Policy Brief: Promoting Effectiveness of Village Development Through Performance Allocation

Key Messages

- Village Fund allocations are currently based on a formula containing four components.
- The Performance Allocation (Alokasi Kinerja: AK) component provides incentives to well-performing villages to advance village economies and address disparity between village communities.
- The current issue on village funds formulation is it is ineffective in several ways such as the Affirmative Allocation (Alokasi Afirmasi: AA) that has the potential to be a disincentive for the village to thrive–from both the management and financial aspect. For instance, only 30 percent or around 22,500 villages were able to generate village-sourced revenue (Pendapatan Asli Desa: PADesa), even though the regional tax and revenue sharing and PADes generally increased more than other revenues.
- To resolve this issue, TNP2K support Directorate General of Fiscal balance, Ministry of Finance (Direktorat Jenderal Perimbangan Keuangan-Kementerian Keuangan: DJPK-MOF) to develop the Performance Allocation (Alokasi Kinerja: AK), aiming to improve the accountability and performance of the Village Fund through performance-based dispensing and incentivizing delivery performance.
- The main recommendation(s) in this policy brief are performance indicator update, simplifying outcome indicators, applying equal weights between dimensions and indicators, applying proportional AK value, Increase the proportion of the AK as part of total allocation scheme and Integration of annual village potential data collection with village financial statistics.

Background

The enactment of the Village Law No. 4/2014 (*UU Desa*) has led to a number of significant changes, especially in terms of central budgeting support for village development. The law regulates the sources of village revenues that can have implications for the special budget allocations to villages sourced from both the national budget (*Anggaran Pendapatan dan Belanja Negara:* APBN) and regional budget (*Anggaran Pendapatan dan Belanja Daerah*: APBD). The central transfer fund or Village Fund (*Dana Desa)* is the source of revenue from the APBN that can be used to finance government administration, development, community guidance, and community empowerment at the village level. Village Fund allocations have increased quite significantly over the 2015-19 period since implementation of the Village Law–with the disbursement of funds totaling Rp 257.2 trillion.
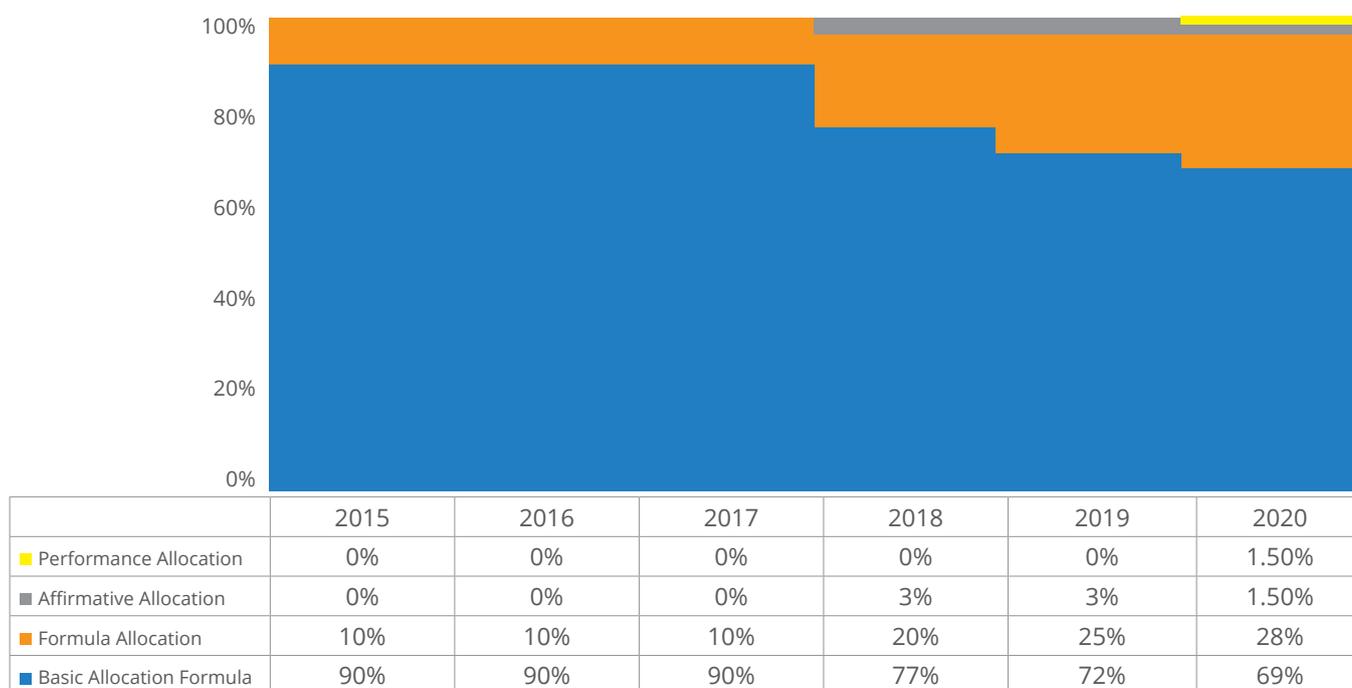
Allocation Policy

Funding policy for the use of Village Fund allocations is directed towards improving public services in villages, poverty alleviation, advancing village economies, and addressing disparity in development between villages. Since the Village Law was enacted, the Village Fund budget allocation policy has been adjusted a number of times to meet the policy direction.

The first policy change in the 2018 fiscal year was intended to encourage a more equitable and fairer allocation and led to progressive reductions in the proportion of the Village Fund assigned to the basic allocation formula (*Alokasi Dasar*: AD)–from 90 percent in 2017 to 77 percent in 2018 and a projected 69 percent in the 2020 APBN (Figure 1) and a proportionate increase in the Formula Allocation (*Alokasi Formula*: AF) to promote equity. The 2018 changes also introduced an AA for frontier, outermost, and least-developed (*terdepan, terluar, tertinggal*: 3T) regions–set at 3 percent of total village funds in the APBN for the 2018 fiscal year.

Figure 1 Village Fund Formula History

	2015	2016	2017	2018	2019	2020
■ Performance Allocation	0%	0%	0%	0%	0%	1.50%
■ Affirmative Allocation	0%	0%	0%	3%	3%	1.50%
■ Formula Allocation	10%	10%	10%	20%	25%	28%
■ Basic Allocation Formula	90%	90%	90%	77%	72%	69%

Source: Directorate General of Fiscal Balance, Ministry of Finance (2019).

Table 1: Realisation of Village Administration Revenue and Expenditure Across Indonesia (Billions of Rp) (2017-18)

Rincian	2017 (Billions)	2018 (Billions)	Growth (Percent)
I. REVENUE	100,240	102,788	2.54
1. Original Revenue of Village	3,097	3,711	19.83
2. Transferred Revenue	96,651	98,580	2.00
2.1 Village Fund	57,561	58,174	1.06
2.2 District/City Tax and Retribution Profit Share	2,466	2,976	20.68
2.3 Village Fund Allocation	30,507	31,760	4.11
2.4 Financial Aid	6,117	5,670	-7.31
3. Other Revenue	492	497	1.02

Source: BPS Village Finance Statistics (*Statistik Keuangan Desa*) (2018).

In fiscal year 2020, Village Fund allocation policy will be directed to improving public services in the village, eradicating poverty, promoting the village economy, and overcoming the development gaps between villages. A number of steps will be taken to fulfill the policy direction, among others by: (i) improving allocation policy; (ii) encouraging an increase in the utilization of the Village Fund for community empowerment; (iii) encouraging the implementation of participatory village planning; (iv) increasing village institutional capacity; and (v) optimizing the control, monitoring, and evaluation role of provincial and regency governments.

An important breakthrough carried out in the prospective 2020 changes is an effort to improve the accountability and performance of the Village Fund through performance-based dispensing and incentivizing delivery performance. The government–through the Ministry of Finance–launched a new innovation for Village Fund allocation by imposing a 10 percent incentive for well-performing villages in the form of the AK. The initiative is based on inputs and suggestions during the five years since the Village Law was implemented. One of the important lessons from implementation of the policy over this period is that, since 2018, the AA has the potential to be a disincentive for the village to thrive–from both the management and financial aspects.

The Village Fund incentive grants over the past five years have not been able to proportionally increase the capacity of villages to create income. For instance, in 2017 and 2018, regional tax and revenue sharing and PADes generally increased more than other revenues, 20.68 percent and 19.83 percent respectively (Table 1). Even so, seen in terms of units-per-village, it is noted that not all villages developed similarly: only 30 percent or around 22,500 villages were able to generate PADesa (Ministry of Villages, Disadvantaged Regions and Transmigration, 2019)

Performance Allocation (*Alokasi Kinerja*) Initiative

One of the objectives of the Village Law is to advance the economy and address disparity between village communities. One of the instruments that needs to be applied to achieve the objective is by giving incentives for well-performing villages through the AK. There are four dimensions to village performance: (i) village financial management; (ii) village fund management; (iii) output achievements; and (iv) outcome achievements (Table 2) with a total of 10 performance indicators. It is expected that, in the long term, the annually disbursed Village Fund can also encourage villages to create revenues at the village level, while still providing stimulus for 3T villages through AA.

Table 2 Comparison of Village Performance Indicator (*Indikator Kinerja Desa*) by Status of Performance Allocation Recipients (*Status Penerima Alokasi Kinerja*)

Performance Dimension	Indicator	Total	AK Recipients	Non-AK Recipients
Village Financial Management	Improvement in Ratio of Village-sourced Revenue *Perbaikan Rasio Pendapatan Asli Desa (PRAD)*	0,58	1,66	0,46
	Development and Empowerment Expenditure *Belanja Pembangunan dan Pemberdayaan (BPP)*	66,48	69,28	66,16
Village Fund Management	Village Priority Spending *Belanja Prioritas Desa (BPD)*	73,61	90,35	71,75
	Self-managed Spending *Belanja Swakelola (BS)*	87,09	97,73	85,91
Output Achievements	Budget Realisation (*Realisasi Anggaran: RA*)	90,60	98,82	89,69
	Output Realisation (*Realisasi Output: RO*)	94,88	98,27	94,50
Development Outcome	Developing Village Index Score *Skor Indek Desa Membangun (SIDM)*	1,49	3,06	1,32

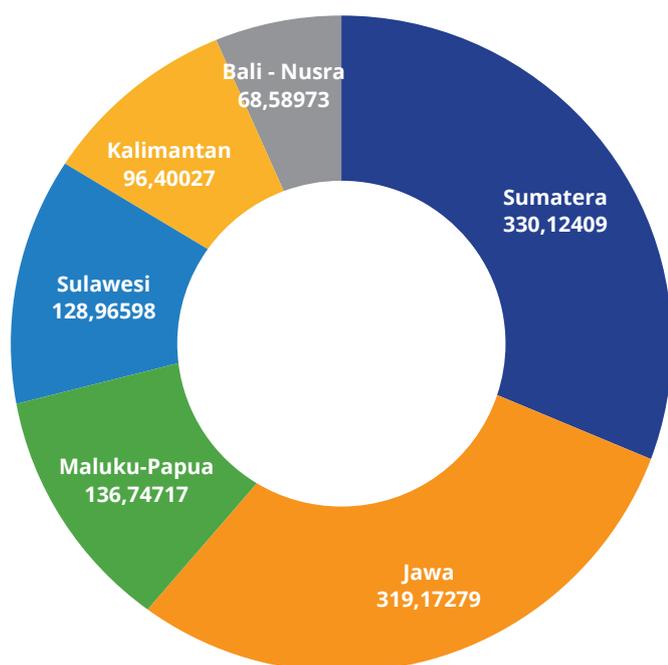| Performance Dimension	Indicator	Total	AK Recipients	Non-AK Recipients
Achievements	Village Status Improvement *Perbaikan Status Desa (PSD)*	25,61	38,40	24,19
	Latest Village Status *Status Desa Terakhir (SDT)*	41,97	52,47	40,81
	Change in Number of the Poor *Perubahan Jumlah Penduduk Miskin (PJPM)*	0,56	1,15	0,49
Village Performance Index		50,03	56,74	49,29

Source: Authors' analysis (2019).

Generally, village performance in the previous year was not optimal, with an average index value of only 50.03 (Table 2) and a median value of 52.21. The lowest village performance index was 0 and the highest was 68.52. The number is only one-half of the optimal value of village performance index.

The ceiling for the AK is 1.5 percent of the total Village Fund budget in 2020. That allocation is then distributed to the 10 percent of villages (7,495) with a good performance as measured by the village performance index–equivalent to Rp 144.1 million per village. The quota for performance allocation beneficiaries is applied at the district and city levels using the following mechanism: (i) 11 percent of the village allocation is given to districts/cities with a total of fewer than 100 villages; (ii) 10 percent of the village allocation is given to districts/cities with 100-400 villages;

and (iii) 9 percent of the allocation is given to districts/cities with more than 400 villages. The differential is designed to avoid AK concentration in regions with a large number of villages.

The district/city level AK is distributed mostly in Java and Sumatra (Figure 2), however, Java and Sumatra received a proportionately lower AK compared to villages in other regions. The quota clustering mechanism according to the number of villages in each district and city as in the figure above allows for the relocation of villages that receive an AK from Java and Sumatra to other regions. On average, the AK received by each village is equivalent to 13.66 percent of total Village Fund allocations received by villages for 2020 (Table 3).

Figure 2: AK Distribution by Islands (2020) (Millions of Rp)

Bali - Nusra 68,58973
Kalimantan 96,40027
Sulawesi 128,96598
Maluku-Papua 136,74717
Jawa 319,17279
Sumatera 330,12409

Source: Directorate General of Fiscal Balance, Ministry of Finance (2019).

Table 3 The Proportion for Performance Allocation to Total Village Fund, 2020

Island	Minimum	Average	Maximum
Sumatera	**3.18**	**14.66**	**17.46**
Jawa	4.21	12.73	17.03
Bali-Nusra	5.14	12.66	16.98
Kalimantan	2.63	13.52	17.10
Sulawesi	7.05	14.06	17.17
Maluku-Papua	3.88	13.67	17.18
Total	**2.63**	**13.66**	**17.46**

Source: Directorate General of Fiscal Balance, Ministry of Finance (2019).

Recommended Improvements

Indicator update. The AK is distributed using a village performance indicator formulated using ten indicators in four dimensions. Of the ten indicators used so far, only four show an increase year-on-year: change of PADesa; change of IDM score; change of village status according to IDM; and change in number of the poor. In the future, indicators that can fully progress implementation could be considered–namely changes relative to previous years.

Simplifying outcome indicators. Of the four outcome indicators, three are from IDM. The extent to which these three indicators are relevant needs to be considered, particularly for changes in scores and IDM status. The latest village status according to IDM and changes in the number of poor people also need to be reviewed, as both indicators are used in the formulation of AA and AF.

Applying equal weights between dimensions and indicators. Village performance index is calculated using different values across dimensions and across indicators. This needs to be reviewed in the future considering no studies are yet available that find that management, outputs, or outcomes aspects are more superior between dimensions. Just as weighting is applied to the human development index, the multidimensional poverty index or other indexes generally position each dimension to have the same contributing weight in determining the index value amount.

Applying proportional AK value. The AK rupiah value in the 2020 fiscal year is distributed with the same value, namely around Rp 144.1 million per village. In line with an (expected) increase in the total Village Fund in the future, the Ministry of Finance must consider the classification of rupiah value to be distributed through the AK. Another alternative is to distribute the AK to the best 10 percent of villages based on the index value or, in other words, every performance index value is equivalent to rupiah value. This is based on the consideration that the village performance index value in the 10 percent of best performing villages is spread relatively heterogeneously, with a minimum value of 39.45 and a maximum value of 68.52 and an average value of 56.74 (Figure 3); so further distinction can be done. Increase the proportion of the AK. The total value of the AK at 1.5 percent of the total Village Fund is relatively small compared to the value of AK plus AA. Both allocations are intended to provide a stimulus for villages to develop their area, although it is possible that it can become a disincentive for villages because each low value is denoted in rupiah. In the coming fiscal year, incentives for well-performing regions should be increased proportionately to encourage villages to achieve the goals of promoting the economy and addressing disparity between village communities.

Integration of annual village potential data collection with village financial statistics. Data collection for village potential (*potensi desa: podes*) is done three times over 10 years. This data collection is an initial stage of population census, economic census, or agricultural census conducted one year prior to the census. The implementation of Village Law emphasizes the need to update information on Geographic Difficulty Index (*Indeks Kesulitan Geografis*: IKG) calculated based on village potential data. Since 2019, Statistics Indonesia (*Badan Pusat Statistik*: BPS) has been collecting data annually to meet that need. Meanwhile, village government financial statistics survey (K3) is an annual data collection conducted on 10 percent of villages in Indonesia that BPS has conducted since 1977. The K3 survey contains very important information and has a strong association to village performance assessment, particularly in financial management and village fund management dimensions. The K3 survey collects financial information down to subgroups of village government revenue or expenditure. Accordingly, both types of data collection by BPS can potentially be integrated to produce IKG and village performance index required for village fund allocation every fiscal year.

Attachments

Table 4: Operational Definitions

Dimension - Indicator	Description	Weight
Dimension of Village Financial Management		
Improvement in Ratio of Village-sourced Revenue *(Perbaikan Rasio Pendapatan Asli Desa: PRAD)*	Represents changes in PADes to total revenue in APBDes in the last 2 years. $$PRAD = \left(\frac{PADes}{APBDes_{t-2}} - \frac{PADes}{APBDes_{t-3}}\right) x100$$ Where: PADes is realisation of Village-sourced Revenue (Pendapatan Asli Desa); Village Budget (APBDes) is realisation of Village Revenue and Expenditure Budget (Anggaran Pendapatan dan Belanja Desa); and t is fiscal year. This indicator is used to benchmark the level of fiscal independence at the village level and is expected to increase in line with objectives of the Village Law.	10%
Development and Empowerment Expenditure *(Belanja Pembangunan dan Pemberdayaan: BPP)*	Represents the ratio of spending for development and empowerment to total expenditure in APBDes. . $$BPP = \left(\frac{BP1 + BP2}{APBDes_{t-2}}\right) x100$$ Where: BP1 is realisation of spending for development, BP2 is realisation of spending for empowerment; APBDes is realisation of the Village Revenue and Expenditures Budget (Anggaran Pendapatan dan Belanja Desa); and t is fiscal year. This indicator is a representation of local financial performance in development and empowerment that is expected to be capable of increasing economic activities at the village level.	10%

Dimension - Indicator	Description	Weight
Dimension of Village Fund Management		
Village Priority Spending *(Belanja Prioritas Desa: BPD)*	Represents the percentage of priority conformity of village fund utilisation that is the ratio of expenditure for development and empowerment to total village fund. $$BPD = \left(\frac{BP1 + BP2}{A.DD}_{t-2}\right)x100$$ Where: BP1 is realisation of spending for development; BP2 is realisation of spending for empowerment; DD is realisation of Village Fund; and t is fiscal year. This indicator is used to measure level of spending conformity sourced from village fund for priority programs.	11%
Self-managed Spending *(Belanja Swakelola: BS)*	Represents percentage of self-managed village fund procurement of goods and services to total village fund of the previous year. $$BS = \left(\frac{Belanja\ Swakelola}{A.DD}_{t-2}\right)x100$$ Where: Belanja Swakelola is realisation of self-managed spending; A.DD is the Village Fund ceiling; and t is fiscal year. This indicator is used to represent the level of participation of the local community in using the village fund.	9%
Dimension of Village Fund Output Achievements		
Budget Realisation *(Realisasi Anggaran: RA)*	Represents percentage of realisation of village fund budget that was absorbed in the last fiscal year. $$RA = \left[\frac{R.DD}{A.DD}\right]_{t-2} x\ 100$$ Where: R.DD is realisation of village fund absorption; A.DD is village fund budget; and t is fiscal year. This indicator is used to measure effectiveness of budget absorption in accordance with what was planned in one fiscal year.	12,5%

Dimension - Indicator	Description	Weight
Output Realisation *(Realisasi Output: RO)*	Represents percentage of output achievements of village fund in the last fiscal year. $$RO = \left(\frac{R.RO}{A.DD}\right)_{t-2} x\ 100$$ Where: R.RO is realisation of village fund output; A.DD is village fund ceiling; and t is fiscal year. This indicator is used to measure effectiveness of output realisation in accordance with what was planned in one fiscal year.	12,5%
Dimension of Village Development Outcome Achievements *(Capaian Outcome Pembangunan Desa)*		
Developing Village Index Score *(Skor Indeks Desa Membangun: SIDM)*	Represents changes in score value of Developing Village Index (*Indeks Desa Membangun*). $$SIDM = (Nilai\ IDM_{t-1} - Nilai\ IDM_{t-2})$$ Where: Value of SIDM is the score value of IDM) and t is fiscal year. This indicator is a measure of performance outcome realisation of village development in comparison to previous year.	10,5%
Village Status Improvement *(Perbaikan Status Desa: PSD)*	Represents a change in IDM status in the last 2 fiscal years. $$PSD = (Status\ Desa_{t-1} - Status\ Desa_{t-2} + 1)x20$$ Where: Village Status (Status Desa) is village status based on results of IDM); t is fiscal year. Village status score includes: Independent Village/*Desa Mandiri* (4); Advanced Village/*Desa Maju* (3); Developing Village/*Desa Berkembang* (2); Disadvantaged Village/*Desa Tertinggal* (1); and Very Disadvantaged Village/*Desa Sangat Tertinggal* (0). Special treatment is given to: (a) villages experiencing a fall in status; and (b) village status remaining very disadvantaged. This indicator is a measure of performance outcome realisation of village development in the last year.	10,5%

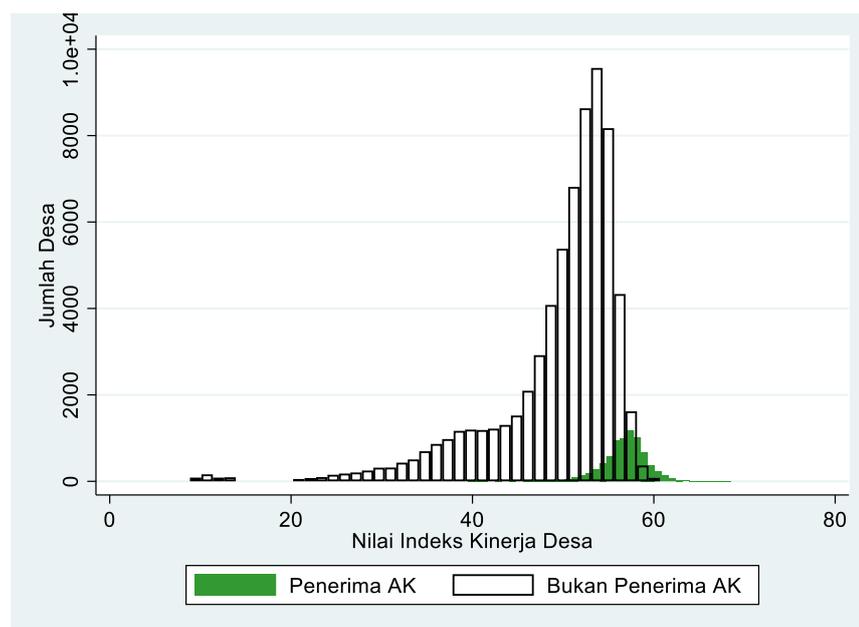| Dimension - Indicator	Description	Weight
Latest Village Status *(Status Desa Terakhir: SDT)*	Represents changes in the number of poor people in the last 2 fiscal years. $$SDT = Status\ Desa_{t-1}\, x25$$ Where: Village Status (Status Desa) is the status of village based on results of IDM and t is fiscal year. Score of village status consists of: Independent Village/*Desa Mandiri* (4); Advanced Village/*Desa Maju* (3); Developing Village/*Desa Berkembang* (2); Disadvantaged Village/*Desa Tertinggal* (1); and Very Disadvantaged Village/*Desa Sangat Tertinggal* (0). This indicator is a measure of performance outcome realisation of village development in the last year. .	3,5%
Change in Number of the Poor (*Perubahan Jumlah Penduduk Miskin: PJPM*)	Represents changes in the number of poor people in the last 2 fiscal years. $$PJPM = JPM_{t-1} - JPM_{t-2}$$ Where: JPM is number of poor people and t is fiscal year. Treatment is conducted for villages experiencing an increase in number of poor people to 0. Then an index inverse is done on PJPM value using the following formula: $$PJPM = \frac{100}{(PJPM_{maks} - PJPM_{min})}\, x(PJPM - PJPM_{min})$$ This indicator is a measure of performance outcome realisation of village development compared to the last year.	10,5%

Table 5: Dimensions, Indicators, Weight and Level of Correlation to Village Performance Index

Performance Dimension	Indicator	Weight	Correlation
Village Financial Management	Improvement in Ratio of Village-sourced Revenue *Perbaikan Rasio Pendapatan Asli Desa (PRAD)*	10%	0.063
	Development and Empowerment Expenditure *Belanja Pembangunan dan Pemberdayaan (BPP)*	10%	0.150
Village Fund Management	Village Priority Spending *Belanja Prioritas Desa (BPD)*	10%	0.793
	Self-managed Spending *Belanja Swakelola (BS)*	10%	0.861
Output Achievements	Budget Realisation (*Realisasi Anggaran: RA*)	12.5%	0.884
	Output Realisation (*Realisasi Output: RO*)	12.5%	0.669
Development Outcome Achievements	Developing Village Index Score *Skor Indek Desa Membangun (SIDM)*	10.5%	0.122
	Village Status Improvement *Perbaikan Status Desa (PSD)*	10.5%	0.226
	Latest Village Status *Status Desa Terakhir (SDT)*	3.5%	0.229
	Change in Number of the Poor *Perubahan Jumlah Penduduk Miskin (PJPM)*	10.5%	0.053
Village Performance Index		100%	

Source: Directorate General of Fiscal Balance, Ministry of Finance and Authors' Analysis (2019).

Figure 3: Distribution of Village Performance Score According to AK Recipients and Non-Recipients

Source: Authors' analysis (2019).

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