GSJ: Volume 9, Issue 1, January 2021, Online: ISSN 2320-9186
www.globalscientificjournal.com

THE EFFECT OF FISCAL TRANSFER AND VILLAGE FUND ON INCOME INEQUALITY IN INDONESIA

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Abstract

This study aims to determine and analyze the direct and indirect effect of Fiscal Transfers in the form of Special Allocation Funds (DAK) and Village Funds on Income Inequality in Indonesia through Human Development as measured by the Human Development Index (HDI) and Economic Growth. The data used in this study are secondary data in the form of time series from 2015 to 2018 and panel data from 33 provinces in Indonesia. In this study using the path analysis method using SPSS 22 software. The results of this study indicate that the Fiscal Transfer in the form of DAK does not directly affect Income Inequality in Indonesia. However, indirectly through Human Development, it has a significant negative effect on Income Inequality in Indonesia. This study also shows that the Village Fund directly or indirectly through human development has a positive effect on income inequality. This means, since the launch of the Village Fund from 2015 to 2018 it has not maximally reduced income inequality, but has actually had an effect on increasing income inequality. The inadequate distribution of Village Funds to reduce inequality is caused by the inadequate use of village funds, especially in the field of empowerment and development of village communities. In addition, the village fund budget that focuses on village development and infrastructure is only enjoyed by elite groups in the village which results in increased income inequality

Keywords*: Income Inequality, DAK, Village Funds, Economic Growth, and Human Development*

I. INTRODUCTION

Development is seen as a multidimensional process that includes various fundamental changes to social structures, community attitudes and national institutions and continues to pursue accelerated growth, reduction of income inequality, and poverty alleviation (Todaro and Smith, 2006).

Fiscal transfers and distribution of village funds are the implementation of regional autonomy and the law on villages which aims to ensure equitable development in all regions and villages, increase welfare and reduce income inequality in the regions.

With an even distribution of income, low-income groups will experience an increase in income which in turn will make it easier to access basic needs and services such as food, health and education which will then encourage economic growth, increase human resource capacity or the Human Development Index (HDI) as an indicator of development. the economy. Furthermore, with equitable economic growth and improved human resource capacity, it is hoped that it will be able to reduce income inequality.

II. THEORETICAL REVIEW

Income Inequality Concepts and Theory

Income inequality is one of the main challenges in development. Income inequality (inequality of income) focuses on the distribution of income between individuals. Income inequality also provides an overview of the value of individual and household income distributed in the population. This is what causes the difference in wealth between the rich and the poor. Apart from the problem of poverty, the issue of inequality is a concern of many countries in the world and has become the main focus of development policies, including in Indonesia.

In 2015, Indonesia became a country that was increasingly divided and unequal in many ways. There is a widening income gap between the richest 10 percent of the population and the rest of the population, driven by many types of inequality in Indonesia. Society is divided into those who have and do not even before birth. Only some children are born healthy and thrive in their first years.

Income Inequality Measurement Indicators

a) Gini Index

The Gini index is one of the most frequently used measures to measure the overall level of income inequality. According to Todaro and Smith (2006), the criteria for income inequality based on the Gini index are as follows:

Table 1

Inequality Criteria Based on the Gini Index

Coefficient Value (x)	Income Distribution
X = 0	Perfectly even
0 < x < 0,4	Low levels of inequality
0,4 < x < 0,5	Medium level of inequality
0,5 < x < 1	High levels of inequality
X = 1	Perfectly uneven (controlled by one party)

Source: BPS 2018

b) World Bank Size

Another method that is often applied in identifying income inequality is the criteria proposed by the World Bank, by grouping the population into three groups according to the amount of income, namely: (1) 40 percent of the population with the lowest income; (2) 40 percent of the population with middle income; and (3) 20 percent of the population with high income.

Fiscal Transfer Theory

Fiscal transfer is a financial balance between the center and the regions to assist regional financial performance in the context of implementing decentralization and realizing equitable inter-regional development. These transfers (grants) can be used for routine and development spending. Routine spending is expenditure that is continuous for each year and generally does not produce a physical form, for example, such as spending on salaries and employee honorariums. Meanwhile, development spending is expenditure made by local governments on fixed asset expenditure and other asset expenditure. Some of the development expenditures themselves are in the form of physical development expenditures, such as roads, bridges, provision of electricity and drinking water networks, and some are in the form of non-physical expenditures such as education, health services, and maintenance of community security.

According to Prakosa (2004), one of the most important transfers for regions is DAU. The General Allocation Fund (DAU) is a transfer of funds from the Central Government to Regional Governments originating from APBN revenues, which are allocated with the aim of equalizing inter-regional financial capacity to fund regional needs in the context of implementing decentralization. DAU is allocated for all provinces and districts / cities with an amount determined at least 26 percent of the net Domestic Revenue (PDN) in the APBN. Furthermore, the proportion between provincial and district / city DAU is determined with a balance of 10 percent and 90 percent.

Relationship Between Variables

a. Relationship between Fiscal Transfers and Income Inequality

As part of government expenditure that is included in the fiscal component (government expenditure), fiscal transfers have an indirect relationship with inequality. Government spending is a form of fiscal policy to regulate the running of the economy by determining the amount of government expenditure and revenue each year which is reflected in the National State Budget (APBN) document and the Regional or Regional Budget (APBD).

Aghion (1999) specifically explains that government transfers are the second largest source of increasing household income. Although economic growth is important for reducing inequality, this type of fiscal government policy also plays a crucial role. Therefore, the existence of fiscal transfers that are given to regions in Indonesia is then very important in order to encourage welfare to be enjoyed by every level of society by reducing the gap in income inequality.

b. Relationship between Village Funds and Income Inequality

One of the purposes for using village funds is the village fund as a form of government expenditure to finance the needs and needs of government at the village level. Government expenditure is the consumption of goods and services by the government as well as financing by the government for government administration and development activities (Sukirno, 2002).

Government expenditure is the smallest relative component compared to other expenditures, but the effect is quite large, both as a function of allocation, distribution, and stabilization. Government spending is autonomous, because it determines the government budget, namely: (a) taxes that are expected to be received; (b) political considerations; and (c) the problems faced (Samuelson & Nordhaus, 2001).

c. Economic Growth Relationship with Income Inequality

Kuznets argues that in the early stages of growth, both the economy and income inequality will increase equally. But at a later stage, the income distribution will gradually improve and the level of inequality will decrease. This phenomenon is known as the Kuznets hypothesis "inverted U-curve", which connects GDP per capita with the level of income inequality.

Kuznets stated that agriculture represented a large part of the economy and was characterized by low levels of inequality at the start of the development period. The economy can gradually transform from the primary sector to the secondary and tertiary sectors where these sectors generally have higher productivity but are limited in employment. The kuznets curve shows the movement of the curve from the starting point increasing to the turning point and then finally decreasing. The decline was marked by the increasing economic growth as measured by per capita income.

d. Relationship between Human Development and Income Inequality

Human development is an important factor in economic growth. Quality human resources have high productivity so that they can increase the efficiency of economic activities and in the aggregate can affect economic growth (Tjiptoherijanto, 1996).

The Human Development Index (HDI) specifically measures the achievement of human development using several basic components of quality of life such as longevity, education and standard of living or income.

e. Relationship between Human Development and Income Inequality

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f. Relationship between Fiscal Transfers, Human Development and Income Inequality.

In the era of fiscal decentralization, the central government carried out fiscal distribution to regions with the aim of creating a fiscal balance between regional centers. The era of decentralization also means giving authority and power to local governments to manage their regional resources autonomously.

Fiscal decentralization is expected to improve people's welfare. The main objective of regional autonomy and fiscal decentralization policies is to accelerate the realization of an increase in the welfare of all people (Bappenas, 2007). According to UND (1990), indicators to determine community welfare can be seen from the Human Development Index (HDI).

III. RESEARCH METHODS

Types and Sources of Data

The type of data used in this study is secondary data in the form of time series data. The time series data in this study uses the 2015-2018 period for village funds and fiscal transfers, and the 2015-2018 period for economic growth and income inequality, as well as the Gini ratio. Meanwhile, the Human Development Index (HDI) for the 2015-2018 period. In this study, using data from 33 provinces in Indonesia.

Meanwhile, the data source used is data from the Central Statistics Agency (BPS) in the form of the Gini Ratio Index, Economic Growth, and Human Development Index (HDI). Meanwhile, fiscal transfers and village funds are obtained from the Ministry of Finance (Kemenkeu) of the Republic of Indonesia and the Ministry of Villages (Kemendesa). Apart from that, it is also sourced from some theoretical literature, concepts and empirical studies used to explain the relationship between variables obtained from textbooks and related journals.

Data Collection Methods

In this study, the authors collected data by conducting library research (Library Research) where library research is a research method to obtain information from related literature in this study such as research journals, official articles of government agencies, theses, and other related books. with this research. In addition, it uses data obtained from the Ministry of Villages, the Central Statistics Agency, the Ministry of Finance and other related government agencies.

Analysis Method

1) Descriptive Analysis

Descriptive method is a method of analysis related to the collection and presentation of data tables, graphs, and so on. Descriptive analysis is used to explain the development of income inequality, special allocation funds, village funds, and other factors in 33 provinces in Indonesia.

2) Quantitative Analysis

This study aims to see the effect of the relationship between the independent variable on the dependent variable through the intermediate variable. The dependent variable in this study is income inequality, the independent variable in this study is fiscal transfers and village funds. Meanwhile, the intermediary variables are human development and economic growth where the analysis method used to test the truth of the proposed hypothesis is the Path Analysis Model.

Meanwhile, the analytical tool used in this study is SPSS 20. The equation model and this research can be seen from the following equation:

$y_1 = f(x_1, x_{(2)})$ 4.1

$y_2 = f(x_1, x_{(2)})$ 4.2

$y_3 = f(x_{(1,)}\, x_{(2,)}\, y_{(1,)}\, y_{(2,)})$ 4.3

Where :

x_1 = Fiscal transfers

x_2 = Government expenditure

y_1 = Human development

y_2 = Economic growth

y_3 = income inequality

IV. RESULT AND DISCUSSION

Overview of National Economic Macro Performance

1) National Economic Growth 2015-2019

National economic growth in 2015 experienced a growth that tended to decline compared to 2014, namely 5.02 percent to 4.88 percent. The main cause of the slowdown in economic growth in 2015 was the drop in household consumption. Throughout 2015, household consumption was only able to grow 4.96 percent. This figure is lower than the previous two years, which reached 5.43 in 2013 and 5.16 in 2014. On the other hand, the sluggish global economy is the cause of slowing economic growth in many countries, one of which is Indonesia.

In accordance with the Maros Regent Regulation Number 66 of 2016 concerning Position, Organizational Structure, Duties and Functions as well as the Work Procedure of the Regional Apparatus of the Regional.

Indonesia's 2019 economic growth, at 5.02 percent, tends to slow down when compared to the previous year. Economic growth in 2019 was only supported by maintained domestic demand while exports declined in line with slowing global demand and declining global commodity prices. The condition of the global economic slowdown was one of the main factors for the economic slowdown in Indonesia, particularly the impact of the trade war between the United States and China.

2) National Per capita Income for 2015-2019

Indonesia's per capita Gross Domestic Product (GDP) in 2015 amounted to IDR 45.2 million or an annual increase of 7.9 percent from the previous year, IDR 41.9 million per capita. The growth of the domestic economy of around 5 percent per year has made Indonesia's GDP grow by an average of 9.45 percent per year during 2011-2015. In 2015, Indonesia's GDP reached IDR 11,540.8 trillion with a population of around 255 million. Although the domestic economy experienced a slowdown to 4.79 percent from 5.02 percent the previous year, Indonesia's GDP per capita continued to increase in 2015.

The Indonesian economy in 2016 as measured by Gross Domestic Product (GDP) at current prices reached IDR 12,406.8 trillion. Meanwhile, per capita income reached IDR 47.96 million. Meanwhile, the province group in Java Island gave the largest contribution to Gross Domestic Product, namely 58.49 percent, followed by Sumatra Island at 22.03 percent, and Kalimantan Island 7.85 percent.

Even though the Indonesian economy in 2019 is experiencing a slowdown, Indonesia's gross domestic product (GDP) per capita has actually increased. In 2019, Indonesia's GDP per capita reached IDR 59.1 million, equivalent to US $ 4,174.9. This figure increased by 5.5 percent compared to 2018 which amounted to IDR 56 million and 2017 which amounted to IDR 51.89 million.

3) Inequality of National Income for 2015-2019

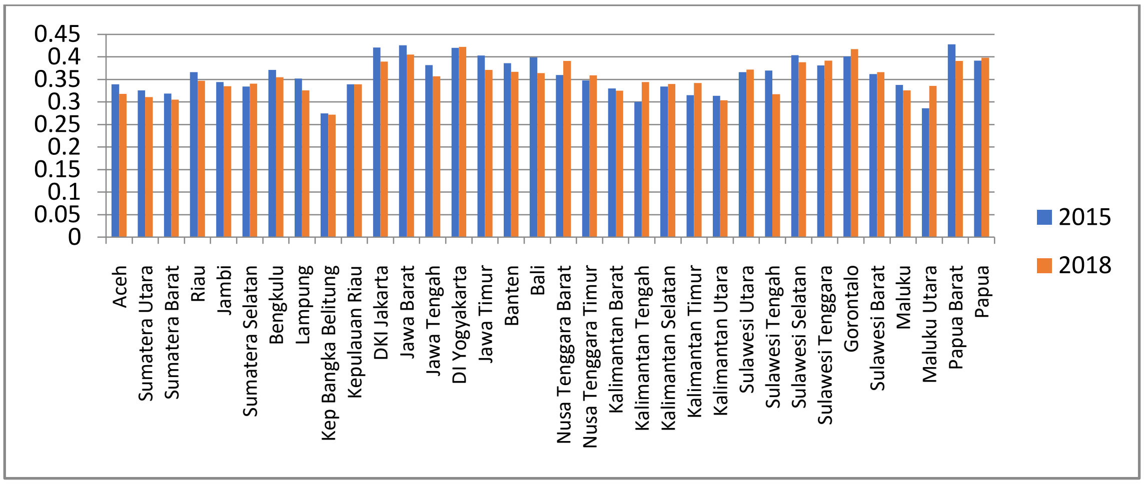
Income inequality in Indonesia is measured using the Gini ratio index when combined between rural and urban areas in 2015 for the September period of 0.402. This figure is improving when compared to the previous year which was at 0.414.

In 2016 the Gini ratio index decreased again, namely 0.394. This figure is improving when compared to 2015 which was at 0.402. Meanwhile, in 2017, Income Inequality in Indonesia was measured using the Gini ratio index when combined between rural and urban areas of 0.391. This figure has decreased and improved when compared to 2016 which was 0.394.

The data on the development of the Gini ratio from 2015-2018 in provinces in Indonesia are as follows:

Figure 1.

Development of the Gini Ratio of Provinces in Indonesia for the 2015-2018 Period



Data source: BPS (Processed 2020)

Based on the Figure 5.1 above, the province with the smallest level of inequality is Bangka Belitung province with the Gini ratio index of 0.275 in 2015 to 0.225 in 2018. Meanwhile, the province that experienced the most inequality in 2015, which was included in the top five, was Papua province. West for 0.428, then West Java province with 0.426, then DKI Jakarta with 0.426, Yogyakarta Special Region (DIY) at 0.420 and South Sulawesi province with 0.404. Meanwhile nationally, expenditure inequality in Indonesia refers to the Gini ratio index of 0.402.

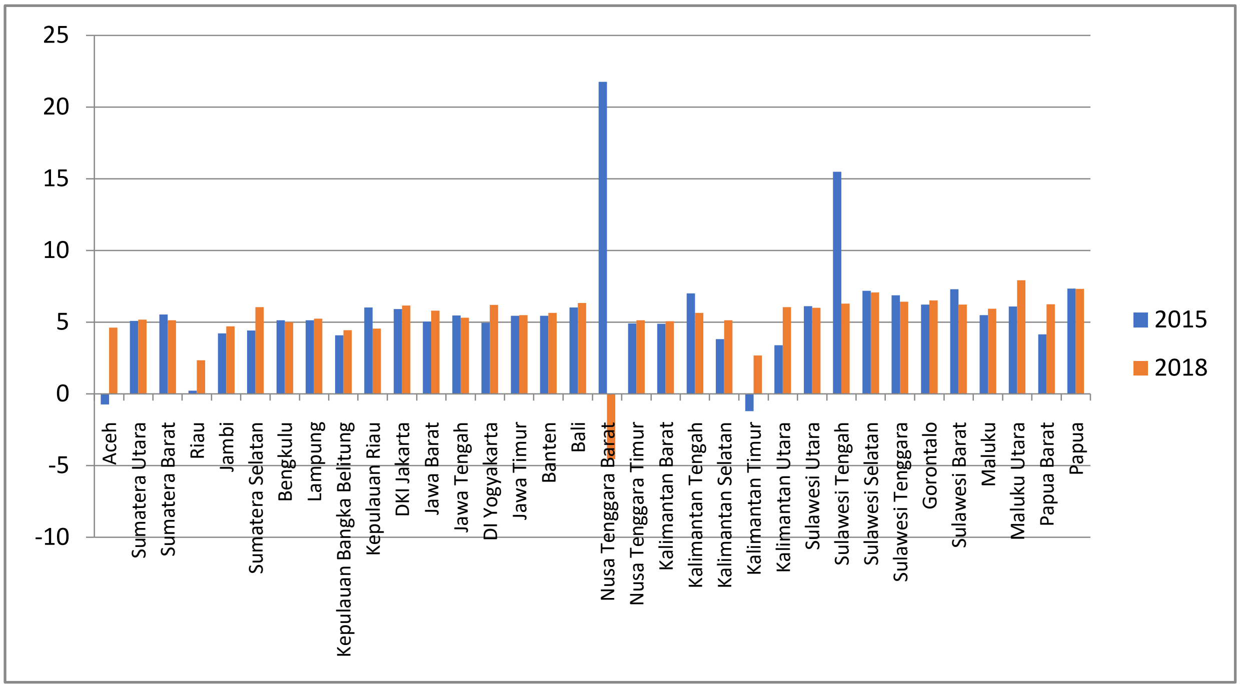
4) Provincial Economic Growth in Indonesia 2015-2018

Economic growth is an indicator in the economy that can describe how the economic condition of a country is. Economic growth can also be a benchmark for seeing the progress of a country or region and how the results of the development carried out during that period. If the development carried out by the government is successful, it will show significant economic growth in society.

The data on the development of economic growth from 2015-2018 in provinces in Indonesia are as follows:

Figure 2

Development of Provincial Economic Growth in Indonesia for the 2015-2018 Period



Data source: BPS (Processed 2020)

From the data in Figure 5.2, it can be seen that the province with the highest economic growth is North Maluku Province, where economic growth reaches 7.92 percent. North Maluku's economic growth was recorded as the highest in KTI, followed by West Sulawesi, South Sulawesi, West Papua and Papua.

5) Provincial Human Development Index in Indonesia 2015-2018

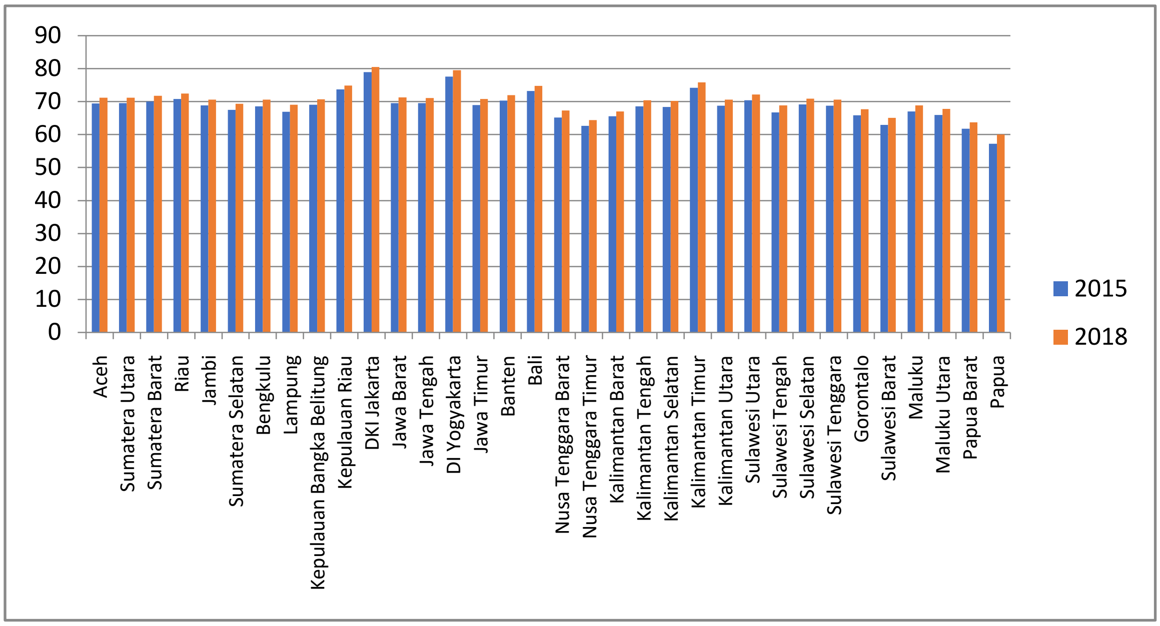
The Human Development Index (HDI) is an index of attaining the basic capabilities of human development which is built through a three-dimensional approach, namely long and healthy life, knowledge, and a decent life. The human development approach focuses more on expanding people's choices in a free and dignified manner.

The data on the development of the Human Development Index (HDI) from 2015-2018 according to provinces in Indonesia are as follows:

When viewed from the province, the highest Human Development Index was achieved by DKI Jakarta with a Human Development Index of 80.47, while the lowest was Papua Province with a Human Development Index of 60.06 and at the same time changing its status from low to medium. The DKI Jakarta Province is for the first and only recorded time as a province that has entered a “very high” human development status.

Figure 3

Development of Human Development Index by Provincein Indonesia 2015 and 2018



Data source: BPS (Processed 2020)

6) Village Fund per Province in Indonesia 2015-2018

The Village Law has placed the village at the forefront of development and improvement of community welfare. Villages are given adequate authority and funding sources so that they can manage their potential in order to improve the economy and community welfare. Every year the Central Government has budgeted a large enough Village Fund to be given to the Village. In 2015, the Village Fund was budgeted for 20.7 trillion, with an average allocation of 280 million for each village. In 2016, the Village Fund increased to 46.98 trillion with an average of Rp. 628 million for each village and in 2017 and 2018 it increased to 60 trillion with an average of 800 million rupiah for each village.

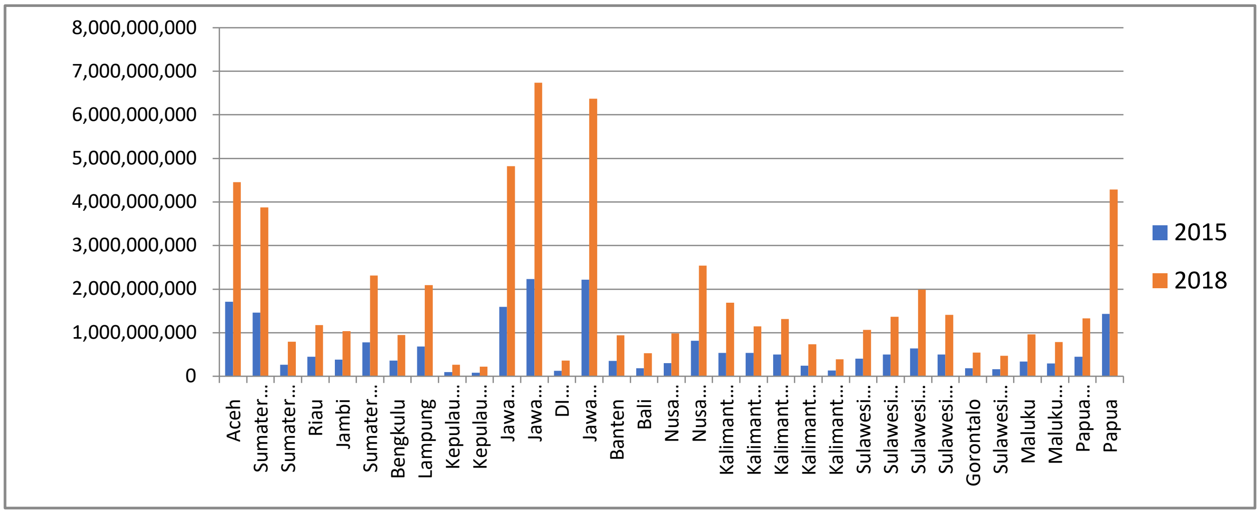
Special allocation funds (DAK) are funds provided to regions to meet special needs. There are three criteria for special needs as stipulated in the prevailing laws and regulations, namely (1) Needs cannot be calculated using the general allocation fund formula; (2) Needs are national commitments or priorities; (3) The need to finance reforestation and afforestation activities by producing regions (BPS 2020). Therefore, DAK is basically a transfer that is specific for the stated purposes.

The amount of the Special Allocation Fund (DAK) is determined annually in the APBN. DAK is allocated in the APBN according to programs that are national priorities. DAK is allocated to certain regions to fund special activities that are part of programs that become national priorities which become regional affairs. The development of DAK in provinces in Indonesia from 2015 to 2018 has experienced a very high increase.

The data on the development of village fund transfers from 2015-2018 to Provinces in Indonesia are as follows:

Figure 5

Development of Village Funds Per Province 2015 and 2018



Data source: BPS (Processed 2020)

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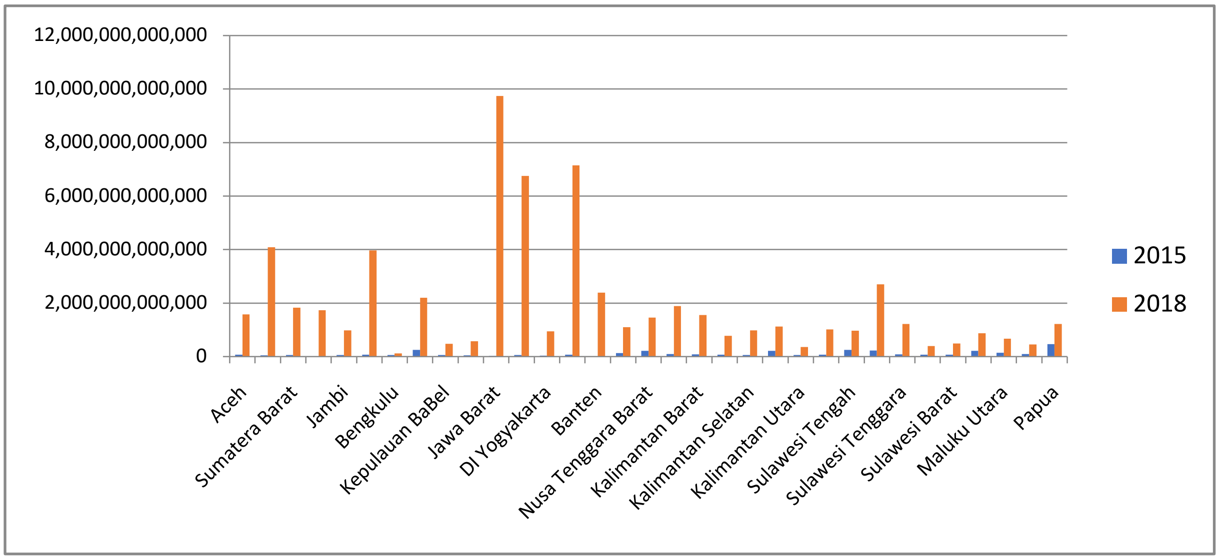
Figure Table 5.5

Development of Special Allocation Funds per Province 2015 and 2018



Data Source: BPS (Processed 2020)

The amount of the Special Allocation Fund (DAK) is determined annually in the APBN. DAK is allocated in the APBN according to programs that are national priorities. DAK is allocated to certain regions to fund special activities that are part of programs that become national priorities which become regional affairs. The development of DAK in provinces in Indonesia from 2015 to 2018 has experienced a very high increase.

Based on Figure 5.5, it can be seen that the 5th largest DAK province in 2018 is West Java province, amounting to Rp. 9,745,959,529,000, followed by the province of East Java for Rp. 7,150,849,653,000, then followed by Central Java province with Rp. 6,756,316,086,000, then followed by the province of North Sumatra for Rp. 4,082,135,830,000 and finally the province of South Sumatra, amounting to Rp. 3,963,919,750,000.

Meanwhile, the lowest DAK for province 5 for each province was Bengkulu province with Rp. 122,242,000,000, followed by North Kalimantan province Rp. 354,147,252,000, then followed by Gorontalo province Rp. 395,084,000,000, then West Papua province of Rp. 452,641,469,000, and the province of BaBel Islands Rp. 477,959,139,000.

Analysis Results

The data analysis used to discuss the problems in this study is the path analysis technique. Path analysis technique is a statistical technique for analyzing the causal relationship that occurs in multiple regression if the independent variable affects the dependent variable not only directly but also indirectly which allows the testing of a relatively complex series of relationships.

The collected data is then processed using SPSS version 22 software. After the data is processed, the output produced is as follows:

Table 2

Direct Effect of Relationship Between Variables

Direct Effect							
Variabel	**B**	**SE**	**Beta**	**T tabel**	**t**	**Sig.**	**Ket.**
DAK→IPM	0.014	0.004	0.389	1.9814	3.335	0.001*	S
DD→IPM	-0.016	0.006	-0.287	1.9814	-2.464	0.015**	S
DAK→Economic	0.077	0.222	0.042	1.9814	0.348	0.729	TS
DD→ Economic	-0.248	0.342	-0.089	1.9814	-0.726	0.469	TS
DAK→GR	-0.001	0.003	-0.045	1.9810	-0.373	0.710	TS
DD→GR	0.010	0.004	0.276	1.9810	2.348	0.021**	S
IPM→GR	-0.140	0.065	-0.203	1.9810	-2.152	0.034**	S
Economic →GR	0.002	0.001	0.172	1.9810	1.909	0.059***	S

Source: processed data, 2020

Information:

*** significant α = 1%

** significant α = 5%

* significant α = 10%

Discussion

1) The Effect of Fiscal Transfers on Human Development

Based on the research results, it shows that fiscal transfers in the form of special allocation funds have a significant positive effect on human development. Increasing the number of special allocation fund transfers will increase the human development index

The results of this study are in line with the hypothesis which states that fiscal transfers have a positive effect on human development, where an increase in the transfer of special allocation funds will increase the human development index.

2) The Influence of Village Funds on Human Development

Based on the research results, it shows that village fund transfers have a significant negative effect on human development. Increasing the number of village fund transfers will lower the human development index. The results of this study are not in line with the initial hypothesis which states that village fund transfers will have a positive effect on human development.

3) The Effect of Fiscal Transfers on Economic Growth

Based on the research results, it shows that fiscal transfers do not have a significant effect on economic growth. This means that increasing fiscal transfers will not increase economic growth. The results of this study contradict the initial hypothesis which states that fiscal transfers will have a positive effect on economic growth. However, the results of this study are supported by research conducted by Anis Setiyawati (2007) who obtained a direct test that DAK has no positive effect on economic growth. This research is also in line with research conducted by Ulfi Maryati (2010) which concluded that the Special Allocation Fund (DAK) has no significant positive effect on economic growth.

4) The Effect of Village Funds on Economic Growth

Based on the research results, it shows that village fund transfers do not have a significant effect on economic growth. This means that the increase in village funds will not increase economic growth. The results of this study contradict the initial hypothesis which states that village fund transfers will have a positive effect on economic growth. This study is also not in line with the results of research conducted by Lin (2012), who found that the main key to economic growth in China according to the results of his research is through fiscal reform and rural reform. The existing fiscal decentralization in China has made a significant contribution to economic growth.

5) The Effect of Fiscal Transfers on Income Inequality

The research results show that fiscal transfers in the form of special allocation funds do not have a significant effect on income inequality. This means that the increase in fiscal transfers in the form of special allocation funds will not increase or decrease income inequality as measured in the form of the Gini ratio. The results of this study contradict the initial hypothesis which states that fiscal transfers will have a negative effect on income inequality.

6) The Effect of Village Funds on Income Inequality

Based on the research results, it shows that village fund transfers have a significant positive effect on income inequality. An increase in the number of village fund transfers will increase income inequality when measured using the Gini ratio index. The results of this study are not in line with the initial hypothesis which states that village fund transfers will have a negative effect or reduce the level of income inequality. The results of this study contradict research conducted by Andi Setiawan (2019), who in his research found that since the implementation of village funds, it has had an effect on reducing the rate of inequality.

7) The Effect of Human Development on Income Inequality

Based on the research results, it shows that human development as seen in the human development index has a significant negative effect on income inequality. This means that the increase in human development will have an effect on reducing income inequality. The results of this study are in line with the initial hypothesis which states that human development will have a negative effect on income inequality. Where every increase in the human development index will reduce the income inequality rate.

8) The Effect of Economic Growth on Income Inequality

Based on the research results, it shows that economic growth has a significant positive effect on income inequality. Increased economic growth will increase income inequality.

The results of this study are not in line with the hypothesis which states that economic growth has a negative relationship to income inequality, where an increase in economic growth will reduce the unemployment rate.

9) The Indirect Effect of Fiscal Transfers on Income Inequality through Human Development

Based on the research results, it shows that fiscal transfers in the form of special allocation funds have a significant negative effect on income inequality through human development.

This study found that, if the special allocation fund transfers are channeled to improve human development such as education and health, it will have an effect on reducing income inequality. Fiscal transfers are expected to improve people's welfare. The main objective of regional autonomy and fiscal decentralization policies is to accelerate the realization of an increase in the welfare of all people (Bappenas, 2007).

10) The Indirect Effect of Fiscal Transfers on Income Inequality through Economic Growth

Based on the research results, it shows that fiscal transfers in the form of special allocation funds are not significant to income inequality through economic growth. This means that fiscal transfers in the form of special allocation funds do not have an effect on income inequality through economic growth.

Kuznets argues that in the early stages of growth, both the economy and income inequality will increase equally. But at a later stage, the income distribution will gradually improve and the level of inequality will decrease. This phenomenon is known as the Kuznets hypothesis "inverted U-curve", which connects GDP per capita with the level of income inequality.

11) The Indirect Effect of Village Fund Transfers on Income Inequality through Human Development

Based on the research results, it shows that village fund transfers have a significant effect on income inequality through human development. The results of this study illustrate that there is a positive effect of village funds on income inequality after going through human development, meaning that the transfer of village funds after going through human development actually increases income inequality. This is due to the ineffective use of village funds and inaccurate village fund budget allocations. The results of this study contradict research conducted by Andi Setiawan (2019), who in his research found that since the implementation of village funds, it has had an effect on reducing the rate of inequality.

12) The Indirect Effect of Village Fund Transfers on Income Inequality through Economic Growth

Based on the research results, it shows that village fund transfers are not significant to income inequality through economic growth. This means that the transfer of village funds has no effect on inequality after going through economic growth.

The economic growth that has been achieved is often unable to solve the problem of income inequality. This is because growth only measures the accumulated income of an area in general, regardless of income distribution and distribution. In addition, the use of village funds still focuses on the physical infrastructure sector and sectors that have not had direct contact with increasing the capacity of individual communities in the village

V. CLOSING

CONCLUSION

Based on the research that has been done, several conclusions are obtained including:

1. Fiscal transfers in the form of special allocation funds do not directly affect income inequality in Indonesia. Fiscal transfers in the form of special allocation funds indirectly through human development have a significant negative effect on income inequality. Fiscal transfers in the form of special allocation funds indirectly through economic growth have no effect on income inequality. This means that the special allocation fund policy is less than optimal in reducing regional income inequality. The non-impact of the transfer of the special allocation funds directly on reducing income inequality is not due to the small amount of the special allocation funds, but because the use of the special allocation funds in the regions has not been maximized, which has implications for reducing income inequality. Apart from that, the lack of effective governance in implementing the special allocation funds tends to be managed based on the national plan and does not pay attention to regional needs.

2. Transfer of village funds directly has a positive effect on income inequality. Transfer of village funds indirectly through human development has a positive effect on income inequality. Transfer of village funds indirectly through economic growth has no effect on income inequality. This means, since the launch of the village fund from 2015 it has not maximally reduced income inequality in the regions, but has actually had an effect on increasing income inequality. Village funds have not been maximized to reduce inequality due to the inadequate use of village funds, especially in the field of empowerment and development of village communities. In addition, the village fund budget that focuses on village development and infrastructure is only enjoyed by the elite group in the village which results in increased income inequality.

SUGGESTION

To reduce income inequality in Indonesia, there are several things that should be considered by the government, including:

1. The government as a determinant of fiscal policy should focus more on specific allocation of fiscal transfers that are more targeted in improving the provincial economy in Indonesia, by taking into account the targeted sector of special allocation funds that will increase human productivity so as to encourage inclusive economic growth and contribute to the decline. level of income inequality in Indonesia. In addition, there needs to be a synergy in the role of special allocation funds which are national priorities and also the needs of local governments in the infrastructure sector in the annual work plan.

2. It is hoped that policy makers will make new formulations in the use of village funds so that they are more targeted towards increasing income and community empowerment so that they can create even income. The government needs to change the formula for distributing village funds to regions so that it can overcome inequality. In addition, the government must affirm the provision of funds to underdeveloped and very

underdeveloped villages, especially in disadvantaged areas, borders and islands. This is because, even though there has been a provision of village funds, the number of underdeveloped and very underdeveloped villages is still quite large.

3. It is hoped that the Indonesian people will further improve the quality of human resources so that they can compete well in the national arena so that unemployment decreases and results in a decrease in income inequality.

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