



Debottlenecking Distribution and Disbursement of the Village Fund



Asmowati/SMERU

EXECUTIVE SUMMARY

The distribution of Village Fund (VF) has entered its third year in 2017, yet delays in distribution and disbursement continue to occur and could potentially undermine the quality of VF spending. The challenge is how to develop a simple mechanism that accommodates village capacity, while upholding the principle of accountability.

A study conducted in ten villages (in five *kabupaten* (districts)) showed various issues contributing to this problem, including additional requirements imposed by *kabupaten* and/or *kecamatan* (subdistricts), low administrative capacity of village governments, leadership change during elections of *kabupaten* head or village head, and untimely changes to central government policies. However, best practices are also found in some locations.

This policy brief recommends (i) limiting additional requirements for disbursement of VF from local government (down to the *kecamatan* level); (ii) improving village administrative capacity, including the role of *kecamatan* in providing technical support and use of information technology; (iii) clarifying the scope of authorities of village/regional heads in the transfer and disbursement of VF; and (iv) preventing frequent changes in central government VF policy and improving the timeliness of regulatory changes to be more in line with the implementation schedule in regions/villages.

Evolution of Village Fund Distribution Policy and Its Problems

In the distribution of Village Fund, *kabupaten* governments play a very important role because VF is transferred through regional public cash account (RKUD) (Figure 1). Procedures and requirements for the distribution of VF are stipulated in Government Regulation PP No. 60/2014 on Village Funds,

sourced from the State Budget (APBN), which was later amended by PP No. 22/2015 and PP No. 8/2016, Regulation of the Minister of Finance (PMK) No. 49/2016, and PMK No. 50/2017.

This policy brief is published regularly based on the Village Governance and Community Empowerment Study in ten villages from five *kabupaten* in three provinces. This study is carried out by The SMERU Research Institute with support from Local Solutions to Poverty from September 2015 to April 2018.

Table 1. Village Fund 2015–2017

Fiscal Year	2015	2016	2017
Amount distributed (trillion)	Rp20.8	Rp46.98	Rp60
Distribution stages	3 stages	2 stages	2 stages
Distribution management	Direct from central govt	Direct from central govt	Through regional KPPN*
Distribution performance criteria	None	50% of stage 1 spent	75% of stage 1 spent and 50% output achieved

*Kantor Pelayanan Perbendaharaan Negara (State Treasury Service Office)

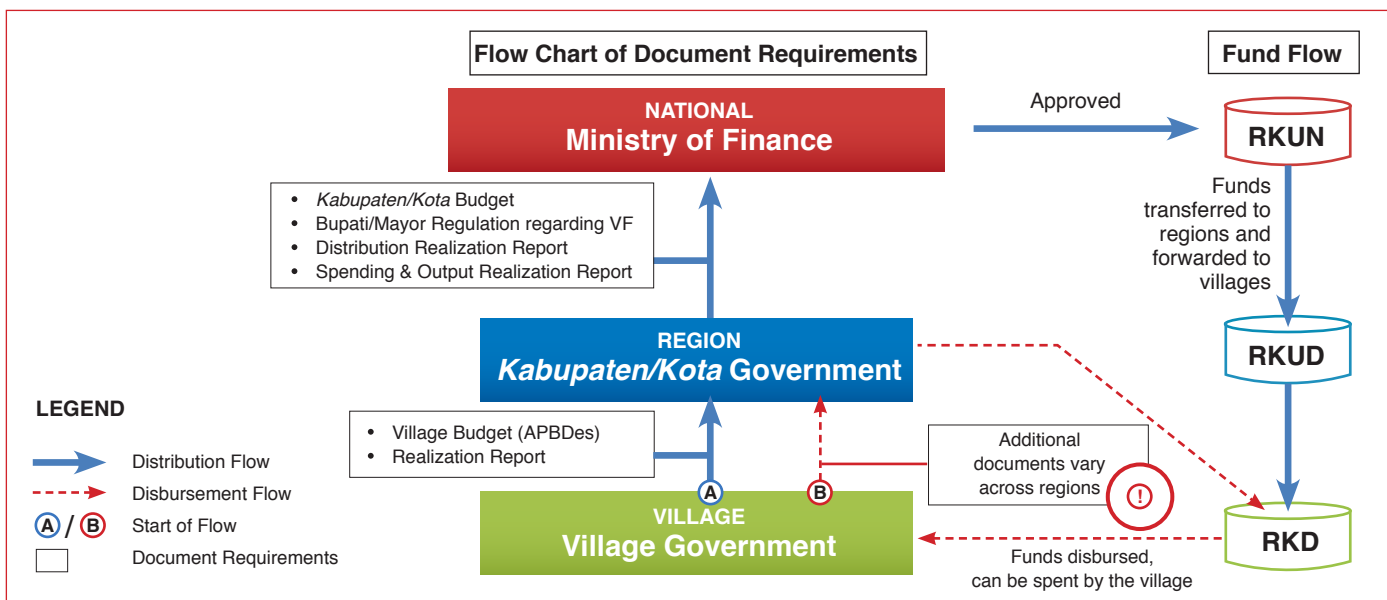


Figure 1. Village fund disbursement and transfer flowchart

Source: Regulations related to VF, and Sedyadi et al., 2016.

Although an evaluation by the Ministry of Finance (MoF) in November 2016 shows that the distribution of Village Fund in FY 2015 and 2016 reached over 90% of total funds, delays continued to be an issue.¹ In FY 2015, all study villages received the third tranche at the end of December. In fact, by the time tranche I of FY 2017 was distributed, villages outside Java could only disburse the funds in June to July, much later than villages in Java that received VF in April to May. Delays in transfer and disbursement in regions—namely, from state treasury account (RKUN) to village cash accounts (RKD) and withdrawals from RKD to be spent—are the focus of this policy brief. The transfer of VF 2017, which was based on performance of budget disbursement and output, increasingly demands timeliness of transfer between levels of government.

A monitoring study in 2015–2017 as part of "Sentinel Villages Study" showed at least four factors were responsible for the delays, i.e. (i) additional requirements by the *kabupaten* or *kecamatan* governments, (ii) lack of village administrative capacity, (iii) leadership change in *kabupaten* and villages, and (iv) changes to central government policies.

Key Factors Influencing VF Distribution and Disbursement

1. Additional requirements by local government for VF disbursement

In all study locations, *kabupaten* and/or *kecamatan* governments imposed additional VF disbursement

document requirements (Table 2). These additional requirements are not all necessary, simple, and proportional to the capacity and/or number of village apparatus. The capacity in question is related to educational qualifications and the limited number of village apparatus with knowledge of various VF regulations. In two *kabupaten* studied, for example, there were villages that delegated the preparation of these requirements to head of financial affairs/treasurers who would work for days until late at night to prepare them.

These numerous requirements are especially burdensome for villages where the local governments have not delegated authority from the *kabupaten* to *kecamatan* because it made technical assistance time-consuming and costly (since village apparatus have to go directly to the *kabupaten* capital for assistance). As a result, some villages resorted to using brokers to prepare the village budget (APBDes) and rely on fictitious documents. These requirements could be meaningless as some regional governments do not give priority to the quality of documents and consider them merely a formality—a tradition rooted since before the Village Law era.

2. Availability of *kabupaten* and *kecamatan* support for village administration capacity

To facilitate coordination of assistance, some local governments innovate by forming ad-hoc teams. BPMPD Ngada formed an internal team to assist villages from planning to finalizing accountability report (SPJ). In

Table 2. Additional Requirements for VF Disbursement

	Additional Documents	Kabupaten					Analysis
		Banyumas	Wonogiri	Ngada	Merangin	Batanghari	
Planning & Budgeting Documents							
1	Medium-term Village Development Plan (RPJMDes)	v		v			Not all villages have and able to produce it. RPJMDes seems to only be a formality document.
2	Village Government Work Plan (RKPDes)	v		v		v	RKPDes has been used as verification tool when preparing village budget (RAPBDes) plan
3	Copy of Expenditure Budget Plan (RAB)	v	v	v		v	This document is definitely required for activity implementation process
4	Building and Infrastructure Design			v		v	Intensive assistance is required due to limited human resources in the village
Transaction Administration (also attached to MoHA Regulation 113)							
5	<i>Camat's</i> Cover Letter	v	v				<i>Kecamatan</i> complicates by imposing additional requirements
6	Payment Request Letter (SPP)	v	v				Necessary as accountability control tool and easy to make
7	Expenditure Accountability Statement	v	v		v		Referring to MoHA Regulation No. 113/2014. This letter is an attachment to SPP

Banyumas, the local government established seven working groups that included members from local government organizations (OPD) relevant to villages to accommodate cross-agency coordination. Unfortunately, in 2017 this innovation was discontinued due to changes to the organisatory working procedures (SOTK) of the *kabupaten*.

In another *kabupaten* studied, the coordination function is performed by the Community and Village Empowerment Agency (PMD) without involving other OPDs and *kecamatan*. The management of village affairs becomes inefficient, difficult to trace in case of problems, and is prone to conflicts. The farthest village, almost 80 km away, must come to the PMD Office to file the required

documents. Meanwhile, other OPDs are expecting a collaborative and transparent coordination.

Generally, *kecamatan* that have received delegation of authority have been quite helpful in assisting villages in preparing their APBDes. The clearest examples were observed in Batanghari and Banyumas. However, having such authority may cause some *kecamatan* to require additional documents that can potentially burden the village. These additional requirements vary, depending on the policy of the *kecamatan*.

Another best practice is demonstrated by Kabupaten Batanghari that has introduced the Village Financial Information System (*Siskeudes*) since 2016. The application prevents the village government from miscalculations and typographical errors on APBDes, although its application is not immediately user friendly. Meanwhile, a *kecamatan* in Ngada facilitated the typing of village documents by recruiting village computer operators utilizing the village fund allocation (ADD) of Rp750,000/month.

BOX 1. Variations in Additional Requirements in Kabupaten

Banyumas. Attachment of transaction activity proof is used as a disbursement requirement. As a result, many villages become confused because the transaction has not occurred. This creates an opportunity for potential manipulation of transaction proof for work that has not been executed.

Wonogiri. In addition to village regulation (*perdes*) regarding APBDes, villages are asked to submit village head regulation (*perkades*) regarding APBDes elaboration. Villages are treated as equivalent to *kabupaten* that annually issue *bupati* regulations (*perbup*) regarding elaboration of the regional budget (APBD).

Merangin. To issue an SPP (payment order), villages must send a letter of request for issuance of SPP to the Community Empowerment and Village Administration Body (BPMPD).

Ngada. Villages are required prepare a Funds Usage Plan per activity that is, in fact, already listed in the APBDes and RAB.

3. Effects of kabupaten head and village head election

Regions conducting regional head elections (*pilkada*) simultaneously tend to experience delays in the transfer of VF. In one of the study areas, the elected regional head was late to endorse a regulation regarding procedures for VF distribution. Meanwhile, in other *kabupaten*, the acting *kabupaten* head did not inaugurate the acting village head, which prevented the village head regulation (*perdes*) regarding APBDes from being signed. Another example is the simultaneous election of village heads. The acting village heads tend to avoid dealing with APBDes to pass the responsibility to the new village head. To get around this, the central government and village governments need to establish clear rules regarding the responsibilities of acting officials in the distribution and disbursement of VF.

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4. Effects of amendments to Central Government policies

As explained earlier, in 2016 the distribution of VF was changed from three to two stages (PMK No. 49/2016). Unfortunately, the issuance of the policy did not coincide with the establishment of rules between governmental levels, thus impacting the ongoing distribution of VF.² For example, Kabupaten Banyumas had already issued a *perbup* regarding the three-tranche distribution of VF. The local government then worked around this by taking a risky option to modify the distribution of phase 1 (60%) into two tranches (40% and 20% respectively).

PMK No. 50/2017 as amended by PMK No. 112/2017 that requires the realization and output performance was also responded to differently. Kabupaten Merangin government required an output realization of 100% accompanied by photos of the project as a requirement for transfer of the second tranche. The Kabupaten Wonogiri government is already using an Online Monitoring of State Treasury and Budget System (Online Monitoring Sistem Perbendaharaan dan Anggaran Negara–OMSPAN) according to PMK; as a result, there is an additional administrative burden on the villages, thus requiring the assistance of village facilitators, local village facilitators, and experts. This further pushed the facilitation away from its main goal, namely, empowerment.

Conclusion and Recommendation

The role of *kabupaten* government is very important in ensuring smooth transfer and disbursement of VF. The additional document requirements combined with low capacity of village administrations are the main contributors to the delays in the distribution and disbursement of Village Funds. Nonetheless, there have been local government innovations that need to be continued and strengthened. At the same time, untimely changes from the central government could also lead to delays in the distribution of VF.

The following are suggestions to improve the distribution and disbursement of VF from *kabupaten* to village level.

1. Limiting required documents as set out in Ministry of Finance regulations (PMK) so that principles of accountability and simplicity can be maintained, while avoiding potential abuse of authority at the *kabupaten* and *kecamatan* levels.
2. Increasing village administrative capacity should be the priority for local governments. This can be done through inter-government-agency coordination for technical assistance at local government level and improving the role of *kecamatan*, as well as use of information technology with intensive training. OPD and *kecamatan* roles need to be regulated in policies to prevent abuse of authority.
3. Authority of acting officials in the distribution and disbursement of Village Fund during *kabupaten* head/village head elections (*pilkada/pilkades*), or in emergency conditions needs to be regulated in a MoHA regulation (*permendagri*) regarding village finances.
4. Regulation on VF distribution do not need to be amended every year. Amendments can be made, for instance, every three years. The PMK should also be issued at least three months before a new FY so that local governments would have enough time to adjust their implementing regulations.

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¹ See Article 33 (2016) and Fitra (2016).

² PMK No. 49/2016 was only signed on March 30, 2016, while policies of lower levels of administration had been stipulated.