budget has the same definition as the Village Fund in Law Number 23 of 2014, as well as in Government Regulation Number (GR) 60 of 2014. Village funds are specifically regulated in GR Number 60 of 2014, which was last amended by GR Number 8 of 2016. The term Village Fund was first recognised in Law Number 23 of 2014 concerning Regional Government, where the Village Fund is defined as funds originating from the state budget, intended for villages, that are transferred through the district/city budget. Village funds are used to finance the implementation of village governance, which includes services, development and community empowerment (Indonesia Law Number 23 of 2014).

In 2015, the Government began distributing Village Funds with an average amount of 280 million Rupiah for each village (Suryahadi and Izzati, 2018). That number continues to increase each year, reaching Rp 800 million per village in 2018 (Suryahadi and Izzati, 2018). As a result, the number of Village Funds distributed over three years has doubled to thrice, from around 20 trillion Rupiah in 2015 to 60 trillion in 2018 (Suryahadi and Izzati, 2018). The presence of village funds was greeted with a feeling of euphoria by the community. Village funds are considered as a breakthrough for rural communities to pursue economic prosperity in their respective villages. However, the assessment of Indonesia’s recently introduced village funds between 2014 and 2017 shows rather mixed results (Gonschorek and Schulze, 2018).

One of the villages that have succeeded in maximising the use of Village Funds is the Ponggok Village. The Village Fund that has been disbursed since 2015 has made Ponggok Village a tremendous amount of revenue. This is because, in the Ponggok Village, Village Funds are used adequately for the development of Village-Owned Enterprises (BUM Desa). In the Village Government Budget of the fiscal year 2017, Ponggok Village allocated village revenue to the amount of 3,73 billion rupiah, which consisted of 657 million rupiah village-owned resource revenue, 1,50 billion rupiah of transfer revenue and 1,52 billion rupiah of other revenue.
On the other hand, several studies have shown that the existence of village funds has not yet been sufficient in increasing village development or improving the welfare of village communities. Asep Suharyadi and Ridho Al Izzati's research shows that economic growth became less pro-poor during the first three years of the Jokowi government. This is because Jokowi's poverty and inequality reduction strategy (including village funds) is not sufficient to boost Indonesia's economic growth (Suryahadi and Izzati, 2018). The ineffectiveness of village funds was also conveyed in the Nyimas Latifah Letty Azis study entitled, "Village Autonomy and the Effectiveness of Village Funds." According to Nyimas, the ineffectiveness of village funds is due to the inadequacy of the capacity and capabilities of the village government and the involvement of the community in actively managing village funds (Aziz, 2016).

Supporting Nyimas statement, research by Gonschorek and Schulze says the main critique of Village Funds is that Village heads need more technical assistance and oversight to avoid the misuse of funds (Gonschorek and Schulze, 2018). According to research by Adhyanto et.al., besides human resources acting as a constraint in the management of village funds, village governments should also follow the ever-changing regulations (Adhyanto et.al., 2019). Regulation becomes an obstacle because of frequent changes, overlapping policies and difficulties in their proper implementation by the village governments (Adhyanto et.al., 2019). Regulatory problems were one of the factors that inhibit the management of the village funds, not only for the village government as the implementer, but also for the local government (the Community and Village Empowerment Agency) (Adhyanto et.al., 2019). Furthermore, policymakers are sometimes slow in conveying the new policy to the implementor, namely the Village Government. This poor communication factor is also aiding the unsuccessful implementation of Village Fund management (Noverman, 2018).

Based on the explanation above, it appears that there are still number of unresolved issues relating to the Village Fund. Much research has been done to find reasons for the ineffectiveness of village funds from economic studies and social science perspectives. However, there is still not much research on this issue from a regulatory perspective. Therefore, this study will analyse the causes of the ineffectiveness of village funds from the existing regulatory aspects. Firstly, this paper will show contradictory provisions among regulations regarding the village fund that created uncertainty. Secondly, this paper will show how scattered and easily changed the regulations are. Thirdly, it will explain the shift of paradigm toward different regulations on village funds, particularly regarding the aim of the fund. Lastly, this paper will provide recommendations for better village funding arrangements in the future.
Methods

The type of research used is evaluative research. Evaluative research tests whether rules work in practice, or whether they are in accordance with desirable moral, political and economical aims, or, in comparative law, whether a certain harmonisation proposal could work, taking into consideration other important divergences in the concerned legal systems (Hoecke, 2011). Additionally, this research will follow a normative stance, or in other words, can be referred to as a doctrinal legal research. A normative legal research is a research in the fields of law that is conducted through the examination books and works from the library (Soekanto, 2009). Therefore, this research will be conducted by describing (interpretation), alongside the application of principles, concepts and legal rules in order to address the said legal issues.

This legal research also utilises statutory, historical and conceptual approaches. A statutory approach in this case is conducted by analysing and reviewing any laws and regulations related to the agreement. The historical approach on the other hand aims to examine the development of positive laws governing the Village Funds in Indonesia. Finally, the conceptual approach is used in order to understand and analyse the implementation of any laws related to the Village Funds.

The collection of data is achieved by collecting and studying documents in order to search for legislations, books and other documents correlated with this legal research, to gain legal theories and doctrines. Any secondary data obtained from this legal research is collected systematically and is classified in accordance with the subject matter and will then be qualitatively analysed in accordance with the quality of the facts contained therein. Data processing is then carried out in accordance with legal interpretation (hermeneutic), namely grammatical and sociological interpretation methods. The results of the legal research are answered in a descriptive manner to answer the said problem comprehensively. Other expected results with right solutions can be applied to address the weaknesses of Village Funds and the role of the government.

Analysis of Regulations Gap Concerning Village Fund
Contradictory Provisions in Higher and Lower Regulations

Philosophically, the presence of village funds is aimed to improve the welfare of village communities and to realise equitable village development. The success of the village funds is characterised by the increase in public services, the advancement of the village economies, a reduction in development disparities between villages and stronger involvement of village communities, which are not only involved as objects but act as major subjects in development (Meutia and Liliana, 2017).
Historically, before the Village Fund policy was established, there had been a policy that was aimed to finance the village administration, development and community, namely the Village Fund Allocation (ADD). The ADD program emerged after the issuance of Law Number 32 of 2004. The source of ADD funding is from the Regional Government Budget (APBD), particularly fiscal balance transfers from the central government to the regional government. The fiscal balance transfers funds originating from the APBN allocated to the Regions, in the context of implementing decentralisation (Azwardi and Sukanto, 2014). ADD is now regulated in Article 72 of the Village Law, which states that ADD is at least 10% (ten percent) of the fiscal balance transfer in the APBD. The dual-source funding model for village governance, the regional government ADD fund and the central government village fund, has had mixed consequences for the village government. Village officials, including village heads, complain about the bureaucratic burden of a dual financial disbursement process and reporting structure, and have voiced a concern that failing to comply with the rules may lead the user to be scrutinised by the Corruption Eradication Committee (KPK) (Salim et.al., 2017).

From the above explanation, it could be stated that ADD is a fund from the fiscal balance transfer received by regions in the APBD. At the same time, the Village Fund is funds sourced from the APBN, which are allocated to villages that are transferred through APBD. Therefore, it appears that both fiscal balance transfers (including ADD) and Village Funds are part of the regional budget, which then allocated for villages. Village revenues itself is regulated in Article 72 of the Village Law, which is detailed by the Minister of Home Affairs Regulation of the Republic of Indonesia Number 20 of 2018 concerning Village Financial Management (see Figure 1).
Village income is then used for village expenditure. Village expenditure is essentially prioritised to meet development needs. Development needs are agreed in the Village Conference, where the development needs must follow the priorities of the Regency / City Government, Provincial Government and the Central Government. The detailed provisions relating to Village Expenditure (see Figure 2) are regulated in GR 43 of 2014, which was lastly amended by GR 11 of 2019, as follows:

a. At least 70% (seventy percent) of the total Village expenditure budget to fund:
   1. Village government administration including Village Government operational expenditure and incentives for neighbourhood associations and hamlets;
   2. Village infrastructure;
   3. Village community development; and
   4. Village community empowerment.

b. At most 30% (thirty percent) of the total Village expenditure budget to fund:
   1. Fixed income and allowances for village heads, village secretaries, and other village apparatuses; and
The figure above shows the arrangement regulated by GR 11 of 2019 (as the amendment of GR 43 of 2014). To implement the GR, the Ministry of Home Affairs then issued The Ministry of Home Affairs Regulation (Permendagri) Number 20 of 2018 (Ministry of Home Affairs Regulation No 20 of 2018), which contained an attachment regarding the format of village regulations on village budget. The appendix of the Permendagri regulated that both fixed income and allowances for village heads and village apparatuses, as well as allowances and operational costs of the Village Consultative Body, are categorised as part of village government administration (see Figure 3). The aforesaid regulation on Permendagri creates conflicting regulation with the provisions in GR 11 of 2019 and GR 43 of 2014. As stated previously, in GR 11 of 2019 village government administration is part of the “[a]t least 70% (seventy percent) of the total Village expenditure.” Meanwhile, fixed income and allowances, and allowances and operational costs of the Village Consultative Body is part of the “[a]t most 30% (thirty percent) of the total Village expenditure”.

**Figure 2.** Detailed village expenditure according to GR 43 of 2014 which was lastly amended by GR 11 of 2019
Figure 3. Detailed village expenditure arrangements according to Permendagri 20 of 2018

Source: The Authors

Based on the figure above, it appears that the arrangement in the attachment of the Permendagri 20 of 2018 makes all village expenditures regulated in the Permendagri as part of the "at least 70% (seventy percent) of the total Village expenditure". This condition causes a vacancy in the "at most 30% (thirty percent) of the total Village expenditure" section. Besides this, it can cause more difficulties, considering the 70% and 30% distinction is made to emphasise that the village budget must be at least 70% used for village development and empowerment and only 30% for village administration (including income and allowance). The ambiguity of the regulation creates problems for the district government in evaluating the village fund draft proposed by villages.

The problems faced by the district government are caused by unclear arrangements between the two regulations. If the fixed income and allowances for village heads and village apparatuses, as well as allowances and operational costs of the Village Consultative Body are categorised as part of village government administration, then the provisions that apply to them are at least 70%, together with infrastructure development, community development and community empowerment. The minimum 70% means that the amount of income and
allowances for the village apparatus (if calculated alone) can exceed 30%. This ambiguity is certainly not in line with the spirit of the issuance of village funds.

This condition is further complicated by the fact that there is a stipulation that the village government’s permanent income must be sourced from ADD. The inclusion of the fixed income of the village apparatus within the village administration sphere has made it increasingly difficult for the village and district governments to evaluate whether the source of funding for the village government fixed income was really from ADD and not the Village Fund.

Moreover, Permendagri 20 of 2018 becomes the complementary rule to create certainty in GR 43 of 2014. In theory, lower regulations (in this context Permendagri 20 of 2018) should not conflict with higher regulations (GR 43 of 2014). However, in practice, villages use the attachment of Permendagri 20 of 2018 as guidance because it is more detailed in comparison with the higher regulation. Furthermore, until today, there is no nullification related to the Permendagri.

**Regulation on Village Funds Scattered and Rapidly Changed**

One of the other causes that complicate the implementation of the Village Fund is the spread of legislation authorities in various ministries. Regulations regarding ADD and Village Funds are regulated in various ministerial regulations, which are listed as but not limited to:

1. Management of Transfers to Regions and Village Funds is regulated in Minister of Finance Regulation Number 50 / PMK.07 / 2017 which has been amended several times, the last being amended by Minister of Finance Regulation Number 121 / PMK.07 / 2018.

Regulation of the Minister of Finance Number 50 / PMK.07 / 2017 concerning Management of Transfers to Regions and Village Funds promulgated on April 4, 2017. PMK 50 of 2017 is issued in order to improve the efficiency, effectiveness and accountability of budgeting, allocation, distribution and administration, guidelines for use, and monitoring and evaluating Transfers to Regions and Village Funds.

Within a 4 (four) month period, the Minister of Finance Regulation (PMK) has changed twice: the first change with PMK 112 of 2017 on 1 August 2017, and the other with PMK 225/2017. Finally, PMK 50 of 2017 was amended by PMK 121 of 2018 on September 21, 2018. These changes illustrate that the PMK concerning Management of Transfers to Regions and Village Funds experienced rapid and large changes in a short amount of time.
2. Regulation of the Minister of Finance Number 193/PMK.07/2018 concerning Management of Village Funds.

Regulation of the Minister of Finance Number 193/PMK.07/2018, on the one hand, is different from PMK 50 of 2017 because it only regulates Village Funds in detail. The issuance of PMK 193 of 2018 aims to improve the efficiency, effectiveness and accountability of Village Fund management and further regulate the procedures for calculating the details of Village Funds for each Village. On the other hand, PMK 193 of 2018 revoked some of the provisions in the Regulation of the Minister of Finance Number 50 / PMK.07 / 2017. The repealed provisions are related to budgeting, distribution, administration, accountability and reporting, guidelines for use, and monitoring and evaluation of Village Funds.

3. Regulation of the Minister of Finance No. 257 / PMK.07 / 2015 concerning Procedures for Postponing and/or Withholding Balancing Funds for Regions Which Not Meeting the Village Fund Allocation.

Regulation of the Minister of Finance No. 257 / PMK.07 / 2015 regulates the scope of delays and / or deduction of balance funds, regulations of regents/mayors concerning the distribution of ADD, and procedures for the delay and/or deduction of DAU and / or DBH. Even though PMK 257 of 2015 regulates specifically relating to the delay and / or deduction of balance funds, PMK 257 of 2015 also regulates the minimum number of ADD allocations along with consideration of its distribution.

4. Regulation of the Minister of Villages, Development of Disadvantaged Areas, and Transmigration of the Republic of Indonesia Number 16 Year 2018 regarding Priority for the Use of Village Funds in 2019.

The Regulation regarding Priority for the use of Village Funds aims to provide a reference for the Central Government in monitoring and evaluating the use of Village Funds. It provides a reference for the Provincial Government in facilitating Village Funds, as well as a reference for Regency / City Regional Governments fostering and facilitating the use of Village Funds, and provides a reference for villages implementing the Village-Based Local Origin Rights and Authority that is funded by the Village Fund.

Based on this regulation, the priority purpose of using the Village Fund is to finance the implementation of programs and activities in the field of village development and the empowerment of the village community. This priority is stated because the village fund aims to provide maximum benefits to the village community in the form of improving the quality of life, improving welfare and poverty reduction and increasing public services at the village level.
5. Regulation of the Minister of Home Affairs Number 20 of 2018 concerning Village Financial Management.

Permendagri 20 of 2018 specifically regulates village financial management. The appendix to the quo regulation has been regulated in detail relating to the fields, sub-sectors and activities in village financial management. Permendagri 20 of 2018 also regulates the substance of Regents / Mayors regulations on Village APBs, along with the format of the Village Regulation draft on Village APBs, Village APB formats, and others.

Based on the data above, it appears that regulations related to ADD and Village Funds are issued by at least three ministries, namely: 1) Ministry of Villages, Disadvantaged Regions, and Transmigration; 2) Ministry of Finance, and 3) Ministry of Home Affairs. The implication of a regulation not under one ministry is, of course, that it becomes more difficult to understand the positive laws that apply in relation to ADD and the Village Fund. Even more complicated, the Ministry of Finance, which regulates the management of Village Funds, also has two overlapping PMKs, namely PMK 50 of 2017, which was last amended with PMK 121 of 2018, with PMK 193 of 2018, which specifically governs Village Fund management, which then revokes some PMK 50 of 2017.

Moreover, GR relating to Villages and Village Funds are also not under one umbrella. The GR on villages is regulated in GR 43 of 2014, while those regarding Village Funds are regulated separately in GR 60 of 2014. Both GRs have changed twice. With a large number of agencies that regulate village funds at the same time, each regulation changes rapidly and there is a possibility that one regulation overlaps with another, making it difficult to understand the applicable regulations on village funds. It can be concluded that the volume of regulations issued by the government, published almost alongside the preparation and implementation of the village expenditure budget, has created more significant obstacles for village governments in understanding the rules (Adhyanto et.al., 2019).

Participatory law-making processes have a high probability of resulting in a “negative” symbol act: a law that serves to express particular values in the political sphere rather than to enforce particular norms of behaviour and the objectives lying at their basis (Vel et.al., 2017). When several policy communities are involved, each with their own objective, the chance for such “negative” compromises is considerable (Vel et.al., 2017). The typical Indonesian version of this result is a framework law, which lacks substantive rules but combines a set of lofty, broad principles with a legislative agenda (Vel et.al., 2017).
Shifted Perspective

Not only are the regulations changing, but the perspective brought by the changing regulations has also shifted. As explained earlier, village spending is essentially prioritised to meet the development needs agreed to in the Village Conference and in accordance with the priorities of the Regency / City Regional Government, Provincial Regional Government and Government. Below are the comparisons between regulations stipulated in GR 43 of 2014 and in GR 11 of 2019 regarding the use of Village Expenditure.

Table 1: Village Expenditure Comparison

<table>
<thead>
<tr>
<th>The use of Village Expenditure regulated in Article 100 GR 43 of 2014 as follows:</th>
<th>The proportion in Article 100 GR 43 of 2014 changed by GR of 2019 into:</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) At least 70% (seventy percent) of the total Village expenditure budget to fund:</td>
<td>a) At least 70% (seventy percent) of the total Village expenditure budget to fund:</td>
</tr>
<tr>
<td>1. The implementation of the Village Government,</td>
<td>1. Village government administration including Village Government operational expenditure and incentives for neighbourhood associations and hamlets;</td>
</tr>
<tr>
<td>2. Implementation of Village development,</td>
<td>2. Village infrastructure;</td>
</tr>
<tr>
<td>3. Village community development; and</td>
<td>3. Village community development; and</td>
</tr>
<tr>
<td>b) At most 30% (thirty percent) of the total Village expenditure budget is used for:</td>
<td>b) At most 30% (thirty percent) of the total Village expenditure budget to fund:</td>
</tr>
<tr>
<td>1. Fixed income and allowances for village heads and village officials;</td>
<td>1. Fixed income and allowances for village heads, village secretaries, and other village apparatuses; and</td>
</tr>
<tr>
<td>3. Allowances and operations of the Village Consultative Body; and</td>
<td></td>
</tr>
<tr>
<td>4. Incentives for neighbourhood associations and hamlets.</td>
<td></td>
</tr>
</tbody>
</table>

Source: The Authors

It can be seen from the comparison of the two regulations above that there are several expenditure items in the most recent GR of 2019 that are moved from part b to part a. Specifically, the village government administration expenditure and incentives for neighbourhood associations and hamlets are now to be funded from 70% to 30% of the Village expenditure budget. Therefore, part b, which was intended for the welfare of village officials, becomes larger in portions because there are fewer dividers.
Furthermore, the table above shows a shift in the paradigm of the development of GR from year to year. The GR seems to aim more at the welfare of the Village Head and Village Apparatus rather than for the development of the Village. firstly, it can be seen from the increasing scope for village government income in consequence of the village expenditure provisions. In GR 43 of 2014 and GR 47 of 2015, the income of the village government is in one part with the operation of the village government, as well as the incentives for the neighbourhood and community units. However, at present, GR 11 of 2019 stipulates that from the portion, at most 30% is devoted to the income of the village government. Secondly, Article 81 of GR 43 of 2014, which regulates concerning the income of the village government, continues to change. According to the last adjustment, GR 11 of 2019 determined that there was a minimum fixed income for the village government. The minimum limit has never been regulated in previous regulations before.

Conclusion

The Village Fund, as a breakthrough to encourage more equitable development throughout Indonesia, is an outstanding idea. However, there are still some shortcomings that need to be solved, particularly regarding the existing legal rules. Firstly, there are conflicting regulations on village funds, namely GR 43 of 2014, which was last amended by GR 11 of 2019 and Permendagri No. 20 of 2018. The attachment of Permendagri 20 of 2018 containing the format of village regulations on the village budget cannot precisely regulate as desired by the GR 43 of 2014. The Regulation of the Minister of Home Affairs 20 of 2018 has caused chaos in the distribution of the 70% and 30% proportions as regulated in GR 43 of 2014.

Secondly, the regulations relating to the Village Fund are regulated in a scattered and rapidly changing manner. This creates difficulties for the community in carefully examining arrangements related to the village. Furthermore, policymakers are sometimes slow in conveying new policy to the implementor. Concerning their limited understanding, this in turn affects the implementation of these regulations. Thirdly, changes in several regulations related to village funds have shifted the fundamental paradigm regarding the purpose of village funds. These changes allow village funds to be used as a tool to improve the welfare of the Village Head and the Village Apparatus, when it was initially intended solely for village development and village empowerment.

In order to solve these problems, this research recommends several things. First, the unclear arrangement between the two regulations (GR 43 of 2014 and its amendment regulations to Permendagri 20 of 2018) should be fixed. Considering that Permendagri 20 of 2018 is lower than GR 43 of 2014, theoretically, GR 43 of 2014 should prevail. Therefore, Permendagri 20 of 2018 especially the attachment, must be amended. In addition, regarding the Permendagri
20 of 2018, the attachment has also confused the proportion of 70% and 30% desired by GR 43 of 2014. According to the authors, compared to Permendagri 20 of 2018 and GR 11 of 2019, in the context of village expenditure arrangement arrangements, the provisions of GR 43 of 2014 are more in line with the initial purpose of village funding. In GR 43 of 2014, the Village Government administration is separated from income, allowances and incentives. Therefore, it would be better if the attachment in the amended Permendagri could later be a tool to measure clearly how much the expenditure for each component was and which budget sources are used for financing each expenditure (Village Fund, ADD or other income). It is also important to note that there should be the same terminology used in all regulations related to village funds, especially on necessary matters, such as what is meant by village administrative expenditure, income, allowances and incentives. The things mentioned above will significantly help the district government to evaluate the APBDs submitted by the village to them.

Second, there needs to be a clear blueprint of priorities for what the purpose of village funding is and how to achieve that goal. This blueprint could be used as a guideline for all relevant ministries in making village fund regulations so that the rules issued are not scattered and easily changed. This blueprint could also prevent an easy (or unknowingly) paradigm shift related to the priority of the use of village funds.

Third, there needs to be better guidance and supervision for the implementation of the use of the Village Fund, which is also accompanied by strict sanctions for villages that abuse the Village Fund. This oversight can be facilitated by providing information on which budget sources are used in each component of Village expenditure, as explained above.

Acknowledgment

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