

Journal of Asian Finance, Economics and Business

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Journal of Asian Finance, Economics and Business

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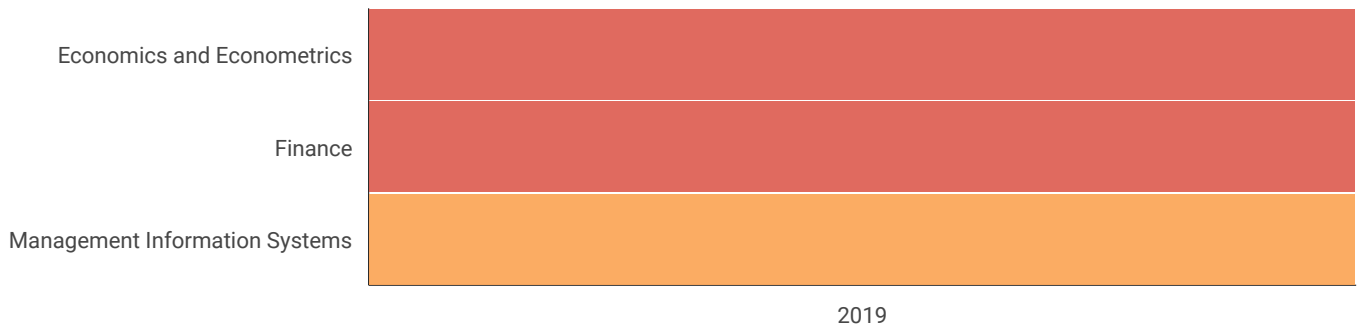
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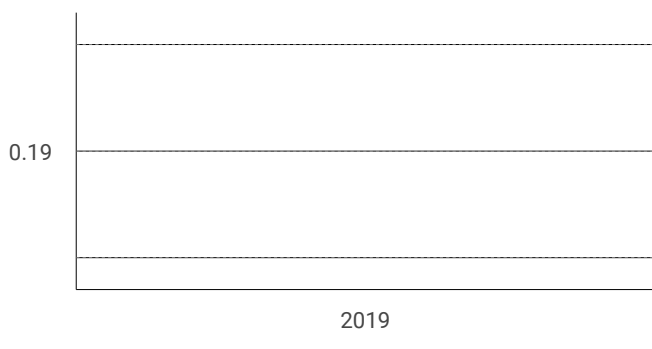

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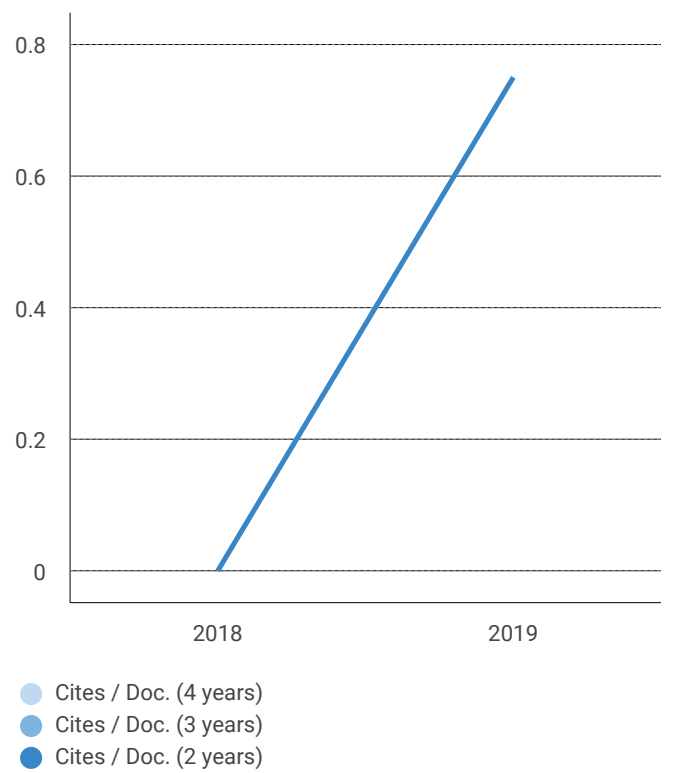
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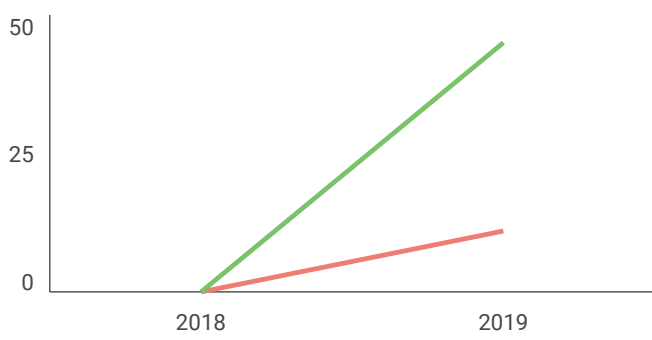
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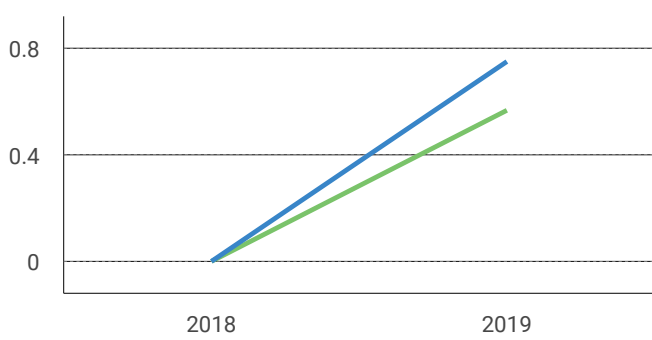
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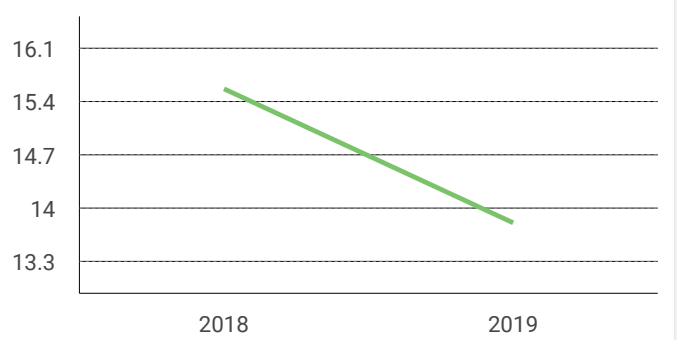
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KODISA Journals have adopted a double blind reviewing policy, where both the referee and author remain anonymous throughout the process. Please remove all identifying features from the main document itself, ensuring that Authors' identity is not revealed.

However, this does not preclude Authors from citing their own works. However, Authors must cite their works in a manner that does not make explicit their identity.

Acceptable: "Lee (2013) has indicated that . . ."

Acceptable: "Some scholars have indicated that . . . (e.g., Lee, 2013; Youn & Lee, 2018)"

KODISA Journals operate a double blind review process. All contributions will be initially assessed by the Editor-in-Chief for suitability for the journal. Papers deemed suitable are then typically sent to a minimum of two independent expert reviewers to assess the scientific quality of the paper. The Editor-in-Chief is responsible for the final decision regarding acceptance or rejection of articles. The Editor-in-Chief's decision is final.

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KODISA Journals use a double-blind review, which means the identities of the authors are concealed from the reviewers, and vice versa. To facilitate this, please include the following separately:

Title page (with author details): This should include the title, authors' names, affiliations, acknowledgements and any Declaration of Interest statement, and a complete address for the corresponding author including an e-mail address.

Main document (without author details): The main body of the paper (including the references, figures, tables and any acknowledgements) should not include any identifying information, such as the authors' names or affiliations.

Both the reviewer and the author are anonymous in this model. Some advantages of this model are listed below.

- Author anonymity limits reviewer bias, for example based on an author's gender, country of origin, academic status or previous publication history.
- Articles written by prestigious or renowned authors are considered on the basis of the content of their papers, rather than their reputation.
- Bear in mind that despite the above, reviewers can often identify the author through their writing style, subject matter or self-citation – it is exceedingly difficult to guarantee total author anonymity. The reviewers of KODISA Journals exemplify best practices in a given review situation.

THE PEER REVIEW PROCESS

The peer review process can be broadly summarized into 8 steps, although these steps can vary slightly between KODISA Journals. See below.

1. Submission of Paper

The corresponding or submitting author submits the paper to the journal. For Korean contributors, this is usually via an online system such as JAMS or ACOMS. For international scholars/contributors, KODISA Journals accept submissions by email, which is indicated on the submission information.

2. Editorial Office Assessment

The journal checks the paper's composition and arrangement against the journal's Author Guidelines to make sure it includes the required sections and stylizations. The quality of the paper is not assessed at this point.

3. Appraisal by the Editor-in-Chief

The Editor-in-Chief checks that the paper is appropriate for the journal and is sufficiently original and interesting. If not, the paper may be rejected without being reviewed any further.

4. Invitation to Reviewers

The Editor-in-Chief sends invitations to individuals he or she believes would be appropriate reviewers. As responses are received, further invitations are issued, if necessary, until the required number of acceptances is obtained – commonly this is 3, but there is some variation between journals.

5. Review is Conducted

The reviewer sets time aside to read the paper several times. The first read is used to form an initial impression of the work. If major

problems are found at this stage, the reviewer may feel comfortable rejecting the paper without further work. Otherwise they will read the paper several more times, taking notes so as to build a detailed point-by-point review. The review is then submitted to the journal, with a recommendation to accept or reject it – or else with a request for revision (usually flagged as either major or minor) before it is reconsidered.

6. Journal Evaluates the Reviews

The Editor-in-Chief considers all the returned reviews before making an overall decision. If the reviews differ widely, the Editor-in-Chief may invite an additional reviewer so as to get an extra opinion before making a decision.

7. The Decision is Communicated

The Editor-in-Chief sends a decision email to the author including any relevant reviewer comments. Whether the comments are anonymous or not will depend on the type of peer review that the journal operates.

8. Last Steps

If accepted, the paper is sent to production. If the article is *rejected* or sent back for either major or minor *revision*, the Editor-in-Chief may include constructive comments from the reviewers to help the author improve the article. At this point, reviewers should also be sent an email or letter letting them know the outcome of their review. If the paper was sent back for *revision*, the reviewers should expect to receive a new version, unless they have opted out of further participation. However, where only minor changes were requested this follow-up review might be done by the Editor-in-Chief.



COPE ETHICAL GUIDELINES FOR PEER REVIEWERS

KODISA Journals provide membership of the Committee on Publication Ethics (COPE) as an option for all of its journal editors. COPE has developed Ethical Guidelines for Peer Reviewers, to which Editors and their editorial boards can refer for guidance. Read the COPE guidelines below or visit their website to download the PDF.

Peer reviewers play a role in ensuring the integrity of the scholarly record. The peer review process depends to a large extent on the trust and willing participation of the scholarly community and requires that everyone involved behaves responsibly and ethically. Peer reviewers play a central and critical part in the peer review process, but may come to the role without any guidance and be unaware of their ethical obligations. Journals have an obligation to provide transparent policies for peer review, and reviewers have an obligation to conduct reviews in an ethical and accountable manner. Clear communication between the journal and the reviewers is essential to facilitate consistent, fair and timely review. COPE has heard cases from its members related to peer review issues and bases these guidelines, in part, on the collective experience and wisdom of the COPE Forum participants. It is hoped they will provide helpful guidance to researchers, be a reference for editors and publishers in guiding their reviewers, and act as an educational resource for institutions in training their students and researchers.

Peer review, for the purposes of these guidelines, refers to reviews provided on manuscript submissions to journals, but can also

include reviews for other platforms and apply to public commenting that can occur pre- or post-publication. Reviews of other materials such as preprints, grants, books, conference proceeding submissions, registered reports (preregistered protocols), or data will have a similar underlying ethical framework, but the process will vary depending on the source material and the type of review requested. The model of peer review will also influence elements of the process.

FINAL CHECK-LIST BEFORE SUBMISSION

Please ensure that:

- Manuscript has been 'spell checked' and 'grammar checked'
- Note that submitted manuscripts will not go through language-focused copy editing with the journal prior to or after acceptance; language-focused copy editing is the responsibility of the authors prior to submission
- Please prepare the manuscript for blind review; whenever possible, please use author names and references for self-citations but make sure that you use third person to discuss the work (see "Review Policy" above)
- All references mentioned in the Reference List are cited in the text, and vice versa
- Permission has been obtained for use of copyrighted material from other sources (including the Internet)
- A competing interests statement is provided, even if the authors have no competing interests to declare
- Journal policies detailed in this guide have been reviewed

Submission Declaration

Submission of an article implies that the work described has not been published previously (except in the form of an abstract or as part of a published lecture or academic thesis), that it is not under consideration for publication elsewhere, that its publication is approved by all authors and tacitly or explicitly by the responsible authorities where the work was carried out, and that, if accepted, it will not be published elsewhere including electronically in the same form, in English or in any other language, without the written consent of the copyright-holder. In instances where authors prepare multiple submissions using the same dataset or use partially overlapping variables in two or more articles, this needs to be declared upfront in the letter to the editor. Masked reference(s) to previous studies based on the same dataset need to be included in the manuscript itself so the reader can understand the novelty of new study in relation to the previous articles. Please consult the APA-manual on piecemeal publications. In cases where the manuscript is part of a larger project (e.g., prospective longitudinal study, an intervention study with numerous arms, etc.) in which other partly overlapping publications already exist, or are planned in parallel to the submitted manuscript, need to be declared in the accompanying letter to the Editor-in-Chief. Authors are asked to be upfront declaring such manuscripts. A manuscript may be returned if the degree of overlap is found to be too large.

KODISA Journals are committed to upholding the highest standards of publication ethics and takes all possible measures against any publication malpractices. All authors submitting their works to the journal for publication as original articles attest that the submitted works represent their authors' contributions and have not been copied or plagiarized in whole or in part from other works. The Similarity Check process can be broadly employed by use of CrossCheck software, although these steps can vary slightly between KODISA Journals.

For example, per JAFEB "Code of Ethics" authors are expected to adhere to the guidelines outlined: JAFEB may consider submitted manuscripts for possible publication only if the following two conditions are satisfactory: *(1) a maximum overall acceptable similarity index must be less than 25 % (< 25% in total), excluding the citations and references and the bibliography. (2) a maximum acceptable similarity index from any single source must be less than 2 % (< 2% per source).*

SUBMISSION-REVIEW-ACCEPTANCE-PRODUCTION-PUBLICATION-INDEXING PROCESS

The submission-review-acceptance-publication process can be broadly summarized into 7 steps, although these steps can vary slightly between KODISA Journals. See below.

Step 1: Desk Editor's decision on the article submitted

For example, check Submission Consent Form, APC agreement, APA style format, Publication Ethics and Publication Malpractice, and CrossCheck screening: the iThenticate software to detect instances of overlapping and similar text in submitted manuscripts. Authors can be assured that KODISA Journals are committed to actively combating plagiarism and publishing original research.

[Editorial Board and Selection Policy: Please note that Editorial Board of the KODISA Journals will be very selective, accepting only the articles on the basis of scholarly merit, research significance, research integrity and compliance with the journal style guidelines (APA). KODISA Journals and Editorial Board respect and promote all authors and contributors on the basis of research ability and experience without considering race, citizenship, or any of narrow frames of reference.]

Step 2: External Reviewers Board's decision on scholarly merits of the content of the article.

If the article successfully passes the requirements of submission and the first round of screening and Plagiarism checking, then the paper goes to external reviews, which will take another 2 to 8 weeks from then.

[Important: After the external reviews completed if the paper gets accepted in favor of publication on the journal then an invoice of APC will be followed. Based on an invoice the author should make a payment for APC. Before the paper finally gets accepted any payment does not count any credit toward its acceptance for publication.]

Step 3: Editorial Copy Editor's decision on editorial copy editing

For example, double check citations in text and references, tables and figures, heading and subheadings, etc. If the article finally gets accepted for publication and the author has paid APC for their publication on the journal, then the paper goes to Copy Editor and Typesetter, which will take another 2 to 4 weeks from then.

Step 4: Production Editor's decision on the full information of the article

For example, check DOI number, authors' name, affiliation, contact information, pagination, etc. If the article has been checked and edited by Copy Editor and Typesetter and then finally has approved for Production and Printing, then the paper goes to Production Editor, which will take another 2 to 4 weeks from then.

Step 5: Printing Editor's decision on printed hard copies

For example, check mailing address of printed hard copies to the authors. This process takes another 2 to 4 weeks from then.

Step 6: Online Publishing Editor's decision on online XML (HTML) and PDF attachments.

This process takes another 2 to 4 weeks from then.

Step 7: Indexing Editor's decision on Web of Science indexing and Scopus indexing.

This process takes another 2 to 8 weeks from then, although these steps can vary slightly between indexing agencies.

Overall, it takes at least 2 to 10 weeks from submission to acceptance. In addition, it takes at least another 4 to 10 weeks from APC payment to online DOI publication. Then, it takes at least another 4 to 10 weeks from online DOI publication to having indexed on Web of Science and Scopus. For example, due to an increasing number of submissions since 2018 and a limit of publication space in each journal, the average overall time from submission to publication and print from now on takes 3–6 months. KODISA Journals accept submissions on a rolling basis, and publish accepted articles on the first-in first-out method.

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Does Village Fund Transfer Address the Issue of Inequality and Poverty? A Lesson from Indonesia*

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Abstract

This study investigates the impact of fiscal transfer, specifically the Village Fund Transfer, on rural income inequality and rural poverty. Studies on fiscal transfer offers contrasting outcomes, some argues that fiscal transfer suppresses wealth disparity, while others argue that it tends to widen disparity. This study employs descriptive analysis in estimating the elasticity of income inequality and poverty rate before and after the Village Fund Transfer. It develops multiple regressions model on panel datasets of 33 provinces in Indonesia before and after the implementation of Village Fund Transfer. This study suggests that the elasticity of income inequality is higher after the implementation of village fund transfer. Rural poverty tends to decline annually, however, the elasticity changes is lower after the implementation of village fund transfer. Furthermore, this study suggests that village fund transfer is insignificant in coping with the issue of income inequality, while education and the level of labor productivity of agricultural sector appears to be the determinant factor in tackling the issue of income inequality in the rural areas. This study further reveals the significance of village fund transfer in suppressing the rural poverty rate. This study also highlights the significance of human resources quality and agricultural sector in reducing poverty rate in rural areas.

Keywords: Village Fund Transfer, Income Inequality, Rural Poverty

JEL Classification Code: H53, H76, H77, R51

1. Introduction

Indonesia's level of income inequality declined periodically. The national Gini ratio reached 4.08 in March 2015 and declined by 0.39 within five years (Statistics Indonesia, 2019). Despite declining national inequality level, provincial income inequality level varies. Within five years, 17 provinces experienced increasing inequality level, while other 15 provinces experienced declining inequality

level. Furthermore, the majority of the population owns less than USD10,000 of assets, while only 0.1% of the population owns USD 1 million of assets in Indonesia. Therefore, we assume that the national income inequality level represents inconsistency and needs to be addressed for deeper understanding regarding the issue of inequality in Indonesia.

Unequal development among regions in Indonesia is evident. The Western part of Indonesia accounts for 80% of the nation's economy, while the Eastern part of Indonesia only contributed 20% to the economy. Furthermore, the inequality between rural and urban areas tend to widen, which also portrays villages' lack of development. Such inequality among regions in Indonesia would further affect poverty rate due to imbalances of natural resources and production factors (Fum and Hodler, 2010; Lessmann and Steinkrauss, 2017). As stated in previous findings, Bourguignon (2004) points out that high income inequality level hampers the decline in the poverty rate, while the income inequality hinders the function of economic growth from reducing the poverty rate significantly. Therefore, inequality tend to hamper the advantages of economic growth.

In Indonesia, the issue of rural poverty has been a major concern compared to the issue of urban poverty. In

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March 2019, the rate of urban poverty was only 6.69%, while rural poverty reaches 12.85%. The high poverty rate is caused by limited production and low production asset. This is in line with findings by Nguyen and Nguyen (2019), which emphasized the lack of capital and lack of means in production as the main causes of poverty in poor households. Thus, to address the issue of rural inequality and rural poverty, Indonesia's government established Law No.6/2015 on Villages, which regulate the issue of Village Fund Transfer. The Village Fund Program refers to fiscal policy where village apparatuses were given the authority to manage expenditure. The stimulant of the budget is assumed to boost economic activities in rural areas and create economic impacts, resulting in strong implications for the decline in inequality between rural and urban areas and rural poverty. The idea is in line with findings by Crudu (2015), which highlight the significance of fiscal transfer on income redistribution. Previous literature has concluded that the fiscal transfer can stimulate the improvement of income distribution and further decrease poverty rate (Checherita, et al., 2009; Agostini, et al., 2010). The policy, however, provided similar results with the New Order Era (centralized government system) in Indonesia despite 19 years of implementation. The transfer, along with autonomy for each region, is not regarded as the incentive to combat inequality among regions due to a high level of fiscal decentralization (Arham, 2014).

Studies on the correlation between fiscal transfer, income inequality, and poverty have been conducted, but with different implications. Some argue that fiscal transfer to the region is effective in suppressing wealth disparity (Yeeles, 2015a; Kyriacou, Muinelo-Gallo and Roca-Sagalés, 2017a; Enami, Lustig and Taqdiri, 2019a). On the other hand, other studies have found that the fiscal transfer has insignificant effect on inequality since it (Sacchi & Salotti, 2014; Aritenang & Sonn, 2018; Liu, et al., 2017a; Prawoto & Cahyani, 2020).

Different findings regarding the effect of the fiscal transfer on the poverty rate are also seen in some previous studies. There are studies reporting that fiscal transfer can help fight impoverishment (Slater, 2011; Enami, Lustig and Taqdiri, 2019b; Litschig & Morrison, 2013a). Others also imply that regional fiscal transfer increases the poverty rate (Su, Li, and Tao, 2019; 2004; Suharyadi & Izzati, 2018a).

Accordingly, this paper aims to investigate the impact of village fund transfer policy on inequality and rural poverty in Indonesia. The importance of this study lies in three aspects. First, this study would address the clashing findings regarding the impact of fiscal transfer on inequality and poverty rate. Second, Indonesia is the fourth most populous country with natural resources imbalances, which provided interesting discussion regarding the issue of inequality and rural poverty. Third, specific research focusing on village fund transfer on rural inequality and poverty is limited.

Thus, this study examines the provincial level data of 33 provinces in Indonesia from 2015 to 2019. This study also incorporates the discussions of previous studies by taking several determinant factors of inequality and poverty in Indonesia into account. The study further investigates the elasticity of inequality and poverty rate before and after the implementation of village fund transfer. This study also intends to investigate the extent to which the village fund transfer affects the income inequality and rural poverty rate during the implementation of the transfer policy. The paper is structured as follows. Section 2 reviews the existing literature on fiscal transfer, income inequality, and rural poverty. Section 3 provides the methodology. Section 4 provided results and discussions. Section 5 draws conclusion and recommendation of the research based on the findings.

2. Literature Review

The correlation of the central and regional finance in the form of a fiscal transfer (fiscal decentralization) is found in many countries. Such transfer is a consequence of the option of a decentralized government by granting authority to the regional government. According to Shah (2006) and Rosen (2008), fiscal transfer consists generally of two types: the first type is conditional grant, which refers to transfer that is opted to solve a particular issue regarded crucial by the central government, although the regional government has different opinions. The second type is an unconditional grant, in which the transfer of the fund can be spent in any way with no restrictions. The main justification of the central government to provide an unconditional grant to the province (region) is that the grant can be used to equalize different fiscal capacities of the regional government, which later functions to ensure the provision of standard services or public services.

Based on the above discussion, there are mainly two types of transfer in fiscal decentralization, namely, general allocation fund and specific allocation fund. The general allocation fund is provided by the central government as financial support without any specific prerequisites. Basically, the general allocation fund is intended to increase regional revenue. The conditional transfer is intended to provide incentives for regional government with specific programs. Both transfers, along with the special autonomy funds for Aceh, Papua, and West Papua, have been implemented since 2001 in Indonesia.

In 2015, the government regulated Village Fund Transfer policy under Law No.6/2014 regarding villages. The law emphasizes the importance of village decentralization, aiming at boosting the performance of service providers at the lowest administrative level and tackling the issue of social disparity and poverty (Lewis, 2015). The village fund transfer, perceived from the criteria and types of transfer,

is categorized as general allocation fund as it is, by nature, unconditional. However, the allocation of village fund transfer is not specified.

Fiscal transfer, both for the general and specific fund, can cause the local spending by the regional government to rise. It is assumed that the more the increase in the spending of the regional government, the more the decline in the income inequality and poverty rate (Fan, Hazell, and Thorat, 2000; Fan, Yu and Jitsuchon, 2008; Lustiq, Pessino and Scott, 2014; Anderson et al., 2017). This notion still applies, although theoretically, the correlation between fiscal transfer (fiscal decentralization) and inequality and poverty issue are not significant as discussed by Von Braun and Grote (2000). Nonetheless, the correlation between transfers of the fund (fiscal decentralization, a type of village fund transfer) empirically has been cited by many to have an interrelation with the inequality of income distribution, despite different results. The contrasting results are categorized into three groups. The first group is the positive correlation between fiscal transfer and income distribution inequality (Huang and Chen, 2012; Liu, Martinez-Vazquez, 2017b). The second group reveals the negative correlation between fiscal transfer and income distribution (Yeeles, 2015b; Caminada, Goudswaard, Wang, 2019). The third group shows that the impact of the fiscal transfer is insignificant in coping with the issue of the income distribution, some state that the significance only applies to some areas (Suwanan and Sulistiani, 2009; Rodríguez-Pose and Ezcurra, 2010a; Hammond and Tosun, 2011; Kim and Samudro, 2017b).

Results show the correlation between fiscal transfer and poverty are different from one another. Two categories describe this situation. First, the fiscal transfer is significant to decrease the poverty rate (Litschig and Morrison, 2013b; Agostini and Brown, 2010a; Wu and Ramesh, 2014a; Park and Wang, 2010). Second, the fiscal transfer, both the general and specific purposes, is insignificant to tackle the issue of rural poverty (Rao and Das-Gupta, 1995). Despite varied research results regarding the correlation of fiscal transfer and income inequality and poverty, it goes without saying that fiscal transfer is necessary. The centralistic government system is inappropriate for a heterogeneous country, such as Indonesia. Therefore, the decentralization system is considered the most efficient system in providing public needs through the fiscal transfer.

3. Research Methods

This research employed a quantitative descriptive approach to examine the elasticity of changes in income distribution and poverty rate before and after village fund transfer. This study also aims to investigate the impact of the village fund transfer on the inequality and rural poverty by using a regression model and panel data approach on 33

provinces in Indonesia from 2015 to 2019. Jakarta was not included in the analysis unit since its economic characteristics are different from other provinces in Indonesia.

The data of this study were secondary data; these were from the State Budget from the Ministry of Finance of the Republic of Indonesia for the village fund transfer, general allocation fund, and specific allocation fund. In addition, the macroeconomic data were gathered from Statistics Indonesia. The model of village fund transfer on the inequality was adapted from a model by Kim & Samudro (2017), while the model of village fund transfer on the poverty rate was adapted from the basic model by Agostini & Brown (2010b). These models are as follows:

Correlation between Village Fund Transfer and Rural Inequality:

$$\begin{aligned} Ineq_{it} = & \delta_0 + \delta_1 Growth_{it} + \delta_3 LnPop_{it} + \delta_4 ALS_{it} + \\ & \delta_5 Unemp_{it} + \delta_6 HDI_{it} + \delta_7 LPA_{it} + \delta_8 ShareAgri_{it} + \\ & \delta_9 ShareInd_{it} + \delta_{10} Infra_{it} + \delta_{11} TF_{it} + \varepsilon_{it} \end{aligned} \quad (1)$$

Correlation between Village Fund Transfer and Rural Poverty:

$$\begin{aligned} Poverty_{it} = & \gamma_0 + \gamma_1 Growth_{it} + \gamma_2 LnPop_{it} + \gamma_3 ALS_{it} + \\ & \gamma_4 Ineq_{it} + \gamma_5 Unemp_{it} + \gamma_6 HDI_{it} + \gamma_7 LPA_{it} + \\ & \gamma_8 ShareAgri_{it} + \gamma_9 AHS_{it} + \gamma_{10} Infra_{it} + \gamma_{11} Inf_{it} + \\ & \gamma_{12} TF_{it} + \varepsilon_{it} \end{aligned} \quad (2)$$

where Ineq, Inequality of Income Distribution Calculated from rural Gini Ratio (Index); Poverty refers to the rural poverty (percentage); Growth, Level of economic growth of each province (Percentage); Pop, Total Population (Individual); ALS, Average years of schooling of each province (Percentage), Unemp, Unemployment rate (Percentage); HDI, Human development index (Index); LPA, Productivity of the workforce in the agricultural sector (Nominal); ShareAgri, Contribution of the agricultural sector to the economic development (Percentage); ShareInd, Contribution of the industrial sector to the economic development (Percentage); AHS, Average household members (Individual); Infra, The provision of infrastructure in terms of irrigation (KM); Inflation, the Inflation rate of each province (Percentage); and TF, Fiscal transfer in the form of general allocation fund and specific allocation fund (Rupiah), and ε is Error Term.

The result of model selection in panel data analysis was based on the statistical test, i.e., Hausman test and Chow test. From the result of the Hausman test and Chow test, the appropriate analysis to examine both equations (the inequality of income and rural poverty) was the fixed effect model through coefficient covariance white cross-section method weighting.

4. Results and Discussions

4.1. Descriptive Analysis

The descriptive analysis shows that, between 2010 and 2014 (prior to the implementation of village fund transfer), income inequality tends to fluctuate in majority of provinces in Indonesia. Despite the fluctuations, West Sumatera, Bali, East Kalimantan, North Sulawesi, Central Sulawesi, South Sumatera, Lampung, West Java, North Maluku, and West Papua experienced declining income inequality compared to other provinces in Indonesia. The fluctuation of income inequality in Indonesia is a consequence of the overdependence on agriculture sector. After the implementation of village fund transfer, Riau, Jambi, Bengkulu, East Java, Banten, West Nusa Tenggara, East Nusa Tenggara, Central Kalimantan, East Kalimantan, North Sulawesi, South Sulawesi, Gorontalo, Maluku, North Maluku, Papua, and West Papua experienced declining income inequality level.

The elasticity of changes in income equality before the village fund transfer occurs in several provinces. The results are provided in Table 1. The provinces with the highest to the lowest elasticity rate are West Nusa Tenggara (-0.19%), Banten (-0.17%), and South Kalimantan (-0.17%). After the implementation of village fund transfer, the list of provinces experiencing changes in the decline of inequality with high elasticity rate are West Papua (-0.43%), Papua (-0.40%), and Maluku (-0.29%). Evidently, the three provinces are located in the Eastern part of Indonesia. This analysis implies that village fund transfer contributes to changes in lower class. However, the result appears to be peculiar, since the decline of income inequality in rural areas has been sluggish after the implementation of village fund transfer.

The rural poverty rate of 33 provinces in Indonesia varies. According to the data by Statistics Indonesia, the highest poverty rate is dominated by provinces in the Eastern part of Indonesia. Papua (35.36%), West Papua (30.32%), Maluku (26.63%), East Nusa Tenggara (24.45%), and Gorontalo (23.57%) have the highest poverty rate in Indonesia. Arguably, high poverty rate is the effect of the lack of infrastructure. Lack of infrastructure hampers the effort in suppressing poverty rate due to low accessibility on basic services (Chatterjee and Turnovsky, 2012; Charlery, Qaim, Smith-Hall, 2015). Development of infrastructure including roads, bridges, ports, airports, education, and health tends to be centralized in Java Island or other industrial regions in Indonesia, which further widen the gap among regions in Indonesia.

The following discussion focuses on unraveling the issue of rural poverty in each province by comparing before and after implementation of village fund transfer in Indonesia. According to the result, four provinces, such as Jambi, South Sumatera, West Nusa Tenggara, and West Kalimantan, are the provinces suffering from fluctuation. Meanwhile, Riau is the only province with an increasing trend, and the poverty rates of the remaining provinces continuously drop in the period from 2010 to 2014. During this period, the most significant decline in the poverty rate could be found in Maluku (-9.66%), Yogyakarta (-8.19%), and West Papua (-6.50%). After the implementation of village fund transfer from 2015 to 2019, a rising trend on poverty rate is evident in several provinces, including West Sumatera, Bengkulu, Riau Islands, Banten, South Kalimantan, North Kalimantan, Central Sulawesi, and North Maluku. Such result intuitively imply that village fund transfer has insignificant effect and the utilization of the transfer is inefficient. Provinces with enormous changes in the poverty rate are West Java (-8.36%), West Papua (-4.75%), and Southeast Sulawesi (-2.80%).

The rural income inequality has declined for ten years. However, the result of the calculation of elasticity indicates a difference in the changes. The average elasticity rate prior to village fund transfer was 0.01. Upon the fund transfer, the inequality rate in rural areas increased to 0.02 on average. Meanwhile, the rural poverty rate undergoes a steady decline periodically, but the elasticity of the changes after the fund transfer is lower than the rural poverty rate before the village fund transfer; as seen in Figure 1. Note that the negative value represents the inequality of the rural income distribution that tends to fluctuate, while the positive value describes the consistent decline in the inequality rate.

The above results and analysis are peculiar, in which it highlights the sluggish inequality and rural poverty rate after the implementation of village fund transfer. Furthermore, we also found that village fund transfer tends to focus on development of physical infrastructure, which accounts for 83.9% of total expenditure. In comparison, village funds only account for 12% of total expenditure on empowerment programs and social activities. Moreover, the result of the study revealed that third parties mostly involve in the development of physical infrastructure in rural areas, which further increase corruption cases in rural areas. From 2015 to 2019, there have been 252 corruption cases of village fund transfer, ranging from fictitious reporting, distortion of budget allocation, the use of the fund for personal gain, and fictitious villages.

Table 1. Comparison of Changes of Income Inequality/Rural Poverty Before and After Village Fund Transfer

Province	Rural Inequality		Rural Poverty	
	Before Village Fund Transfer	After Village Fund Transfer	Before Village Fund Transfer	After Village Fund Transfer
	Δ Changes	Δ Changes	Δ Changes	Δ Changes
Aceh	-0.07	-0.05	-4.47	-1.09
North Sumatera	-0.12	-0.03	-1.27	-2.61
West Sumatera	-0.07	-0.04	-3.39	0.46
Riau	-0.03	-0.05	-0.14	-2.31
Jambi	-0.02	-0.03	1.08	-0.97
South Sumatera	-0.02	-0.02	0.62	-1.94
Lampung	-0.13	-0.02	-6.41	-0.34
Bengkulu	-0.06	-0.03	-0.14	0.57
Bangka Belitung	-0.11	-0.05	-1.50	-0.63
Riau Island	-0.02	-0.04	3.43	2.13
West Java	-0.06	-0.01	-3.31	-8.36
Central Java	0.04	-0.04	-3.29	-3.32
Special Region of Yogyakarta	-0.09	0.00	-8.19	-2.32
East Java	0.02	-0.00	-4.24	-1.26
Banten	-0.17	0.07	-3.32	0.32
Bali	0.04	-0.03	-0.09	-1.74
West Nusa Tenggara	-0.19	0.02	0.07	-2.04
East Nusa Tenggara	-0.12	0.04	-2.36	-1.23
West Kalimantan	-0.11	-0.01	0.82	-0.95
Central Kalimantan	0.03	0.06	-2.41	-0.60
South Kalimantan	-0.16	-0.01	-0.73	0.41
East Kalimantan	-0.04	0.04	-3.79	-0.67
North Kalimantan	-	-0.01	-	0.03
North Sulawesi	-0.00	0.04	-2.09	-1.62
Central Sulawesi	0.02	-0.05	-5.64	0.06
South Sulawesi	0.02	0.03	-1.46	-1.63
Southeast Sulawesi	-0.10	-0.01	-3.76	-2.80
West Sulawesi	-0.06	-0.01	-2.98	-1.14
Gorontalo	0.07	0.07	-6.33	-1.86
Maluku	-0.06	-0.29	-9.66	-0.08
North Maluku	-0.01	-0.26	-3.95	0.14
Papua	0.05	-0.40	-5.18	-0.92
West Papua	0.03	-0.43	-6.50	-4.75

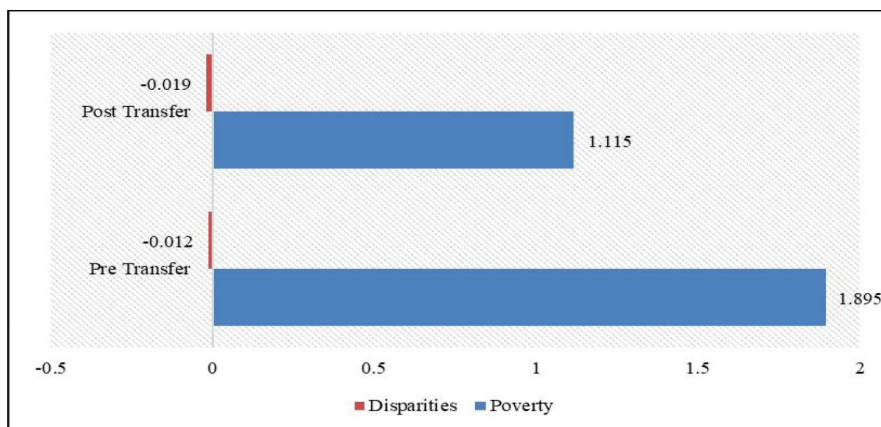


Figure 1: Comparison of Inequality and Rural Poverty Before and After Village Fund Transfer

4.2. Regression Analysis

As discussed in previous section, we incorporate two regression models in the analysis, as summarized in Table 3. The first model incorporates the correlation between village fund transfer and inequality, which excludes several variables such as Transfer of Block Grant (TBG) and Transfer of Specific Grant (TSG). The second model incorporates the correlation between village fund transfer and poverty, both TBG and TSG are included in the model. Such incorporation is included in the model to examine the differences in the effect of simultaneous and separated fiscal transfer.

The result of the regression of the first model regarding the inequality reveals that the village fund transfer is insignificant in coping with the issue of rural inequality. Although the fiscal balance fund is included, the result remains unchanged. Any addition in the village transfer fund that can contribute on balanced distribution of resources does not change the outcome. In other words, the major finding of this study is not in line with the general conclusion of previous research claiming that the fiscal transfer is capable in fixing the issue of the income distribution (Sepulveda and Martinez-Vazquez, 2011). Minimum impacts of fiscal transfer on the efforts to combat inequality issues are due to the fact that the fiscal transfer, both the block grant and specific grant, are more beneficial to the developed regions, with abundant natural resources, or the urban areas (Rodríguez-Pose and Ezcurra, 2010b; Lessmann, 2012).

The results of this study support findings by Kyriacou, Muinelo-Gallo, Sagalés (2017b), which suggested that the fiscal transfer is insufficient. Attempts in improving government quality are essential and effective in tackling the problems of inequality. In this context, the utilization of the village fund is not only to reinforce the regulation of monitoring by the involvement of inspectorate, judiciary bodies, and polices. The quality of the management of the village fund is also important. Also, central to the enhancement

of the performance of the management of government and finance, including the improvement of the quality of planning and budget allocation, is through continuous training.

The World Bank has mentioned four causes of inequality in Indonesia. The first cause is the inequality of opportunity that is seen in the condition of children from lower-class families; they are affected by the situation of their environment and parent's education. The second cause is the inequality in the labor market, where those who have high skills receive more payment, leaving the others with no chance to shape their competencies. This condition further forces them to work in informal sectors with lower productivity rates and income. The third cause refers to the wealth concentration, in which all elites own financial assets, such as properties and stock; this fact worsens the inequality in the present day and the future. The fourth cause is the inequality in terms of coping with distortion, where poor people are the ones who are prone to suffer from the impact due to the situation. Distorted situations hinder them from earning money and from investing in health and education.

In accordance with the discussions, the government is obliged to increase the allocation of social assistance expenditure and the expense of the education sector to enhance the quality of human resources. As proven by the econometric analysis, the two control variables, i.e., the average years of schooling and productivity of labor in agricultural sector has significant association in reducing rural inequality. This finding is in line with studies by Kousar, et al. (2019), which emphasized the importance of education in reducing income inequality in the short and long term. At the same time, the government should boost the quality of inclusive economic growth continuously, given that the variable of growth is quite effective in suppressing the disparity rate. The development of village infrastructure, such as irrigation channels, is also crucial to better the productivity of agricultural sectors, resulting in equal income distribution.

Table 3. Fixed Effect Model Results

Independent Variable	Inequality		Poverty	
	Model 1	Model 2	Model 1	Model 2
C	0.155 (0.915)	0.147 (0.790)	166.2861 (5.058)	158.7018 (4.777)
Growth	-0.001* (-2.001)	-0.001** (-2.848)	-0.064** (-2.625)	-0.077* (-1.897)
Log (Pop)	-0.001 (-0.626)	-0.001 (-0.751)	0.047 (0.305)	-0.00 (-0.019)
ALS	-0.001** (-2.708)	-0.002** (-2.842)	2.815* (1.895)	2.934* (2.001)
Ineq	-	-	4.967 (1.018)	1.342 (0.282)
Unemp	-0.004** (-2.776)	-0.004** (-2.703)	-0.581*** (-3.898)	-0.515*** (-3.418)
HDI	0.001 0.490	0.001 0.416	-2.243*** -7.517	-2.369*** -8.115
LPA	-0.001** (2.379)	-0.001** (2.622)	-0.002* (-1.819)	-0.002* (-2.250)
ShareAgri	0.002* (2.130)	0.002* (2.237)	-0.443*** (-3.861)	-0.448*** (-3.991)
ShareInd	0.001 (0.083)	0.001 (0.193)	-	-
AHS	-	-	-2.954 (-0.447)	-0.027 (-0.004)
Infra	-0.001* (-2.069)	-0.001* (-2.105)	0.001* (2.546)	0.001* (2.607)
Inflation			-0.03 (-0.581)	-0.044 (-0.832)
Log (TBG)		0.002 (0.911)		-0.075 (-0.885)
Log (TSG)		0.001 (0.207)		0.449** (2.771)
Log (TFV)	-0.001 (-0.018)	-0.001 (0.027)	-0.001* (-1.928)	-0.001** (-3.214)
Adjusted R-Squared	0.906	0.904	0.975	0.976
F-Statistic	37.424	34.682	141.113	142.443
Observations	154	154	154	154

The village fund transfer is expected to contribute to poverty alleviation since the development of rural areas is left behind. Moreover, the limited economic activities of rural communities cause a high rate of poverty. Rao, Bird, and Litvack (2002) argue that the general fund and specific fund transfer to the region are necessary to ensure the effectiveness of public services, thus alleviating poverty. According to the regression result, the first and the second model is consistent, indicating that a rise in the village fund

for every province is effective to revamp impoverishment in the rural areas. This result differs from the one seen in a study by Suharyadi & Izzati (2018b), as they imply that poverty alleviation strategies through the expansion of social assistance and village fund transfer are insufficient to help impoverished communities.

Another type of transfer contributing to poverty alleviation is the specific allocation fund, which is specifically aimed at providing a fund to national priority

programs that are managed under the local autonomy. Since 2015, the characteristic of this type of transfer, previously noted for its limited nature, which includes physical and non-physical funds. The non-physical fund includes School Operational Assistance, Implementation Operational Assistance for Early Childhood Education, Allowances for Regional Civil Servant Teachers, Additional Fund for Allowances for Regional Civil Servant Teachers, Special Allowance for Allowances for Regional Civil Servant Teachers, Health Allowance, Family Planning Operational Allowance, Allowance for Capacity Building for Cooperatives and SMEs (PK2UKM), and Allowance of Citizenship Administrative Services. Additionally, special allocation grant will be established in 2019, which includes the grants such as Implementation Operational Assistance for Equivalency Education Program, Implementation Operational Assistance for Museum and Cultural Development Center (or known as Taman Budaya), Allowance for Tourism Services, and Allowance for Waste Management Services. Overall, the non-physical grant is similar to the social assistance in strengthening the education and health sector, with equal distribution. Wu and Ramesh (2014b) argue that this type of fund is effective in combating poverty, as it has a more specific focus.

Macroeconomics serves as the control variable for the first and second equation model of the poverty variable. It is shown that two variables, i.e., human resources quality and contribution of the agricultural sector in shaping the local economy, have a significant determinant (with the level of significance of 1%) in reducing the rural poverty rate. The better the quality of rural human resources is, the sooner the implementation of rural poverty alleviation starts. In this context, it is a good idea to enhance the allocation of village funds and other fund assistance by the government for developing human resource quality, given that 83.9% of the village fund is allocated for the development of physical infrastructure. It is proven that the physical infrastructure variable has contributed to an increase in the rural poverty rate; such a situation is caused by the fact that the development of infrastructure is a project-based system. Also, the circulation of the village fund is not distributed to the lower class. One should take into account the issue of economic empowerment in the future use of village fund; this is to continuously stimulate the contribution of the agricultural sector as the main activity in the rural area. This principle is underpinned by the significance of the sector in shaping the economy and reducing the number of poor populations in the rural area; the idea is supported by the study by Suharyadi, Suryadarma and Sumarto (2009), Abro, Alemu and Hanjra (2014).

Likewise, the economic growth, the average years of schooling, and labor productivity rate in the agricultural sector have a negative impact on poverty alleviation. This

finding is consistent with the phenomenon in Indonesia from 2015 to 2019. At the time, there was a steady decline in the poverty rate from 14.09% to 12.60% alongside economic growth despite the economic growth contraction since 2015 (it was due to the fall in the price of the commodity in the international market). The average years of schooling and productivity of agricultural sector labor have a strong relationship with the education sector, all of which have a negative impact on poverty. Long years of schooling leads to improvement of labor productivity, allowing the process to decline the rate of rural poverty. In fact, the education level of the working class in Indonesia was 40.50% dominated by elementary graduates in 2019. On that ground, the situation becomes a challenge for the government to continuously spend their efforts in increasing the average years of schooling. For five years (from 2015 to 2019), there was no significant rise in the average years of schooling (the average year was 8.32, and it increased to 8.75). The average year is equal to the average years of schooling of an individual until the second grade of secondary schools. Village funds, thereby, can be of use to increase the average years of schooling for rural communities, including the development of informal education to better the quality of the human resource.

5. Conclusion and Recommendations

The village fund transfer is presumed to be a stimulant in increasing the development level of rural areas, thus contributing to the decrease in inequality and rural poverty rate. Some critical conclusions have been drawn in this study. First, fluctuation occurs throughout the implementation of village fund transfer by which the elasticity of the changes in the rural income distribution are relatively small, despite of the decline of income before the establishment of village fund policy. Second, there is a steady decline on rural poverty rate. This trend, interestingly, has been slow after the village fund transfer. This situation is due to the fact that 83.9% of the village funds are allocated to the development of physical infrastructure despite that the contribution of this type of infrastructure to the public welfare is, by nature, long-term. Third, the village fund transfer has been cited by many in several literature and studies as an effective measure to improve income distribution. This study, however, provided opposite findings regarding village fund transfer. For five years, the implementation of village fund transfer is insignificant to help combat inequality, considering that the utilization of the fund tends to favor the rural apparatus or their relatives in person. Moreover, the budget allocation for the empowerment and social programs were considered low. Fourth, the village fund transfer, alongside with the special grant fund, is significant in suppressing the poverty rate. A rise in the budget allocation of the village fund from

the State Budget and Local Government Budget is impactful for the rural communities. Still, one should not rely solely on budget assistance; the budget should be accompanied by improving the quality of the human resource, the productivity of agricultural workers, and innovation in the agricultural sector.

From the above conclusions, this study formulates several recommendations. Firstly, government needs to enhance the quality village apparatuses through workshops, education for the village chief, and training to address the issue of good governance and financial governance in the rural areas. Secondly, central government needs to provide budget planning assistance for the development programs in the rural areas and provide the involvement of universities as an institutional body in maximizing the village fund, which would further result in decreasing inequality and rural poverty rate. Thirdly, the village fund needs to be allocated for education and health sectors, which are deemed effective in reducing poverty rate. Fourthly, the management of village funds for the development of infrastructure should be prioritized for providing irrigation channels for better agricultural productivity. It is worth noting that one should not assign the project to the third parties. Community empowerment rather fits the project, allowing all people in the village to get the benefit of the provision of the infrastructure.

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