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Original Article



## Additional General Allocation Fund (DAU) Policy: The Failure of the Local Government to Provide an Urban Village Budget Allocation in Indonesia

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### Abstract

Initially, an additional DAU policy was issued in 2018, namely through Law Number 12 of 2018, concerning the State Revenue and Expenditure Budget for the 2019 Fiscal Year. This policy was designed to provide additional funds to urban villages. District budget allocations are the responsibility of local governments (PEMDA) according to the mandate of Law Number 23 of 2014 concerning Local Government. This study analyzes the failure of the local government to allocate Urban village funds through the General Allocation Fund (DAU) policy. DAU is a fund earmarked for equal distribution of abilities in inter-regional finance to fund regional needs in implementing decentralized government. The additional DAU policy is essential to anticipate due to the local government's failures in allocating these funds. This study aims to analyze the central government's Urban Village Fund policy through the State Revenue and Expenditure Budget (APBN). It reflects the failure of the local government to allocate a budget to urban villages from the State Revenue and Expenditure Budget (APBN). Besides that, it reflects local governments' inability to allocate budgets to urban villages.



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## 1. Introduction

The urban villages, the frontline unit that deals directly with the community, is one of the most significant determining factors for development progress; ideally, in addition to carrying out its routine duties related to population administration, the urban villages are also expected to play an active role in many matters. Fulfillment of the right to the sub-district in carrying out its autonomy so that it develops and grows following the growth of the sub-district itself based on diversity, participation, democratization, community empowerment and increasing community welfare, as well as accelerating the development and growth of strategic areas is a form of granting a special sub-district fund allocation so that this can develop lagging areas in a development area system. One of the expected roles of the urban Village is to increase the community's active role in development participation and to regenerate the

spirit of cooperation that is now being felt to be disappearing. In addition, the urban Village is expected to map various development problems related to urban village human resources, condition of facilities/ infrastructure, educational facilities, health, pockets of the poor, social facilities, and others. Another role for the urban villages is expected to be an effective facilitator in conveying information from the Local Government Unit of Work (SKPD) to the community or vice versa. To achieve these things, various problems must be overcome, starting from the minimal human resources both in quality and quantity in the Village, the minimum budget allocation that flows to the town, and inadequate supporting infrastructure.

A strong local government and good facilities and infrastructure can achieve the larger goal of realizing people's welfare. Recognizing a strong local government and providing good facilities and infrastructure can be

implemented with a robust local government capacity. Local solid government capacity can counteract society's different social and spatial characteristics and prevent urbanization (Sellers & Lidström, 2020). The concept of regional autonomy is divided into two dimensions; the first is the policymaking of the independence of the local government from higher authorities and private (local) single-purpose actors. The second is called "capacity for action," which is operationalized by the role held by the local government (Fleurke & Willemse, 2004). Smaller governments have lower levels of bureaucracy so that administrative functions run well, and people can get public services according to their expectations (Swianiewicz, 2002).

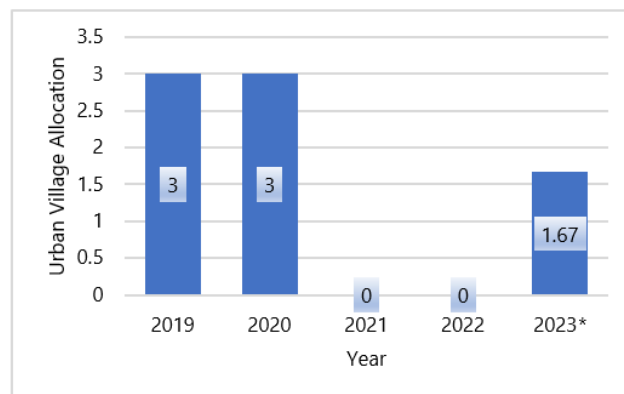
The central government allocates urban village funds in the APBN for urban villages. This fund is intended as support from the central government to regional governments to meet the budgeting needs of sub-districts in developing village infrastructure and financing community empowerment activities in the Village. Its history was first rolled out in 2018 and then began to be implemented in the 2019 and 2020 fiscal years. However, this policy was discontinued in the 2021 fiscal year, and the government decided to allocate only urban village funds in the 2021 state budget.

The amount budget for urban villages already has a clear standard. For cities that do not have villages, the allocation is at least 5% of the APBD after deducting the Special Allocation Fund (DAK). Meanwhile, for cities with towns and districts with sub-districts, the allocation is at least equal to the lowest village fund received by a village in the community or city. The funds are allocated annually. However, after several years of the Regional Government Law being in force, a region has yet to be given following these provisions. It is also in line with district and city revenues, which still depend on the allocation of balancing funds originating from the National Revenue and Expenditure Budget (APBN).

In 2019 and 2020, the central government disbursed several funds for urban villages with 6 trillion rupiahs through the Ministry of Finance. Each through Regulation of the Minister of Finance Number 187/PMK.07/2018 and Number 8/PMK.07/2020. Then, in 2021, it was stopped due to refocusing on handling COVID-19; in 2022, there will be no additional allocations for urban villages, so there are plans for 2023. The central government plans to provide additional funds for urban villages through the DAU listed in TKDD for 2023.

Also, this study seeks to test the policy implementation theory according to Grindle (1980) to answer the article's question of why the Urban Villages Fund policy through the APBN is a form of regional government failure. Because the author assumes that in addition to the similarity in characteristics between the object of the article studied and Grindle's opinion regarding the

factors that influence the implementation of the Village Fund policy disbursement policy through the APBN, Grindle's comprehensive policy implementation theory regarding the policy context directs the author to find uniqueness in indicators of implementation success, namely possible conflict arenas.



**Figure 1.** Allocation of Urban villages transfers every year through the DAU

Source: Dirjen Perimbangan (2022).

Policy Implementation Theory, according to Brynard (2005), has factors that influence policy implementation, namely (1) Policy Substance, which discusses the interests that affect it, type of benefits, degree of change to be achieved, the position of policymakers, program implementers, and resources used. Then, the following variable that influences policy implementation is (2) Implementation Context, which discusses the power, interests, and strategies involved, the characteristics of the ruling institution and regime, and the level of compliance and response of implementers (Grindle & Thomas, 1989)

## 2. Materials and Methods

This article uses a descriptive-qualitative article design. The determination of informants in this article uses a purposive technique. The data collection method is through qualitative observation, interviews, qualitative documents, and audio and visual materials (Creswell & Clark, 2004). According to Ahmed et al. (2022), data collection techniques in qualitative articles, apart from observation and interviews, can also be in the form of documentation. In this case, documentation means all publications or printed data produced by a person or an agency. The data analysis process in this article uses interactive model data analysis, according to Miles & Huberman (1994), which includes collecting data from various sources, reducing the data, presenting data, and drawing conclusions (Miles & Huberman, 1994).

## 3. Results and Discussion

In the 2019 RAPBN posture, the General Allocation Fund (DAU) allocation is IDR 417.8 trillion, consisting of IDR 414.8 trillion based on the formula and an additional DAU of IDR 3 trillion for the Village Fund program. The

allocation of village funding is based on the performance of essential public services, divided into 3 (three) categories with different allocations for each Village. For the excellent category, the total allocation is Rp. 353 million, the category that needs to be increased is Rp. 370 million, and the category that needs to be increased is Rp. 384 million.

Government Regulation (PP), No. 17 of 2018 concerning Districts, states that a sub-district's definition is part of a sub-district's territory as an apparatus of a sub-district. Meanwhile, urban village finance comes from the Regency/City APBD, allocated like other regional apparatuses, government assistance, be it the Provincial Government, Regency/City Government, or assistance from third parties, as other sources are legal and non-binding. Referring to PP No. 17 of 2018, the allocation of village funds comes from the APBD at least 5 percent after deducting the Special Allocation Fund (DAK). Then, in Article 30, paragraph 8 concerning Sub-district Funding, it is explained that for districts with sub-districts and cities with villages, the sub-district budget allocation is at least equal to the lowest allocation of urban village funds received by villages in the district/city. The Urban Village Fund was taken from the Village Fund. So far, its allocation has yet to meet the roadmap target for fulfilling the Village Fund, which is targeted at 10 percent of and excluding Transfer funds to the Regions.

### 3.1. Policy substance

#### 3.1.1. Interest affected

This policy regarding Village funds emerged after the government responded to a proposal from the Association of Indonesian City Governments (APEKSI) to the government to be able to allocate funds to improve urban village performance because so far, there has been jealousy towards villages in the last 4 (four) years have received Village Fund allocations. In addition, some districts have sub-districts, and some municipalities have villages. Sometimes, a sub-district wishes to change its status to become a village to obtain Village Fund assistance from the Central Government.

#### 3.1.2. type of benefits

The Urban Village Fund aims to support local governments in budgeting for the urban Village. The plan for utilizing the Urban Fund is for village infrastructure funds, improving the quality of life of the urban village community and stimulating the community's economy. The Urban Villages Fund aims to support local governments in budgeting for urban villages. The plan for utilizing the Urban Villages Fund is for village infrastructure funds, improving the quality of life of the urban villages' community and stimulating the community's economy.

#### 3.1.3. The extent of change envisioned

The Urban Villages Fund policy is a new effort to build a balance between the Urban villages and the Village, considering that both have the same level. Primarily, since the Village Fund was implemented in 2015, the attention of the Central Government seems to be focused on strengthening the Village (Saputra et al., 2022). Therefore, the Urban Villages Fund is a balance between the Urban villages and the Village, which can coincide. However, balance in this sense cannot be equated because the environmental characteristics in both the Urban villages and the Village have significant differences; this condition also makes the level of needs between the Urban villages and the Village different.

#### 3.1.4. Site of decision making

The legitimacy of the Additional DAU policy began to be stipulated in the 2019 and 2020 State Budget Laws, namely Law 12 of 2018 concerning the State Revenue and Expenditure Budget for the 2019 Fiscal Year and Law Number 20 of 2019 concerning the State Revenue and Expenditure Budget for the 2020 Fiscal Year by Indonesian President Joko Widodo which is the accommodation of APEKSI aspirations. This policy was followed by the issuance of regulations regarding the distribution of urban village funds, namely Minister of Finance Regulation (PMK) Number 187/PMK.07/2018 concerning Procedures for Distribution of Additional DAU for the 2019 Fiscal Year and Minister of Finance Regulation (PMK) Number 8/PMK.07/2020 concerning Procedures for Distribution of Additional DAU for Fiscal.

#### 3.1.5. Program implementors

Creating laws and regulations by the Minister of Finance through PMK 2019 and 2020 is a form of effort to implement a policy. The Minister of Finance and the Regional Government, which is the object of the policy scope, is also required to make supporting regulations in implementing the policy.

#### 3.1.6 Resources committee

Sub-district funds are part of the General Allocation Fund (DAU) financial post, namely funds allocated in the APBN to regions with the aim of equal distribution of financial capacity among regions to fund regional needs in the context of implementing decentralization.

### 3.2. The Context of implementation

The next factor that influences policy implementation is the Implementation Context, which concentrates on the following:

#### 3.2.1. Power, interest, and strategies of the actor involved

If we trace the origins of the considerations for procuring urban village funds, the idea for this fiscal policy for urban village funds was first proposed by the Association

of Indonesian City Governments (APEKSI) to fulfill a request from urban village heads. Urban village heads feel they need similar financial assistance from the government. The government allocated the first urban village funds 2019 of IDR 3 trillion to fulfill this request by taking them from the village fund budget.

APEKSI considers that the central government needs to allocate urban village funds in the same way that the central government dispenses urban village funds with all the regulations and mechanisms. Through Law 23 of 2018 concerning Regional Government, article 230 stipulates that local governments must budget for village financial allocations. Then, what needs attention is that the positioning of urban villages in the new Regional Government Law is different from the previous law, even though the position of the cam is still the same. During the validity period of Law Number 22 of 1999 and Law Number 32 of 2004, the cam was no longer the head of the region but rather a regional apparatus/SKPD. Article 120, paragraph (2) of Law Number 32 of 2004 states that district/city regional apparatuses consist of regional secretariats, DPRD secretariats, regional offices, regional technical institutions, sub-districts, and sub-districts. So, legally, the position of the carat is equal to that of heads of regional offices and Lurah. Such positioning gives sub-district heads and Lurah full and autonomous authority in implementing political decision-making in their areas.

Furthermore, Article 208 paragraph (1) of Law No. 23 of 2014 stipulates that regional apparatuses assist regional heads and DPRD in government affairs. Moreover, Article 209 paragraph (2) states that Regency/City Regional Apparatuses consist of a) Regional Secretariat, b) DPRD Secretariat, c) Inspectorate, d) Service, e) Agency, and f) District. The Village is not included in it. It means the urban villages are no longer part of the regional apparatus. It differs from the provisions in the two previous Local Government Laws, which explicitly state that sub-districts are regional apparatuses. As a result, the delegation of authority administratively and politically from districts/cities to urban villages has changed.

### 3.2.2. Institution and regime

The journey of forming the village fund policy has had its ups and downs. The characteristics of the leadership and the regime in power characterize the urban village fund policy dynamics (Pierre, 2014). After the issuance of Law 23 of 2014 concerning Regional Government, it was confirmed that the funding allocation for urban villages was given to local governments. Let us highlight the empowerment perspective of Law No. 23 of 2014. Decentralization transfers authority or government affairs from the government to autonomous regions. It becomes the household's authority or affairs, often called political devolution or decentralization. Thus, the autonomous regions are responsible for planning,

implementation, supervision, monitoring, and evaluation.

The regent/mayor can delegate authority to the cam in this context. Therefore, the breadth and narrowness of the sub-district head's authority are highly dependent on the delegation of authority given by the regent/mayor (Madubun, 2023). In other words, the authority of sub-district heads for each region tends to differ; even between sub-district heads within one area may also differ. Thus, even though deconcentration (administrative decentralization) and devolution (political decentralization) are both variants of decentralization when applied as a principle in placing the sub-district head's duties and functions, they have different implications for the sub-district policies, powers, and discretion in administering village governance/urban villages.

### 3.2.3. level of compliance and responsiveness

Kelurahan is a working area as a district or city apparatus. A "Lurah" leads the sub-district with a Civil Servant (PNS) status. Urban villages are the smallest administrative unit at the village level. However, in contrast to the Village, the urban villages have the right to regulate their territory, which is more limited. In its development, a village with broader authority may change its status to become an urban village (Gunena, 2013). from this description, it can be concluded that the compliance and responsiveness of implementers also depend on the regulations and mechanisms provided by the central government.

### 3.3. Additional general allocation fund distribution mechanism

In article 7 of PMK 187/PMK.07/2018, it is explained that the mechanism for channeling urban villages funds is by way of book transfer from the state general cash account to the district/ city regional general cash account and recorded using the DAU account with the output of Additional DAU distribution activities. The Urban Villages Fund is combined into the Urban Villages Allocation Fund stipulated in the Regency/ City APBD.

As a note, when viewed in a more extensive post, urban village funds are part of the general allocation fund, and DAK is part of the budget transfer post to the regions and urban village funds. The post is the total funds that flowed from the central and local governments.

### 3.4. Additional general allocation fund policy challenges

#### 3.4.1. Regional fiscal capacity

Regional fiscal capacity illustrates each region's financial capacity, reflected through regional income minus the income used for a certain amount, production sharing expenditure, financial assistance expenditure, and personnel expenditure. In the Regulation of the Minister of Finance of the Republic of Indonesia Number



119/PMK.07/2017 concerning Map of Regional Fiscal Capacity, it can be seen that the fiscal capacity in districts with low and shallow categories, respectively, is 110 and 98 districts while cities with low and deficient fiscal capacities low are as much as 21 and 25 cities. This means that the number of districts with low fiscal capacities is still far more significant than in cities. Therefore, the Urban Villages Fund program is of particular concern, considering that many districts with low fiscal capacities still need more attention from the government.

#### 3.4.2. Urban Gini ratio

The problem of poverty and inequality is one of the fundamental issues of concern to the government. Based on data from Badan Pusat Statistik (2018), from September 2017 to March 2018, the number of poor people in urban areas decreased by 128.2 thousand (from 10.27 million people in September 2017 to 10.14 million people in March 2018). while in rural areas, it decreased by 505 thousand people (from 16.31 million in September 2017 to 15.81 million in March 2018). However, the poverty rate in villages is still much higher than in urban areas. In March 2018, the Poverty Depth Index in villages was 2.37, while in cities, it was 1.17. In addition, the Poverty Severity Index in villages (0.63) is higher than in cities (0.29). However, if you look at the Gini ratio, inequality in urban areas is higher than in rural areas. Based on Badan Pusat Statistik data, the Gini ratio in Indonesia in March 2018 was 0.389, with the highest ratio in urban areas, namely 0.401.

Meanwhile, the level of inequality in rural areas is 0.324. The Urban Villages Fund itself is intended to reduce social jealousy. However, it may have other effects in the Village that can lead to the emergence of social inequality between villages and cities.

#### 4. Conclusions

This study concludes that the urban village Fund policy through the APBN cannot be carried out effectively because the urban village Fund program was not previously mentioned in the Government's Work Plan. Not included in the 2019 APBN Draft Law (RUU). In addition, the government still needs to provide a robust legal umbrella for the Village Fund program as the Village Fund is regulated in the Village Law. This urban village fund is different from the Village Fund, where there is a mandate from the Village Law as a source of urban village funds. The regulatory foundation is very important to ensure that the Urban Village Fund program can be implemented properly and has a solid legal basis. In addition, with the allocation of the Urban Villages Fund starting in the 2019 FY, a solid and in-depth study or analysis is needed on how the allocation of this Urban Villages Fund in the future will be effective in helping accelerate the development of the urban villages.

Regarding the Urban Villages Fund mechanism, based on the government's statement, this Urban Villages Fund will be included in the DAU posture, while DAU itself is like a block grant with a more flexible use. So, it is necessary to clarify the mechanism so that its use can be on target according to their needs. In addition, it is necessary to have the proper criteria in allocating urban village funds following conditions in the Village while still paying attention to aspects of equity and justice. Suppose the Urban Villages Fund starts to be realized in the 2019 FY. In that case, the government should immediately issue technical and implementation instructions regarding this Urban Villages Fund so that stakeholders can immediately learn and understand the technical rules regarding this Urban Villages Fund.

Regarding the supervision of the Urban Villages Fund, the plan for utilizing the Urban Villages Fund is for village infrastructure funds, improving the quality of life of the village community and stimulating the community's economy. In this case, there is potential for misappropriation of urban village funds, such as budget abuse, embezzlement, fictitious project activities, and fictitious reports. The government needs to set up a transparent and accountable monitoring system so that the Urban Villages Fund can be beneficial for increasing development in the urban villages. In addition, the government must also be able to encourage community participation in overseeing the area's development.

The Urban Villages Fund should be the domain of the Regional Government to provide budgeting, considering that the Urban Villages are part of the sub-district. The Central Government is better off providing regulations to encourage and provide clear signs for Regional Governments to allocate budgets to urban villages.

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