

INDONESIA'S VILLAGE FISCAL TRANSFERS (*DANA DESA*) POLICY: THE EFFECT ON LOCAL AUTHORITY AND RESIDENT PARTICIPATION

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Received : October 30, 2018
Revised: November 13, 2018
Accepted: November 30, 2018

How to cite this article is :

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Anshari, K. (2018).
Indonesia's
Village Fiscal
Transfers (Dana
Desa) Policy:
The Effect On
Local Authority
And Resident
Participation.
*Jurnal Studi
Pemerintahan*,
9(4), 619-653

ABSTRACT

According to Indonesia Village Law 6/2014, village fiscal transfer policies provide exclusive funds from the national government to the *Dana Desa*, adding to the existing amended contribution funding from regency to village. This paper discusses how this fiscal transfer policy for rural development affects local authority transfers to villages and residents' participation in development.

By using a case study method in Banjar Regency, South Kalimantan Province with qualitative surveys in villages and interviews, this article makes a number of remarks. Firstly, the paper comments on the authority transfer from the regency to the villages in public works, agriculture, pre-school education, and community-based health services. The projects discussed are characterized as infrastructure priorities, community-based operations, and non-complex. Banjar Regency agencies have accepted this authority transfer because of budget limitations for village-level projects. The authority transfer has resulted in changes in the Regency's character from a village-level public service provider to an adviser. Secondly, the paper discusses residents' participation in village development.

Village fiscal transfers are used mostly in village development projects, where local preferences are accommodated; accordingly, the community participates in the planning and executing of those projects. However, accountability still must be improved despite the perception of the corruption indication assumption being low.

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Keywords: Village Fiscal Transfers, Local Authority, Resident Participation.

ABSTRAK

Undang-Undang Nomor 6 Tahun 2014 tentang Desa telah melahirkan kebijakan dana transfer baru dari pemerintah pusat yaitu Dana Desa dan peningkatan dana dari kabupaten untuk desa. Artikel ini membahas bagaimana kebijakan dana desa mempengaruhi kewenangan pemerintah kabupaten terhadap desa dan partisipasi masyarakat dalam pembangunan desa. Artikel ini mengambil studi kasus di Kabupaten Banjar, Provinsi Kalimantan Selatan menggunakan pendekatan kualitatif melalui survei di beberapa pemerintah desa dan wawancara dengan pejabat berwenang di tingkat kabupaten. Artikel ini menemukan beberapa hal sebagai berikut. Aspek pertama, pelimpahan kewenangan dari kabupaten ke desa melingkupi bidang pekerjaan umum, pertanian, pendidikan anak usia dini, dan pelayanan kesehatan berbasis masyarakat yang semuanya memiliki karakter: terwujud dalam bentuk infrastruktur, pelaksanaan berbasis masyarakat dan bersifat pekerjaan sederhana (non-kompleks). Adapun Satuan Kerja Perangkat Daerah (SKPD) yang terimbas atas pelimpahan kewenangan ini menerima perubahan ini dikarenakan terbatasnya anggaran pemerintah kabupaten dalam melaksanakan kegiatan di tingkat desa. Pelimpahan kewenangan dari kabupaten ke desa merubah karakter SKPD dari pelaksana kegiatan menjadi pembina kegiatan di tingkat desa. Kedua, kehadiran dana desa meningkatkan partisipasi masyarakat dalam pembangunan desa yang mana juga mencerminkan aspirasi kebutuhan masyarakat desa. Partisipasi masyarakat tidak hanya dalam perencanaan tetapi juga dalam pelaksanaan pembangunan desa. Akuntabilitas pemerintah desa masih harus ditingkatkan meskipun persepsi korupsi penggunaan dana desa masih rendah.

Kata kunci: dana desa, kewenangan daerah, partisipasi masyarakat.

INTRODUCTION

Indonesia created Village Law 2014 as one of the latest grand efforts to boost the country's rural development. The most significant content in this law is the establishment of fiscal transfers for villages from the central government, referred to as *Dana Desa* (village fund). Community-level cash-for-work schemes are to be funded through this funding (Manning, 2015). Brojonegoro, Indonesia's Minister of Finance states that the cash-forward fund aims to develop village infrastructure based on the principles of community work (Artharini, 2015). The Village Law policy resulted in the provision of significant funds from the national government, adding to the existing amended contribution to transfer funding from regencies to villages. This transfer of funds is henceforth referred to as village fiscal transfers. As a result, on average, the village budget in the years 2015 and 2016 grew 10 times more than in the year 2014.

This increased budget is not given to an ordinary modern institution. Rather, the budget is entrusted to village governments, which are hybrid organizations comprised of self-governing communities and local self-government (Marx & Ghosh, 2014; Silahudin, 2015). Village governments are communities that perform governance functions and are considered the lowest government agents in Indonesia's administration. Village fiscal transfers have been defined as an extension of the Indonesian large-scale decentralization initiative (Lewis, 2015; Saputro, 2015). Furthermore, intergovernmental fiscal transfers are an important complement to decentralization and permit the benefits of decentralization, simultaneously undoing some of its potential adverse effects (Boardway & Shah, 2007).

Controversy and curiosity are common when new policies are enacted. Village fiscal transfers are a stage where the policy has been adopted not only by civil servants at a local level, but also by village-level governments. Prior to village fiscal transfers, the village government was a passive actor in Indonesia's development.

Because of fiscal transfers, village fiscal availability has been increased to ensure development. Therefore, villages actively contribute to their own development. Villages have traditionally been the responsibility of their regency; now that villages are being given the funds and resources to meet their own needs, the situation has changed, with a power shift from the local government level to the village level. Moreover, this situation has created a new power arrangement between regencies and villages, and the actors involved must make appropriate adjustments.

From an international perspective, [Marx and Ghosh \(2014\)](#) offer a comparison of village governance in Cambodia, Indonesia, the Philippines, and Papua New Guinea. This paper defines village governance based on the official status of a village (*desa*, commune, *barangay*, or ward) without referencing the level of administration within the local government, the role of the village, or the village's governance structure (executive and legislative).

Before Village Law 2014 was implemented, it was investigated by [Antlöv and Eko \(2012\)](#), [Antlov et al. \(2016\)](#), and [Sutiyo \(2013\)](#). [Antlöv and Eko \(2012\)](#) show that, to ensure effective governance and service improvements in villages, accountability improvements are needed and village council functions must be strengthened to balance the increasing fiscal transfers and village authority. [Antlov et al. \(2016\)](#) highlight the implications of the Village Law based on the impact of prior policy to predict the success of the policy, assuming that the system is well-managed financially and provided that adequate legal instruments are available to exert pressure on village government to address community interests. [Sutiyo \(2013\)](#) studies decentralization at a village level and notes that participatory budgeting is a formality when rural individuals still cannot influence decision making. Communities may become more involved in project execution, but less involved in planning and evaluation.

Since the Village Law was implemented, it has been the subject of much research. [Vel and Bedner \(2015\)](#) highlight the potential of the Village Law in creating opportunities for villages to return to their customary village governance structures.

Aspinall and Rohman (2017) observe village elections following the implementation of the Village Law to find that the campaign involved vote buying, so only village elites and wealthy villagers could compete. Village elites are now rural brokers who have mutual political interests with local state elite. Salim, Bulan, Untung, Laksono, and Brock (2017) evaluate the role of the Village Law in enabling or impeding accountable governance to determine that the law makes village governance more accountable but also more complex due to requirements to report burdens and unclear village responsibilities. Civil participation is constrained in the monitoring of village elections and participation in village forums.

In investigating villages' fiscal transfers, Lewis (2015) finds that poor villages receive smaller funds than villages well-endowed with resources such as oil and natural gas. The village funding allocation method emphasizes equivalent allocations per village, regardless of size, condition, or other sources of village revenue (Handra, et al., 2017). The allocation formula for village funding does not fully support the primary objective of the Village Law in terms of the equality of development and improvement of access to public services for poor people. Village funding is mostly used for infrastructure, and though infrastructure may contribute to poverty alleviation, the specific types of infrastructure realized by villages do not aid in poverty alleviation.

The new power arrangement for village governments is implemented with community-based systems, namely a self-governing community and local self-government. This article asks the following questions:

- 1) To what extent have village fiscal transfers impacted local authority transfers from Banjar Regency to its villages?
- 2) How is the accountability of village governments and residents' participation ensured when villages receive the village fiscal transfers?

LITERATURE REVIEW GOVERNMENT DECENTRALIZATION, INTERGOVERNMENTAL FISCAL TRANSFERS, AUTHORITY TRANSFER, AND RESIDENT PARTICIPATION

[Rondinelli and Cheema \(2007\)](#) note that decentralization may increase the financial resources of local governments and provide the flexibility to respond effectively to local needs. However, in local governments, there is often an imbalance between expenditure and revenue. To address this issue, the central government creates intergovernmental fiscal transfers, which refer to the transfer of money from the central government to the lower levels of government ([Alam, 2014](#)). Thus, the two major sources of financing for local governments are local taxes and intergovernmental fiscal transfers. Fiscal transfers exist in a number of forms, such as subsidies, block grants, and earmarked grants. Additionally, fiscal transfers account for a significant portion of the national budget ([Prud'homme, 2006](#)).

Intergovernmental fiscal transfers exist to support the resource side of decentralization at the local level. Intergovernmental fiscal transfers are represented as a tool of decentralization ([Boadway & Shah, 2007](#)). In developing countries, fiscal transfers have become a major source of income for local governments, which generate limited revenue of their own and hence have become dependent on the central government ([Mcmillan, 2007](#)). The need for fiscal transfers is emphasized in the equity and maintenance of certain national standards for public services across regions ([Uchimura, 2012](#)).

The services that local governments typically provide can be categorized into two broad categories: core municipal services and social programs ([Mcmillan, 2007](#)). The lack of capacity of local bureaucrats and the local community in supervising may impede the increasing role of local authorities ([Hofman, Kaiser, & Günther, 2009](#)).

Assuming that “money follows functions” (see [Boadway & Shah, 2007](#)), the intergovernmental fiscal transfers acts as a tool of decentralization, aiming to share the power of the donor of fiscal transfers (higher levels of government) with recipients (the lower levels of government). Transfers to local government finances depend on the assignment of responsibilities and revenue sources. Therefore, in addition to the amount of fiscal transfers, the authority/responsibilities are important for the objectives of the fiscal transfers policy and as a part of the government’s decentralization objectives. Particularly in the village fiscal transfers policy, a new authority arrangement for the village government may influence authorities’ arrangement of the local government since village is under the responsibility of the local government.

Fiscal transfers create accountability mechanisms that affect fiscal management, efficiency, equity of public service provision, and government accountability to citizens ([Shah, 2007](#)). Accountability is defined as being responsible for what has happened and being able to explain it ([Collin, 2004](#)). The design of fiscal transfer schemes is crucial in successful fiscal decentralization ([Takahashi, 2012](#)). Indonesia’s Village Law was designed to be operated to ensure community empowerment, and so the accountability mechanisms of village fiscal transfers should involve resident participation. The purpose of village fiscal transfers is not only to boost rural development, but also to promote village autonomy by empowering the village government and encouraging residents to be actively involved in village development. Furthermore, village fiscal transfers should offer incentives to improve the village economy, thereby increasing welfare and reducing the poverty rate.

CASE STUDY PROFILE AND RESEARCH METHODOLOGY

Indonesia is governed through three levels of administration. The first level is the central government, which is comprised of the President, ministries, and other national bodies.

The second level is the provincial administration (*Provinsi*), and the third level is comprised of cities (Kota) and regencies/districts (Kabupaten). Both the second and third levels are defined as local government. Below the third level is the (sub)district (Kecamatan) then “Desa” that represent village-level governance and “Kelurahan” as field office of (sub)district. Commonly, *Desa* is used in rural communities, whereas *Kelurahan* is applied in urban or populated areas. In 2015, Indonesia had 34 Provinces, 416 regencies/districts, 98 cities, 7,071 sub-districts, and 81,936 villages. In 1998, Indonesia had 27 provinces, 249 districts, 65 cities, 4,028 sub-districts, and 67,925 villages (MoHA, 2015).

This research is an empirical study (Romm, 2002) that uses a case study method (see Yin, 2014; Gerring, 2007). The case study method in turn involves data collection and a mixed-method qualitative and quantitative analysis (Creswell & Plano Clark, 2007). Since the purpose of village fiscal transfers is the promotion of rural development, a remote, rural area has been chosen for the case study. The author has selected Banjar Regency as the study site because it is far from the most populous areas of Indonesia (Jakarta, Java Island). Moreover, the villages have varying geographical characteristics. In Banjar Regency, most villagers work in agriculture, though some are also employed in mining, fishing, and home industries. In terms of human settlements, villages are mostly in the suburbs and outskirts of cities and, to a lesser extent, in urban areas. Banjar Regency is located in the South Kalimantan Province. This Regency has an area of 4,668 km² and is comprised of 20 *Kecamatan* (sub-districts) and 277 villages. The author visited 19 of these sub-districts: only Paramasan, the remotest sub-district, was not visited. In every sub-district, the author met with village heads (executive) for questionnaire completion and interviews and with members of the village council (legislative) for questionnaires. The research activities were conducted over two periods of field visits: August–September 2016 for discussion of accountability and resident participation and September–October 2017 for discussion of authority transfers.

Two groups of variables are explored in this article: variables related to the authority transfers and variables related to village government accountability and resident participation in village development. The research investigates the two groups of variables as follows:

1) Authority transfers

- a. Village fiscal transfers have brought changes to village authority. These changes have also influenced the authority of the regency government, because village responsibilities have traditionally been assigned to the regency. This change of authority at the village level and regency level has also influenced the working preferences of regency agencies. To investigate this topic, the author conducted interviews with senior bureaucrats at the regency level in Banjar Regency:
- b. To determine working preferences in Banjar Regency, the author interviewed eleven senior bureaucrats (one agency head and one division head per agency, except *DPMD three division heads and BPKAD* only one division head) from the following regency-level government agencies: 1) *Dinas Pemberdayaan Masyarakat dan Desa/DPMD* (Community Empowerment and Village Agency); 2) *Dinas Kesehatan/DINKES* (Health Agency); 3) *Dinas Tanaman Pangan dan Hortikultura/DISTAN* (Agriculture Agency); 4) *Dinas Pekerjaan Umum dan Tata Ruang/DISPU* (Public Works and Regency Spatial Agency); 5) *Dinas Pendidikan/DISDIK* (Education Agency); and 6) *Badan Pengelola Keuangan dan Aset Daerah/BPKAD* (Regency Finance and Asset Management Agency).
- c. In the data interpretation of authority transfers, the author uses the theory of public choice, specifically bureaucratic behavior, from the bureau-shaping model of Dunleavy (1991). This model states that budget increases are frustrating because they imply an increased workload. Therefore, senior bureaucrats choose work-related utilities rather than pecuniary utilities (from budget increase). According to this model, fiscal transfers have resulted in an increased budget, though government recipients/bureaucrats have seen opportunities to gain not only pecuniary utilities (financial benefits) but also working utilities/preferences.

2) Government accountability and resident participation in development

- a. Fiscal transfers create accountability mechanisms that affect fiscal management, efficiency, equity of public service provision, and government accountability to citizens (Shah, 2007). Accountability is defined as being responsible for what has happened and being obliged to explain it (Collin, 2004). The accountability of village governments in utilizing village fiscal transfers is measured by asking the perception of the village council, the members of which are authorized to supervise village government performance. The respondents of the accountability survey are 45 village council members. One question represents one sub-variable. The village council is asked whether they think there are corruption indicators inside the village government in terms of the utilization of village fiscal transfers. A total of seven questions concern accountability, and one question asks about corruption indicators. The data analysis is further explained in terms of the development participation variable.
- b. To investigate resident participation in village development, the author did not talk to residents directly, but instead chose to ask village heads and members of the village council, as these individuals are representative of residents and assigned to lead and coordinate village governance and development. The respondents to the participation variables are 69 village heads and 45 village council members. One question represents one sub-variable. Participation was divided into two categories: whether local preferences are addressed in village development (three questions) and to what extent community participation has been implemented in village development (five questions).

c. In terms of the questionnaire scoring and data analysis of village government accountability and resident participation in development, members of the village council and village heads were given five multiple choice options. These options use arbitrary weighting methods with definite borders between interval classes from [Ferguson and Takane \(1989\)](#) to determine the level (degree) of accountability and development participation after the village fiscal transfers policy, whether it is improved or deteriorated. Answers are provided on a 5-rating Likert scale defined as follows:

5 = Highly improved (interval 4.51-5.00)	2 = Slightly deteriorated (interval 1.51-2.50)
4 = Slightly improved (interval 3.51-4.50)	1 = Highly deteriorated (interval 1.00-1.50)
3 = Static (interval 2.51-3.50)	

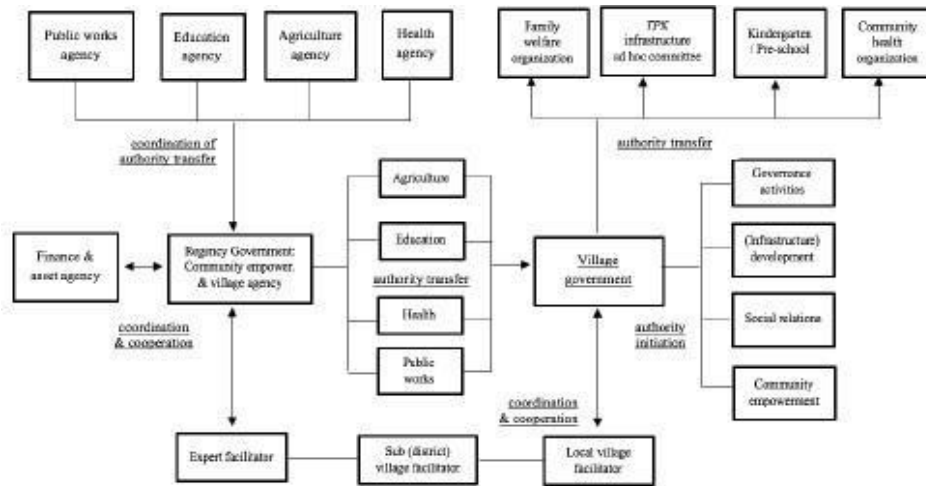
- d. In terms of the accountability variable, the level of accountability across village government after village fiscal transfers can be ascertained using the mean score of the sub-variables following the score detailed above.
- e. To measure the development participation variable, development participation is further analyzed using the independent t-test using SPSS software ([Wagner, 2015](#)) to compare the same variables across two different groups of samples. The first of these groups is composed of village heads, and the second group is composed of members of the village council. The purpose of comparing the two groups is to identify sub-variables that are not similarly answered and to represent disparities in the findings.

CASE STUDY RESULTS AND DISCUSSION REGENCY AUTHORITY TRANSFERS AND LOCAL VILLAGE AUTHORITIES

Fiscal transfers are given when it is necessary to fund certain projects ([see Alam, 2014](#)).

Village fiscal transfers are given to encourage rural development by funding the operation of village authority. Before the Village Law was implemented in 2014 based on Government Regulation 72 (2005) with no bylaws on the interpretation of village authority. The clause noting “regency authority that is transferred to villages” in Government Regulation 72/2005 was changed to reference “village-scale authority” in Village Law 2014. According to the Ministry of Home Affairs, Regulation 44 (2016), the operation of village authority is first ensured by making a list of village authorities. The list is made by the regency government through coordination among various agencies. In the process of making the list of village authorities, the transfer of authority from regency to village should be ensured. The village authorities for synchronizing with the village budget are framed in four domains: village governance, village (infrastructure) development, village social relations, and community empowerment. Due to villages’ autonomous rights and the differences in conditions among villages, village authorities may choose from the list of village authorities and confer with the village council to stipulate the village authorities to be carried out in their village. It is not compulsory to implement all of the responsibilities from the list of village authorities established by the regency government. The list is a framework for stipulating actual village authority according to village character and urgency.

The regency government is a local government attached to a concurrent authority from central government. The concurrent authority consists of six compulsory basic services, namely education, health, public works, social, housing, and society order. This authority also includes eighteen compulsory non-basic services, such as labor, protection of women and children, transportation, culture, etc. The concurrent authority also consists of eight optional responsibilities, namely marine life and fishery, tourism, agriculture, forestry, energy and mineral resources, trade, industry, and transmigration.



Source: Author's own work

Figure 1. Regency-village authority transfers

The process of stipulating village authorities involves regency agencies. At least four major regency responsibilities are partially transferred to village authorities. As Figure 1 shows, the four major responsibilities are education, health, public works, and agriculture. The minor responsibilities include fishery, energy, emergency disaster relief, social welfare, etc. The responsibilities that are transferred to the village can be divided into three categories:

- 1) Infrastructure priorities: the responsibilities given to the village level are mostly realized in form of infrastructure projects. The limitation of regency budget strengthen that the provision of village level infrastructure should be carried out by the village. This infrastructure priorities applied in sectors namely education, health, agriculture, and public work/public facilities.

- 2) Community-based implementation: refers to the operation of responsibilities that should involve resident participation. Participation is important because it enables community empowerment by directly benefitting community members involved. Furthermore, the village government is not able to manage various responsibilities such as health, education, agriculture, infrastructure, due to the limited number of employees and skills. Therefore, it needs residents' participation especially that has interest and skills for health, education, etc.
- 3) Non-complex responsibilities: the implementation of non-complex responsibilities is related to a reduction in the skills of village government officials, which may lead to community-based implementation and non-complex projects and operations. If a project or operation is complex or requires specialized knowledge and skills, the village must seek support from Regency agencies.

Dunleavy (1986; 1991) argues that there are five bureau-shaping strategies (see Stoker, 1995; James, 2003): the major internal reorganizations, the transformation of internal work practices, a redefinition of relationships with external 'partners', the competition with other bureaus, and the load-shedding/the hiving-off work to other agencies, and or the contracting out to private sector. In this case study, the author observes that village fiscal transfers encourage Banjar Regency to implement bureau-shaping model strategies, particularly load-shedding and hiving-off. Banjar Regency has thirty-four agencies, four local enterprises, and twenty (sub)districts. Six regency agencies currently have the most significant impact:

1. Community Empowerment and Village Agency (DPMD)
2. Health Agency (DINKES)
3. Agriculture Agency (DISTAN)
4. Public Works and Regency Spatial Agency (DISPU)
5. Education Agency (DISDIK)
6. Regency Finance and Asset Management Agency (BPKAD)

Because of the village fiscal transfers, agencies such as the *DPMD* and *BPKAD* have an increased workload, whereas agencies such as the *DISPU*, *DISDIK*, *DISTAN*, and *DINKES* lose some of their workload to village-level authorities.

Workload may vary among agencies based on the responsibilities transferred to villages. But the remarks are the regency agencies do not necessary provide directly at the village level since it is all handle by the village itself. Banjar Regency consists of 277 villages, and the coordination of village handling is centralized at the *DPMD*. Village fiscal transfers are related to the disbursement of all other fiscal transfers, and so the *DPMD* coordinates and cooperates with the *BPKAD*. Coordination and cooperation are also established with village facilitators, which are categorized as non-governmental organizations given mandate by the Ministry of Village to facilitate in the utilization of village fiscal transfers. The link between the *DPMD* and village facilitators is strong since village facilitator stationed its member in the village and sub(district) that creates a communication bond in the form of *DPMPD-village* facilitator-village government. In this bond, the *DPMD* delegates tasks to the village facilitator to aid in coordinating with, supervising, and guiding villages in using village fiscal transfers.

At the village level, after receiving the list of village authority that originates from the Regency authority and the transfer of the four major responsibilities, namely education, health, public works, and agriculture, the village authority is categorized into four domains: governance, (infrastructure) development, social relations, and community empowerment. The operation of village authority is coordinated by the village government. Then transfer of authority happens inside the village to at least four organizations, such as the family welfare organization (*PKK*), the ad hoc infrastructure committee (*TPK*), the community health organization (*POSYANDU*), and the kindergarten (*PAUD*). The authority transferred depends on the responsibilities of each organization.

The village government itself manages delegations because the organizations that exist at village level cannot handle all responsibilities. The village government transfers authority to other organizations provides them with the necessary funding.

POST-VILLAGE FISCAL TRANSFERS AND REGENCY-VILLAGE AUTHORITY TRANSFERS: WORKING PREFERENCES AND CHANGES IN REGENCY AGENCIES

Following the implementation of the village fiscal transfer policy, the Regency authority transferred to the village level for the making of the village local scale authority, which provoked changes in various Regency agencies. Using [Dunleavy's \(1985; 1989a; 1989b\)](#) agency classification, the author maps the changes and includes Regency bureaucrats' working preferences in terms of authority transfer:

- a. The *delivery agency* carries out direct services and outputs for citizens or enterprises. This agency has a clear hierarchy and is labor-intensive.
- b. The *regulatory agency* limits or controls the behavior of individuals, enterprises, and other public-sector bodies. The cost of the agency's operation is cheaper than that of the delivery agency because it is based on paper-moving and supervision organizations.
- c. The *transfer agency* administers government subsidies or entitlement to private individuals and firms and is a money-moving organization.
- d. The *contract agency* develops projects in the form of contracts and tenders them to the private sector. The contract agency arranges in research and development, preparing service specifications, contract management and compliance, and other related tasks.
- e. The *control agency* organizes allocates funding public sector bureaus in the form of grants or intergovernmental transfers. This agency supervises fund spending.

The agency that uses the bureau-shaping model should be more of a control, transfer, or contract agency rather than a delivery agency (Jung et al., 2001). This statement means that for bureaucrats, they are happily to change their agency classification to be control or transfer or contract agency rather to be a delivery agency. Interviews with agencies affected by village fiscal transfers and Regency authority transfers to villages are summarized in Table 1.

Table 1. Agencies' task changes, senior bureaucrats' preferences, and agency types post-village fiscal transfers

No.	Agencies	Task change	Senior bureaucrats' preferences	Agency Types
1.	<i>DPMD</i>	The increased responsibility in villages creates one extra division in response to village fiscal transfers and export duties to village facilitators.	Export duties to village facilitators because of inadequate human resources	Regulatory and transfer agency for managing villages and village fiscal transfers
2.	<i>BPKAD</i>	Increased workload, <i>BPKAD</i> serves not only as money transfer to Regency agency, but also as money transfer to villages.	Conflict or lack of coordination and cooperation with the <i>DPMD</i> to manage village fiscal transfer distribution.	Transfer agency for disbursing village fiscal transfers
3.	<i>DISDIK</i>	Pre-education infrastructure facilities is given to villages, which involves supervision and guidance of villages to follow the technical standards of pre-education.	Budget limitation and policy mandate means giving pre-education operations to village, but there are worries that villages are able to comply with technical standards.	Regulatory agency for pre-schools and kindergarten at village level.
4.	<i>DINKES</i>	Community-based healthcare given to the village in health infrastructure, supporting equipment and village health service volunteer incentives shares infrastructure responsibilities with villages on non-complex projects.	Encouraged by the village fiscal transfers to give health responsibility to villages in order to ensure that they are specialized in health service provision networks.	Delivery agency for district level health services and regulatory agency for village-level health services.
5.	<i>DISPU</i>	The responsibility	Sharing could make public works agencies prioritize projects that are equally responsible in infrastructure provisions	Delivery agency for infrastructure provisions and regulatory agency for infrastructure control.
6.	<i>DISTAN</i>	The function of Conceded agricultural infrastructure provision in infrastructure to villages because the provision is given to agency has a limited budget, and allowing	villages to manage it is advantageous	More often regulatory agency, rarely delivery agency

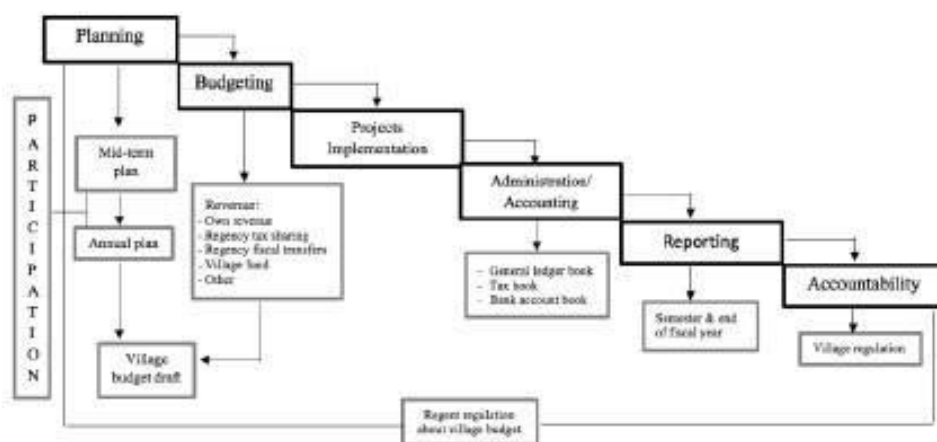
Source: Author's own data from interviews (2017)

VILLAGE FISCAL TRANSFERS AND PUBLIC FINANCE MANAGEMENT AS A NEW CHALLENGE FOR VILLAGE GOVERNMENT

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Village Law defines village government as the entity obligated to implement village governance, execute village development, maintain village social relations, and empower residents. A political position that functions as the territorial head (warden) makes the village head figures socially important, effective public servants for the people, and government facilitators in delivering government projects to the village. In implementing the fiscal policy, village financial management delegations are organized by the village head. This task means that the village head and his/her officials must have public finance management competence. More resources demand further involvement from the village head in financial management.

The village head is involved in public finance management coordination from planning, budgeting, expenditure/procurement, accounting, reporting, to performance evaluation/assessment. Village heads must develop skills to manage public organizations and their financial resources. A lack of competence may lead to mismanagement, which potentially creates losses of public funds and be perceived as corruption. Therefore, village heads must serve also as public finance managers. However, social participation is fundamental in the process of managing public funds at a village level.



Source: MoHA (2015)

Figure 2. Village Financial Management

The purpose of public finance competence is to ensure the accountability of villages in utilizing given village fiscal transfers. The mechanism of accountability involves planning projects to reporting projects, which are funded by village fiscal transfers. The village government's competence is most important in ensuring that projects are run properly. Resident participation is important in ensuring that projects meet residents' needs. Moreover, computerization and e-governance cannot be separated from public finance management. Consequently, the disbursement and accountability mechanisms of the village fiscal transfers involve the installation of village financial information systems, *Sistem Keuangan Desa (SIKDES)*, which require the users' computer skills familiarity with the operation of the application, and an internet network to input and record data. For most remote villages, there is no internet signal, and officials may have to go to cities to access WiFi networks.

THE ACCOUNTABILITY OF VILLAGE GOVERNMENTS IN UTILIZING VILLAGE FISCAL TRANSFERS

Utilizing village fiscal transfers or the village budget involves similar functions because village revenues originate from village fiscal transfers.

The village government is obligated to be accountable to two sides, both village residents and members of Regency government.

Table 2. The Accountability of Village Government

No.	Variables/Sub-variables	Minimum	Maximum	Mean	Std. Deviation
1.	Accountability of village government Village government report quality to local government	2.67	5.00	4.1149	.50484
1.1	Frequent report to village council Anti-corruption effort of the village government	1.00	5.00	4.0444	.73718
1.2	Budget transparency of village government	1.00	5.00	3.4222	1.33976
1.3	Village government report quality to village council	3.00	5.00	4.3778	.68387
1.5	Village council supervision convenient to village government Corruption Indication	2.00	5.00	4.2889	.66134
1.6	Village fiscal transfers regency allocation transparency	2.00	5.00	4.4667	.81464
1.7	Accountability of village government Village government report quality to local government	1.00	5.00	4.0889	.97286
2.	Frequent report to village council Anti-corruption effort of the village government	1.00	4.00	2.0000	.85280
3.	Budget transparency of village government	3.00	5.00	4.8406	.40668

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Source: Author's own survey data (2016)
N=69 only)

(village council N=45,*Village head

Note: Score interpretation

5 = Highly improved (interval 4.51-5.00)

2 = Slightly deteriorated (interval 1.51-2.50)

4 = Slightly improved (interval 3.51-4.50)

1 = Highly deteriorated (interval 1.00-1.50)

3 = Static (interval 2.51-3.50)

The measurement of village government accountability can be seen in Table 2 in terms of the perception of village council members. In general, the mean score shows that the accountability of the village government perceived to have improved, though the sub-variable of the frequent reports to village councils has the lowest

mean score. The radical interpretation of this score is that village council members attempt to show that the village government is not actually reporting to them on the progress of village development or governance. The village head needs the village council on only two occasions, namely the approval of the village budget and the annual village governance report, *Laporan Keterangan Pertanggungjawaban Kepala Desa (LKPD)*.

These two occasions are distinct in terms of importance. If the village budget is not approved by the village council, the village budget cannot be legalized. However, the consequences of not submitting the *LKPJ Desa* are unclear. Therefore, the accountability of the village heads in terms of the village council must be reviewed and improved. On the other hand, accountability in terms of the Regency government is important. Village fiscal transfers are disbursed to the village 3 times a year. When one period of village fiscal transfers is finished, and the funds have been used, the village government is obligated to send a report to the Regency government. If the report is not submitted, the next village fiscal transfer will not be approved. After using the whole village budget in one fiscal year, the village government should make a report for Regency government, the *Laporan Penyelenggaraan Pemerintahan Desa (LPPDesa)*. *LPPDesa* has basically the same content and format as the *LKPJ Desa*. The number of village government that have completed the *LPPDesa* and *LKPJDesa* is still very few.

The Regency government have the authority to supervise or audit village governments in the form of guidance and counseling. However, village governments are often concerned when higher levels of government audit them. The central government field agency for auditing villages is the supreme audit institution, *Badan Pemeriksan Keuangan (BPK)*. When this agency audits the village government, negative findings may lead to legal action for corruption. This hierarchy of supervision and auditing means that accountability to Regency government is more urgent than that of residents or the village council.

The author of this paper conducted surveys on the corruption indicators in village government. The respondents' average score was "slightly deteriorated", which suggests that the village government have low corruption indicators. If this result is accurate, the village government is free of corruption. If the finding is not accurate, it may be true that village members intentionally intended to conceal the actual corruption levels with village government.

The author conducted another survey on the transparency of the allocation of village fiscal transfers by Regency government, which was responded to only by village heads. The mean score of the findings of this survey indicate that the village heads perceive the Regency government as transparent in allocating village fiscal transfers.

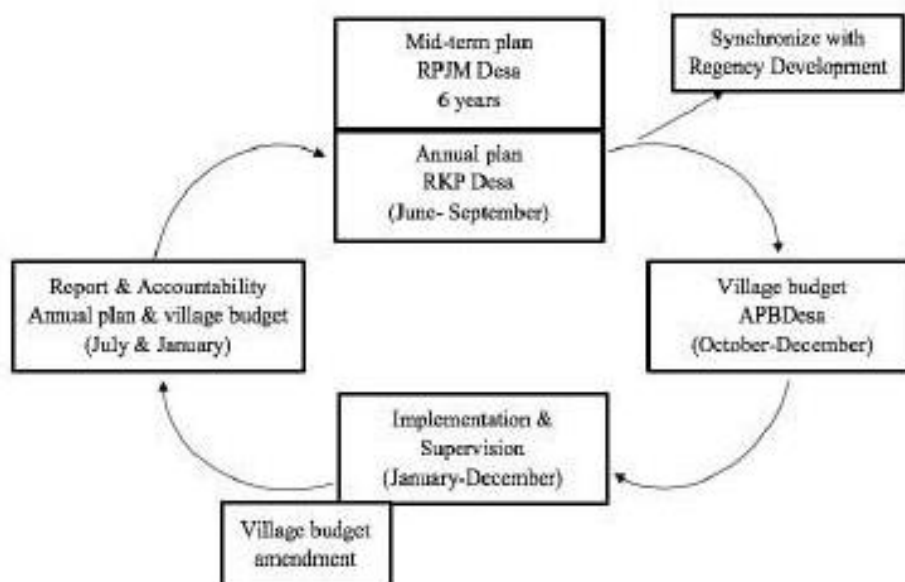
THE VILLAGE DEVELOPMENT SYSTEM

Village development is a system that is performed by village government with the principle of participatory development. Village development consists of three stages. The first of these stages is the planning stage, where village government sets a village development plan by publishing mid-term village development plans, village government work plans, and village budget drafts. The second stage is the execution stage, where village development is executed according to village government work plans. The third stage involves supervising village development, and the village residents have the right to supervise the whole process of village development. Village development is also defined as an effort to increase the life quality and welfare of village residents.

The planning stage of village development is conducted by village government, village council, community associations, and village residents. This stage is based on the inclusion principle, where every village resident is invited to participate in village planning, regardless of gender, educational background, economic capability, ethnicity, religion, or physical condition. There are two types of village development plans, namely mid-term village development plan, *Rencana Pembangunan Jangka Menengah Desa (RPJM Desa)*, and an annual village government work plan, *Rencana Kerja Pemerintahan Desa (RKP Desa)*.

RPJM Desa is a list of responsibilities for the village for six years. This list consists of the vision and mission of the village head, village development policy direction, a list of village activities in village governance, infrastructure development, community relations, and community empowerment.

RKP Desa is the one-year version of RPJM Desa and is adjusted based on Regency agencies' indicative project budgets that will be realized in the village and allocated fiscal transfers (DD, ADD, and BHPRD) for the village as village financial revenue. RKP Desa is the reference for the village budget. In one fiscal year (from 1 January to 31 December), three items must be actualized as the part of village development planning: 1) Village conference or *Musyawarah Desa*; 2) RKP Desa making; and 3) The village budget.



Source: MoHA (2015).

Figure 3. Village Development Cycle

Each village resident can propose development priorities through village conferences for development named *MUSRENBANG*. Representative participation allows those who are interested in village governance to become involved in deciding how the fiscal transfers are utilized. Village residents' participation is measured in terms of the participation of some groups or parties of residents in the village conference. The groups or parties are largely comprised of public figures, social figures, educational figures, youth organizations, representatives of farmer, fishermen associations, etc. The degree of participation is one of factors that affect the village as a body of self-governing community.

The execution stage of village development is coordinated by the village head, his/her subordinates, and village resident groups or parties. Village development covers village-scale development, as well as sectoral and Regency-/district-level development that affects the village. Village-scale development is executed through community work, inter-village cooperation, or cooperation with third parties or the private sector. The village head coordinates the preparation and implementation of village development from the allocation of the village budget. Sectoral and Regency-/district-level development is implemented according to central or local government regulations. The village development plan must be synchronized with sectoral- or Regency-level development and vice versa. If the sectoral- or Regency- level development projects are delegated to the village, prior project implementation must be discussed at village conferences. Then, the village head coordinates with his/her officials and resident groups for implementation.

Village development is a principle goal in village projects. Project mechanisms involve the village head forming an ad hoc committee for one or more than one projects, which is referred to as *Tim Pengelola Kegiatan (TPK)*. The TPK is established on the principle of self-management, *Swakelola*. Village projects conducted by the TPK are different from local government-level projects conducted by private contractors. The TPK is responsible for managing projects and reporting project progress and final results to the village head.

In the supervising stage of village development, residents are allowed to supervise the village government in utilizing village fiscal transfers or enacting village development. The body that represents and legitimizes the supervision is the village council. The village residents have the right to know whether the distributed village fiscal transfers are used properly, or whether any indications of budget misuses occur. The supervision is conducted through village meetings, community association meetings, neighborhood meetings, field visits, and a study of related development plan documents, project documents, and other relevant documents. The village residents may also evaluate village development by attending village conferences.

Regency government is also allowed to monitor and evaluate village development by analyzing project realization and the outcomes of village development. If the development results are not as expected due to a lack of village capabilities, Regency government should provide guidance and advice to village government.

RESIDENT PARTICIPATION IN VILLAGE DEVELOPMENT PLANNING AND EXECUTION

Development planning participation is the basic participation of residents in local government through accommodating residents' preferences, identifying public needs, and including them in government action or development plans. In village fiscal transfer utilization mechanisms, residents' preferences heard through village council and directly in village conference/forums used in arranging the mid-term and annual planning of village development.

In development execution, the purpose of resident participation is to ensure that that community preferences and needs are addressed by the government. In village fiscal transfers, the purpose of this participation is not just to ensure that the government addresses community preferences in their policies, but also to make village fiscal transfer utilization mechanism open and obligate members of communities to participate in the implementation of allocated fiscal transfers. The projects funded by village fiscal transfers are implemented by resident (ad hoc) groups as the TPK is strictly for villagers. The mechanism using the *TPK* has two benefits, the first of which is that the project is less susceptible to corruption if community members are involved. It is hoped that residents will not sabotage a project that is beneficial to their own village. Furthermore, village residents are closely related residents, therefore the project is easily supervised and reported to the village government and council. The second benefit is that the village fiscal transfer projects are hoped to empower residents by giving them salaries or remuneration.

Table 3. Participation In Village

No.	Variable/ Sub-variables	Mean		Equal variances assumed	Levene's Test for equality of variances		t-test for equality of means		Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference		
		Village Head	Village Council		F	Sig.	t	df			Sig. (2-tailed)	Lower	Upper
1.	Local preferences accommodated in the village development	4.444	4.061	Equal variances assumed	.343	.559	-.891	112	.517	-.09706	.05702	-.19904	.07991
1.1	Society need accommodated	4.811	4.622	Equal variances assumed	1.501	.223	.644	112	.521	.05894	.09154	-.12344	.24032
1.2	Society aspirations	4.347	4.000	Equal variances assumed	1.122	.292	-.360	112	.714	-.05217	.09312	-.23608	.13133
1.3	Village council aspiration	4.384	4.289	Equal variances assumed	1.151	.286	-.156	112	.874	.01546	.08893	-.14935	.21147
2.	Community participation in the village development	4.270	4.342	Equal variances assumed	.250	.618	-.783	112	.439	-.08390	.08062	-.23370	.06978
2.1	Village council-village government relation	2.970	4.667	Equal variances not assumed	40.941	.000	-8.940	95.255	.000	-1.49565	.21491	-1.92228	-1.06903
2.2	Village council involve in budget discussion	4.321	4.444	Equal variances assumed	1.428	.235	.649	112	.604	.07729	.07208	-.26390	.41824
2.3	Village council involve in development planning	4.667	4.000	Equal variances assumed	1.806	.182	2.881	112	.003	.26667	.09256	.08328	.45006
2.4	Residents involve in development planning	4.594	3.733	Equal variances not assumed	6.710	.011	5.252	65.475	.000	.86887	.16391	.53356	1.18818
2.5	Residents involve in project execution	4.677	4.667	Equal variances assumed	.889	.346	-.353	112	.848	-.02899	.11443	-.25971	.19774

Source: Author's own survey data (2016).

(village council N=45, Village head N=69)

Note: Score interpretation

5 = Highly improved (interval 4.51-5.00)

4 = Slightly improved (interval 3.51-4.50)

3 = Static (interval 2.51-3.50)

2 = Slightly deteriorated (interval 1.51-2.50)

1 = Highly deteriorated (interval 1.00-1.50)

In village development, participation can be divided into two categories. The first category focuses on whether the local preferences are accommodated in village development, and the second category deals with to what extent residents are involved in village development. According to mean scores of the findings, local preferences are accommodated in village development and the utilization of village fiscal transfers. Both village heads and the village council have the same perceptions, all of which fall into the “slightly improved” category for the local preferences variables. Only the variable that deals with community needs being addressed falls in the category “highly improved”. The author distinguishes between community needs and community aspirations even though they are similar because the purpose of this paper is to emphasize and enrich local preferences. Community needs refer to primary needs that could be accommodated in village development.

Community aspirations refer to what the community wants regardless of its importance. The author was able to make five key observations in the field:

1) The significance of the village council and village-government relations

The village government-village council relationship is imbalanced because there are disparities between responses from village heads and those of village council members. This relationship is added as the sub-variable “resident participation” because a weak relationship between these two entities means a lack of cooperation and involvement of the community. On average, more village heads think that the relationship is negative compared to village council members. The reason for this result may be that the village heads perceive that the village council is not adequately contributing to village governance despite remuneration. Furthermore, village governance largely relies on the village head and his/her officials, and the unclear job roles of the village council. If the village council likes the village head too much (having a very good relations), the village head will dominate all policy-making in the village, which will lead to a concentration of authority on the village head that could harm village democratic processes in development and lead to the corruption of power. On the other hand, the village head should have a rival to limit or control this concentration of power in the village. The village council should be seen as a partner of the village head.

2) The village council is now more involved in development planning than residents

Varying scores were also obtained in responses to questions on village councils’ involvement in development planning and residents’ involvement in development planning. The village heads may answer these questions more positively because they are the individuals responsible for inviting representatives from societies to be involved in planning development projects.

Village heads therefore feel that they have complied with their duty to involve representatives in village development. Based on the scores in Table 3, village councils perceive that resident participation is lower than village council participation in development planning. In conferences to determine village projects for village fiscal transfers utilization, the main actors invited are village council members, the neighborhood head, and important village figures. In terms of resident participation, ordinary village residents are not invited or willing to attend.

3) The increased importance of planning documents *RPJM Desa* and *RKP Desa*

Village development planning processes were a necessary part in the village development even before the publication of the Village Law in 2014. Before the provision of village fiscal transfers, there were few resources (funding) that allowed villages to execute their own development planning. *RPJM Desa* and *RKP Desa*, as a projection of village development planning, are planning documents that allowed for the realization of development projects in the field. When the Village Law was implement, the importance of village development planning did not change significantly. *RPJM Desa* and *RKP Desa* are placed as the mandatory document for withdrawing the village fiscal transfers from the Regency bank account only. This mindset for *RPJM Desa* and *RKP Desa* lessens the importance of these two reports' content. Because of this way it might be the *RPJM Desa* and *RKP Desa* is made by the village government only and does not invite the village council or village residents in making it. When implementing projects for the utilization of village fiscal transfers, which is important in development planning, the village government discusses it with the village council, neighborhood head, and some residents because it is directly affects the community.

4) The bottom-up project's determination mechanisms

A village is divided into neighborhoods or *Rukun Tetangga (RT)*. The model for determining village projects is involves bottom-up planning, where the projects first come from the neighborhood and are then proposed to the village.

Competition occurs between neighborhoods in terms of who will be prioritized on the project list because the village fiscal transfer budget is limited. If one neighborhood does not get a project one year, it is promised the project for the next year. Consideration of the project depends on current development level, which means that neighborhoods that are adequately developed do not often have their projects prioritized. Furthermore, if the from village fiscal transfer budget is too small and cannot be divided based on neighborhoods, the village head decides, on behalf of the village government, the projects that are to be carried out.

5) Village head control on ad hoc committee *TPK*

The perception mean scores among village heads and village councils are in the same category because in project execution, it is obligatory to use residents as workers. *TPK* are units that consist of 3-5 members. The village head has a significant influence on *TPK* membership. There are two models of *TPK* membership, the first of which allows only residents to be members, whereas the second allows village officials and residents to be members. Village council members are prohibited from being in the *TPK*. The most favorable model of *TPK* membership found in the field is the second model because residents are often unable to manage the administration of village projects. Furthermore, the village head may more easily influence *TPK* work if one or more of the members is a village official. The village officials that are most commonly assigned as members of the *TPK* are the neighborhood head and the head of developmental Affairs.

CONCLUSION

Village fiscal transfers fund four domains of village authority, namely governance, (infrastructure) development, social relations, and community empowerment. These transfers coincide with this arrangement the Regency transfer some of its authority. Using [Dunleavy's \(1991\)](#) theory, fiscal transfers follow the bureau-shaping strategy of authority transfer from the Regency to villages. The authority transfer gives legitimacy to the village in utilizing the allocated funds of fiscal transfers.

The authority transfer from the Regency to villages changes the working preferences of Regency agencies that may lead to changes in agency type. Using the agency types of [Dunleavy \(1991\)](#) as a model, Regency delivery agencies decrease their work volume and change agency type for village-level public provisions as regulatory agencies. Agencies that deal with managing villages as regulatory and control agencies and managing fiscal transfers as transfer agencies have seen increased workloads. One thing common among Regency delivery, regulatory, control, and transfer agencies, is that they are all in favor of broad policy-level work. Therefore, Regency delivery agencies have no opposition to exporting work to villages.

Regency regulatory and control agencies with increased workloads can export their burden to quasi-governmental units, who are often village facilitators with a lack of human resources experience. Transfer agencies often conflict with regulatory and control agencies since they both have similar responsibilities and cannot equally divide tasks. According to the bureau-shaping model of [Dunleavy \(1991\)](#), in terms of working preferences, both agencies fight to maintain the image of the agency. Regency agency type changes are delivery agency change as regulatory agency for village-level public provisions, and workload increases for regulatory, control, and transfer agencies.

The accountability of the usage of village fiscal transfers is outlined by central government and the Regency government. Due to accountability, village governments must ensure that finances are properly managed, which can often be a challenge because village are often offered significant budget increments that must be used according to regulations. To ensure adequate public finance management, the village government should be competent in public finance management, particularly in terms of planning, budgeting, procurement, accounting, and governance. Modern administration is conducted digitally, and so computer skills are mandatory for village government officials. The village council must also supervise the work of village governments and must properly understand legislation and representation.

The accountability of the village government is important for the utilization of the village fiscal transfers. The author collected perceptions of the village council, who have the authority to supervise village government. All accountability sub-variables show that there have been improvements in the utilization of village fiscal transfers. However, it should be noted that the submission of reports to the village council is infrequent. These findings suggest that accountability is concentrated on upward accountability to the Regency government, who are responsible for providing the village fiscal transfers.

The infrequent reports to the village council is a reflection of low downward accountability to residents. Upward accountability has real consequences, in that upcoming village fiscal transfers will be postponed if the adequate documents are not reported to Regency government. On the other hand, downwards accountability is not perceived as important, despite the village council playing an important role in legalizing fiscal transfers. To improve downward accountability, Regency government should establish proper consequences if village governments are not accountable to residents.

In terms of resident participation in village development, the *RPJM Desa* and *RKP Desa* are important and serve as the only compulsory reports to be submitted before the allocation of village fiscal transfers. The writing of these planning reports involves resident participation, and the results of this paper's survey show that resident preferences are addresses. The village council reported feeling more involved in planning than village residents. The most important phase of village development planning for residents is the project determination, which uses bottom-up project determination. The village head coordinates projects based on the aim that every neighborhood receives at least one project.

Village residents, as village representatives, are involved in development execution. Furthermore, the responses to the survey suggest that the relationship between village government and the village council is not always harmonious for some villages, which may affect both parties' co-operation in executing development project. In the execution of village development projects, the ad hoc committee for project management, *TPK*, is influenced by the village head, in that he/she ensures that at least one member is a village official. Village officials are used because of their administration skills, while also allowing the village head to control the working process of the committee more easily using his/her subordinate(s).

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