



Village Fund Management and Factors that Affect Its Performance in Indonesia

By:

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Research Background

- The issuance of Act no 6 year 2014 on Village, a regulatory basis for decentralisation at village level in Indonesia.
- Increased amount of Village Fund allocated from State Budget for 74,910 villages

Research Background

Amount of Village Fund allocated from State Budget

Year	Amount of Village Fund	Average per village*
2015	Rp 20.76 trillion or USD 1.42 Billion	Rp 277 million or USD 18,981
2016	Rp 46.9 trillion USD 3.21 Billion	Rp 626 million or USD 42,882
2017	Rp 60 trillion USD 4.11 Billion	Rp 801 million or USD 54,860
2018	Rp 61 trillion USD 4.17 Billion	Rp 814 million or USD 42,882





Research Background

- In 2016, Board of Financial and Development Supervision (BPKP) (2016) found 15,100 weaknesses cases in the village fund management for year 2015.
- In 2017, Indonesian corruption watch (ICW) found 110 cases of corruption related to village fund with State Loss up to 30 billion rupiahs
- There is a need to address this matter in order to have good practices of village fund management.

Research Objective

- To investigate factors that affect village fund management performance



Literature Review

- To investigate factors that affect village fund management performance



Hypothesis Development

Village officers' capacity and village fund management performance

- The objective of managing village fund should be in accordance with Village Act which is to improve village development, empowering village people and improving public services.
- Village official is the main actor in managing village fund.
- Their understanding, ability and skills is very much needed in the process of achieving village goals.

H_1 : Village officers' capacity has positive effect on the performance of village fund management



Hypothesis Development

Regulation compliance and performance of village fund management

- Ministry of Internal Affairs issued specific regulation called Permendagri No. 113/2014 on Village Fund Management to enhance transparent, accountable, participative and discipline practices.
- Transparency is needed to minimize fraud in village fund.
- Village is required to attract public participation in providing information about people's needs, proposing program and supervising the implementation of the agreed programs.
- Village financial report should be reported consistently and timely.

H₂: Regulatory compliance affects positively the performance of village fund management



Hypothesis Development

Quality of supervision by Village Representative Board

- Village Representative Board is an institution in a village
- The supervision function is expected to drive village officers to be more transparent in using village budget that it can minimize mistakes in using and eliminates fraud.
- Village Representative Board can be a supporter as well as inhibitor in the process of village fund management (Mondale et al. 2017).
- Village Representative Board has the role as the bridge between people and government in the village (Dwipayana et al., 2003).

H₃: The quality of BPD supervision affects positively the performance of village fund management.



Hypothesis Development

Information Technology Utilization

- Information technology utilization helps village officers to manage village funds more transparently and accountably.
- Utilization of computer or application for financial reporting will produce more rigorous report and minimize its error.
- Accessible internet network for village officers may facilitate in information sharing.
- Information technology affects toward improvement of financial management performance (Nurmiati, 2017)

H₄: Information technology utilization has positive impact on performance of village fund management.



Hypothesis Development

Commitment of village officers

- Commitment is a combination between degree of individuals' confidence and their motivation (Moeheriono, 2014).
- Harmonization of objectives between village officers and the village itself encourages better performance of village fund management.
- Astuti et al. (2016) found effective control of financial system is supported by monitoring, explicit roles, and commitment from management in internal control.
- H₅: Commitment of village officers has positive impact on performance of village fund management



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Hypothesis Development

Rural facilitators

- Rural facilitator becomes facilitator for government and village people in governance effectiveness, development, empowerment, and socialization while realizing welfare of village people.
- Rural facilitator has authority in planning program and allocating village fund, utilizing village fund allocation, controlling allocation of village fund, and monitoring village fund allocation Pahlevi (2017) .

H_6 : Rural facilitator has positive impact on performance of village fund management.



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Research Method

- Population 16 villages in Wadaslintang Sub-district, Wonosobo District, Central Java Province.
- This Province is the biggest province in Indonesia receiving village fund in 2017 by 6.38 trillion rupiahs (DJP, 2017).
- Wonosobo District is chosen because it was a pilot project of district with opened data under the program of transparency improvement in financial management.
- This study uses total sampling as all population members are treated as research samples.
- Our respondents are village officers consisting of village head, village secretary, heads of village affairs, and section heads of village affairs.



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Research Method

- There were 101 questionnaires distributed to officers of 16 villages in Wadaslintang Sub-district. The fieldwork survey was undertaken on 9 May 2018 to 27 May 2018 by distributing 101 questionnaires. There were 95 questionnaires returned or 94% response rate. One questionnaire could not be used due to inadequate information provided, leaving 94 questionnaires to be analyzed.



Research Method

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \square$$

Explanation:

Y = Performance of Village Fund Management

X1 = Village officers's capacity

X2 = Regulation compliance

X3 = BPD supervision

X4 = Technological utilization

X5 = Village officers's commitment

X6 = Rural facilitator

α = Constant

\square = error



Findings

- Validity test: all research variable has *Pearson Correlation* $r \geq 0,25$.
- Reliability test: *Cronbach's Alpha* 0.60
- Normality test: *One Kolmogorov-Smirnov test* 0.285 significant value
- Multicollinearity: all independent variable has $VIF > 10$ with tolerance value > 0.10
- Heteroscedasticity test: *Gletser* test value $< 0,05$ for all variables.

Descriptive statistics of Independent Variable

Statements	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
	N	%	N	%	N	%	N	%	N	%
Our village has allocated village fund properly.	62	65.96	32	34.04	0	0	0	0	0	0
Our village has spent village fund economically.	32	34.04	59	62.77	3	3.19	0	0	0	0
Development in our village has achieved its targeted plan.	33	35.11	57	60.64	1	1.06	3	3.19	0	0
Our Village Government Work Plan (RKPDesa) contains program with measureable fund.	58	61.70	35	37.24	1	1.06	0	0	0	0
Financial report that we provide has disclosed sufficient information	55	58.51	39	41.49	0	0	0	0	0	0
Programs that have been implemented in our village are suitable with community's need	40	42.55	52	55.32	2	2.13	0	0	0	0

Findings

Result of F test

ANOVA(b)

Model	F	Sig.
Regression	57.681	0.000

Coefficient Determination Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,894 ^a	,799	,785	1,105



Findings

Result of t Test

Model		Unstandardized Coefficients		T	Sig.
		B	Std. Error		
1	(Constant)	-3,728	1,793	-2,079	,041
	Officers' capacity	,211	,076	2,773	,007
	Regulatory Compliance	,221	,092	2,396	,019
	Supervision Quality of BPD	,195	,041	4,704	,000
	Technological use Officers	,256	,098	2,629	,010
	Commitment	-,085	,079	-1,074	,286
	Rural Facilitator	,337	,086	3,897	,000

Analysis

Hypothesis 1 is accepted

- Capacity of rural officers has positive impact on performance of village fund management.
- This research is consistent with the result of Jalil (2017) as human resource is a key for rural financial management.
- Village official is the main actor in rural financial management.
- Understanding, ability, and skill of rural officers is necessary to realized the objective of rural financial management.



Analysis

Hypothesis 2 is accepted

- Regulation compliance has positive impact on performance of village fund management.
- Transparency and ability of rural government to explain policy, implementation, and the outcome of financial management to rural people can minimize misallocation of village fund.
- Financial report for village which is made consistently and punctually record based on the actual number will help budget formulation for the village in the subsequent period and make strategic decision in managing village fund.
- This research is in line with Munti and Fahlevi (2017) as compliance of financial reporting has impact on performance of village fund management



Analysis

Hypothesis 3 is accepted

- quality control of village council has positive impact on performance of village fund management.
- This result supports with Munti and Fahlevi (2017) as quality control of village council has impact on performance of village fund management.
- This result is also in line with Prasetyo and Muis (2015) as village council must strengthen monitoring toward rural officers while managing village fund in order to have better management in village fund.
- Monitoring function of village council encourages village officers to be more transparent in utilizing village budget which in turn minimizes error in budget misallocation of village fund hence village fund utilization can be effective.



Analysis

Hypothesis 4 is accepted

- Information technology utilization has positive impact on performance of village fund management.
- This result is in line with Nurmiati (2017) as information technology has impact on improvement of financial management performance.
- Information technology utilization in rural government helps rural officers in managing village fund to be more transparent and accountable.
- The use of computer or application for preparing financial report will result in more rigorous report with minimized error in reporting.
- The making of open data for Wonosobo Village can increase participation of the people by providing response about the use of village fund through the use of available contact in the website.



Analysis

Hypothesis 5 rejected

- rural officers commitment does not have any impact on performance of village fund management.
- This result conveys that commitment does not affect toward the performance of village fund management. This result implies that commitment from rural officers will not influence the performance of village fund management.
- Commitment from rural officers is not sufficient to deliver good performance while managing village fund as commitment is just a desire which requires an action from rural officers to make the implementation more effective.
- Individuals appreciate the agreement more highly and become more responsible in their work, determined to achieve the target, implement their duties as the organization rule and attempt to solve the problems for the sake of their responsibility.



Analysis

Hypothesis 6 is accepted

- rural facilitator has positive impact on performance of village fund management.
- This result reveals that the existence of rural facilitator is effective in implementing governance, development, empowerment, and socialization in order to realize the welfare of society.
- Rural facilitator is successfully implementing their work by providing technical assistance and transferring knowledge for rural government in terms of village fund management. This research is in line with Prasetyo and Muis (2015) as the role of rural facilitator in rural governance particularly in managing village fund is essential due to weak capacity of rural officers.

Conclusion and Implication

- village officers's capacity, regulation compliance, BPD supervision, technological utilization, rural facilitator have positive affects on the performance of village fund management. Meanwhile variable village officers commitment does not have any effect on the performance of village fund management.
- The research model has coefficient determinant 78.5% which is much higher than the previous study by Munti and Fahlevi (2017)
- in order to have better performance of village fund management, there is a need for government to improve village officers's capacity, BPD supervision and rural facilitator role.



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Limitation and Suggestion

- It is limited in terms of small scope of area which is only in one sub-district.
- Further study needs to use wider scope to have better external validity. Further study can consider to qualitative research to investigate other possible variables and subsequently followed by quantitative study to confirm the significance of the new identified variable.

