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Policy brief

Prioritising Cash Transfers from the Village Fund for Covid-19 Response

Key Messages

- The Covid-19 pandemic not only affects health but also social conditions and every aspect of the economy, including the village economy.
- The Village Fund is an on-budget allocation that can be used directly to alleviate the impact of Covid-19 on households at the village level.
- The issuance of Government Regulation in Lieu of Law (Perppu) No. 1/2020 on State Financial Policy and Financial System Stability to Counter the Coronavirus Pandemic 2019 (Covid-19) and/or In the Event of Dealing With Threats Endangering National Economy and/or Financial System Stability provides a new instrument to minimise the impact of Covid-19 on village economies.
- Program objectives can be determined by using a community-based targeting method by prioritising community discussions (*musyawarah*) and promoting village local best practices.
- Cash transfers using the Village Fund (BLT-D)¹ can be implemented immediately with more beneficiaries than the national program to minimise conflict in villages.

Background to Pandemic Crisis

The Covid-19 pandemic not only affects health but also social and economic conditions. In the short term, one of the key indicators of its impact on health is the mortality rate of victims that has reached 8.9 per cent. In terms of the economy, the pandemic has caused a slump in domestic economic activity—posing the risk of a fall in community welfare. In the medium-term, it is projected that economic growth will be in the range of -0.4 per cent to 2.3 per cent. This is a significant decrease compared with the growth rate in 2019 (5 per cent). The virus has taken its toll on many business sectors, causing employment terminations and falling employment recruitment. If we cannot anticipate these conditions effectively, social instability may occur.

In the long term, this will widen the gap among income groups, increase disparity between regions and between cities and villages, and cause inter-generational poverty.

The Covid-19 pandemic has impacted on every aspect of the economy, including the village economy. The pandemic is currently being felt more by people in the city, however, given that seasonal workers are quite mobile (from the village to the city and back again), the Covid-19 pandemic can also spread to the villages. In the lead up to Ramadhan in April and during Eid al-Fitr in May 2020, many people will return to their home village—potentially expanding the spread of the virus to rural areas. With their economic and social resources, especially the Village Budget (APBDes)² and Village Fund, villages can contribute in the management of Covid-19.

¹ BLT-D: *Bantuan Langsung Tunai-Desa*: Village Direct Cash Transfer.

² APBDes: *Anggaran Pendapatan dan Belanja Desa*: Village Budget.

Role for The Village Fund

The Village Fund was established in 2015 with the aim of improving the welfare of residents living in rural areas by funding infrastructure development and empowerment. It is an on-budget allocation that can be used directly to alleviate the impact of Covid-19 at the household and village level. There are several benefits of the Village Fund: (i) the budget allocation is available in the State Budget (APBN);³ (ii) it can be used to immediately initiate a rapid response program; (iii) it can complement other programs to minimise the socioeconomic impact; (iv) it does not require a new system, so village officials can mobilise directly as they are already familiar with the existing system; (v) it can be used to build the legitimacy and credibility of village government through local problem solving; and (vi) the existing monitoring, evaluation, and liability system can be optimised to ensure accountability.

The issuance of Government Regulation in Lieu of Law (Perppu) No. 1/2020 provides a new instrument to minimise the impact of Covid-19 on the village economy. Article 2, Paragraph (1), Point (i) of this regulation states that it is

necessary to prioritise the use of budget allocations for specific activities (refocusing), adjust allocations and/or cut/postpone fund transfers to regions and village funds under certain criteria. Furthermore, the Perppu also states that “prioritising the use of village funds” means that village funds can be allocated to, among other purposes, cash transfers for poor people in villages and activities to manage the pandemic. With this clarification, there is a need to examine how this policy can be implemented rapidly and how it can limit the moral hazard as much as possible.

Targeting Method Options

Determining the beneficiary target is a crucial process in any social assistance policy. To date, government social assistance programs use Social Welfare Integrated Data (*Data Terpadu Kesejahteraan Sosial*) of the Ministry of Social Affairs (MoSA). Nevertheless, with the BLT-D program, it is possible to deploy a different approach, such as using the government’s experience in running similar programs in the past—by considering its advantages and disadvantages (Table 1).

Table 1 : Advantages and Disadvantages of Targeting Methods

| Method | Advantages | Disadvantages |
|--|--|---|
| Using existing programs: Non-Cash Food Assistance (<i>Bantuan Pangan Non-Tunai: BPNT</i>); Family Hope Program (<i>Program Keluarga Harapan: PKH</i>); and the Smart Indonesia Program (<i>Program Indonesia Pintar: PIP</i>). | <ul style="list-style-type: none"> • The data is available at <i>Kemensos</i> (MoSA). • Easier to be accounted for. • Potential beneficiary already has an account. | <ul style="list-style-type: none"> • Potential to create conflict in village because beneficiaries access the same program. • Does not encourage community to participate. • No legal basis to distribute BLT-D through MoSA. |
| Based on the number of poor village residents (decision of village head). | <ul style="list-style-type: none"> • Data is available as the basis to distribute village funds. • BLT-D will be received faster by the poor in villages. • The mechanism for determining BLT beneficiaries is bottom-up. | <ul style="list-style-type: none"> • Low accuracy level. • Challenge in accountability of BLT-D utilisation. • Data accuracy in determining BLT-D beneficiaries. • Readiness of the regional government and village head to distribute BLT-D. |
| Employ <i>musyawarah</i> (community-based targeting). | <ul style="list-style-type: none"> • Encourage the participation of the local community, for example during drafting of the village budget. • Able to empower poor communities. | <ul style="list-style-type: none"> • Prone to elite capture. • Challenge in accountability of BLT-D utilisation. |

Source: Analysis result, 2020.

³ APBN: *Anggaran Pendapatan dan Belanja Nasional*: National budget.

The World Health Organization has emphasised the importance of education and community involvement in countering Covid-19. Community involvement in utilising the Village Fund for both BLT-D and the management of Covid-19 is, therefore, crucial. In addition, various studies in Indonesia show that community-based targeting for the cash transfer program has generated a good level of satisfaction and accountability.⁴ Furthermore, the Village Fund is the village administration's main revenue source. For this reason, use of village funds is the right of the village administration, both in terms of determining the targets and utilisation for other purposes. Nevertheless, the central government should establish technical guidelines and provide a precise mechanism to minimise the risks of moral hazard and elite capture.

The Community-based Approach

Program beneficiary targeting can use a community-based approach that promotes the musyawarah and local best practices in every village, or what is globally known as community-based targeting (Figure 1). This approach is highly recommended given that the government has experience in employing public consultation forums in the Unified Database Update (PBDT) in 2015. During the period of the Subsidised Rice Program (*Raskin/Rastra*), the government implemented a policy of completing a Substitute Recapitulation Form (*Formulir Rekapitulasi Pengganti: FRP*) to update program beneficiary information. In both the FRP and Community Consultation Forum (*Forum Konsultasi Publik FKP*) approach, the musyawarah has an important role in determining the households that are suitable program recipients. This recommendation is also aligned with the APBDes that is determined through the *musyawarah* process.

Figure 1. Suggestion for Community-based Approach



* Related parties that need to be involved: religious leaders, community figures, youth organisations, and underprivileged and vulnerable groups.

Source: Analysis Results, 2020.

⁴ Alatas, V., A. Banerjee, A.G. Chandrasekhar, R. Hanna, and B.A. Olken. 2016. "Network Structure and the Aggregation of Information: Theory and Evidence from Indonesia". *American Economic Review* 2016 106 (7): 1663–1704.

Criteria for BLT-D Beneficiary Priority Target

Although it is recommended that the community approach be used for the program targeting mechanism in accordance with local best practice, the government should be the one to prioritise the program's beneficiary target.

There are several prioritised beneficiary targets, including:

1. Isolated households infected by Covid-19.
2. Poor elderly people and households that are vulnerable to Covid-19.
3. Poor households with ill family member/s that must pay for medical bills.
4. Households registered as beneficiaries in the village that are not yet covered by national/regional programs, such as zakat (donations) recipients.
5. Households where the main family breadwinner is unable to work or whose income is greatly affected by the Covid-19 pandemic.
6. Households that cannot buy or access basic needs, especially food, due to Covid-19.

7. Households that are recommended by the local community to receive the program benefits in accordance with the agreement and local best practice.

Beneficiary Target

Village Poverty Profile

In general, poverty in Indonesia is currently dominated by people residing in villages (Table 2). Of approximately 25.1 million poor residents in 2019, 85.40 per cent live under village administration. In 2019, the poverty rate in villages was 11.70 per cent which is significantly higher than the national figure of 9.41 per cent. The gap (Gini Ratio) in villages is, however, lower than the national gap-0.343 and 0.382 respectively.

Table 2. Poverty Profile at the Village and National Level

| Feature | Village | National |
|--------------------------|------------|------------|
| Poverty Indicator | | |
| Number of Poor People | 21,473,231 | 25,144,742 |
| Poverty Level (%) | 11.70 | 9.41 |
| Poverty Depth | 1.96 | 1.55 |
| Poverty Severity | 0.48 | 0.37 |
| Expenditure | | |
| Food/Capita | 512,429 | 572,551 |
| Non-Food/Capita | 447,764 | 592,690 |
| Per Capita | 960,193 | 1,165,241 |
| Households | 3,975,401 | 4,841,026 |
| Poverty Line | | |
| Food | 306,400 | 314,144 |
| Non-Food | 102,572 | 112,026 |
| Total | 408,971 | 426,170 |
| Gap | | |
| Gini Ratio | 0.343 | 0.382 |

Source: Susenas Analysis Result, March 2019.

Funding Options

The Village Fund was allocated a budget of Rp 72 trillion in 2020 and we recommend that the allocation for the BLT-D should be 20-30 per cent of the total Village Fund (Table 3). BLT-D execution can be implemented for at least six months with households being the beneficiary target.

This target is relevant given that most national social assistance programs reference beneficiaries at the household level—such as PKH, BPNT, and *Bantuan Langsung Tunai Sementara Masyarakat* (Temporary Direct Cash Transfer)/*Bantuan Langsung Tunai* (Direct Cash Transfer).

Table 3: BLT-D Budget Allocation Estimation Based on Budget Proportion Scenarios

| Component | Scenario 1 | Scenario 2 | Scenario 3 |
|---|------------|------------|------------|
| Village Fund Total Budget (Trillions of Rp) | 72 | 72 | 72 |
| BLT-D Allocation Target | 20% | 25% | 30% |
| BLT-D Allocation Value (Trillions of Rp) | 14.4 | 18.0 | 21.6 |
| Number of Target Households | | | |
| Poor (1 x Poverty Line) | 4,670,415 | 4,670,415 | 4,670,415 |
| Poor and Almost Poor (1.2 x Poverty Line) | 8,358,718 | 8,358,718 | 8,358,718 |
| Poor and Vulnerable to Becoming Poor (1.6 x Poverty Line) | 17,224,237 | 17,224,237 | 17,224,237 |
| Poor and Vulnerable (2.2 x Poverty Line) | 27,222,672 | 27,222,672 | 27,222,672 |
| Allocation/year (Rp) | | | |
| Poor (1 x Poverty Line) | 3,083,238 | 3,854,047 | 4,624,857 |
| Poor and Almost Poor (1.2 x Poverty Line) | 1,722,752 | 2,153,440 | 2,584,128 |
| Poor and Vulnerable to Becoming Poor (1.6 x Poverty Line) | 836,031 | 1,045,039 | 1,254,047 |
| Poor and Vulnerable (2.2 x Poverty Line) | 528,971 | 661,214 | 793,456 |
| Allocation per Month for 6 Months (Rp) | | | |
| Poor (1 x Poverty Line) | 513,873 | 642,341 | 770,809 |
| Poor and Almost Poor (1.2 x Poverty Line) | 287,125 | 358,907 | 430,688 |
| Poor and Vulnerable to Becoming Poor (1.6 x Poverty Line) | 139,339 | 174,173 | 209,008 |
| Poor and Vulnerable (2.2 x Poverty Line) | 88,162 | 110,202 | 132,243 |
| BLT-D as Proportion of Household Expenditure | | | |
| Poor (1 x Poverty Line) | 32.92% | 41.15% | 49.38% |
| Poor and Almost Poor (1.2 x Poverty Line) | 16.55% | 20.69% | 24.83% |
| Poor and Vulnerable to Becoming Poor (1.6 x Poverty Line) | 6.78% | 8.48% | 10.17% |
| Poor and Vulnerable (2.2 x Poverty Line) | 3.71% | 4.64% | 5.57% |

Source: Susenas Analysis Result, March 2019.

Recommendations

- The central government needs to take the appropriate measures in implementing BLT-D. One of them is to anticipate social conflict in the village because setting targets with the same person/family tends to spark conflict.
- It is recommended to use the community-based approach to identify target beneficiaries. This approach was used during the update of *Raskin/Rastra* program beneficiaries through FRP and PBDT 2015 in FKP.
- Beneficiary coverage is recommended at the household level with more recipients than national programs such as PKH and BPNT. The number of beneficiaries is approximately 60 per cent of the village population or the equivalent of the population living below an income threshold that is 2.2 times the poverty line.
- Follow-up on the use of village funds for direct cash transfers as regulated in Perppu No. 1/2020 should be supported by the relevant ministries and institutions through the issuance of a joint decree (*Surat Keputusan Bersama: SKB*) by the Minister of Finance; Minister of Home Affairs; Minister of Villages, Development of Disadvantaged Regions, and Transmigration; and Minister of Social Affairs that, among others:
 - Impose restrictions on the use of village funds for BLT-D program implementation, including reporting requirements for the disbursement of BLT-D funds.
 - The BLT-D program should be included in three APBDes categories, namely: (i) disaster mitigation; (ii) emergencies; and (iii) urgent situations in villages, so it is not necessary to revise the Minister of Home Affairs Decree (Permendagri) No. 20/2018 on the Management of Village Finances.
 - Ministry of Villages issued the Decree No. 6/2020 on the amendment of the Decree No. 11/2019 on Village Fund Priorities in 2020. Poor families receiving BLT-D are families who have lost their livelihoods or jobs, have not been recorded as the beneficiaries of Family of Hope Program (PKH), Non-Cash Food Assistance Program (BPNT) and Pre-work Cards, as well as those with family members who are prone to chronic illness.
 - Issue a BLT-D Program Execution Team Instruction. This team is established by the village head by village decree, that will appoint the commitment-making officer (*Pejabat Pembuat Komitmen: PPK*) and BLT-D Execution Team members, including the local village facilitator.
 - The BLT-D Program should have KPM criteria that are clear and easy for the village officials to implement, as stated in the BLT-D beneficiary priority target criteria.
 - Establish BLT-D Program implementation guidelines based on *musyawarah* agreement, stated in minutes of BLT-D beneficiary (KPM). For implementation control, it is suggested that the village facilitators are included as verifying officers during BLT-D payment to KPM. Disbursement of BLT-D funds in the following month should be based on the BLT-D payment form that has been verified by the village facilitator.
 - The outcomes of the *musyawarah* that determined the KPM for the BLT-D in the village will be used as a verifying tool to update poverty data in MoSA.
- Due to the current urgent and rapid need, it is important to simplify the BLT-D mechanism by strengthening the role of the sub-district (*kecamatan*) to supervise and provide guidance. The BLT-D program implementation mechanism should be socialised as soon as possible to regions and villages, including to village facilitators. The existing village Cash-for-Work (*Padat Karya Tunai Desa: PKTD*) guidelines can be complemented with the BLT-D Program implementation mechanism.
- Assistance in the form of BLT-D should only be applied in village administration areas. Central government needs to issue a similar policy for urban village administrations, which cover 32 per cent of the total population.

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