


# REVEALING OPTIMAL FINANCIAL EFFICIENCY AND EFFECTIVENESS IN INDONESIAN VILLAGE GOVERNANCE

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Article Info	ABSTRACT
<p><b>Article history:</b> Received Jul 10, 2024 Revised Aug 15, 2024 Accepted Aug 28, 2024</p> <p><b>Keywords:</b> financial performance, Value for Money, budget analysis, village governance, Indonesia</p>	<p><b>General Background:</b> Effective financial management at the village level is crucial for achieving development goals and ensuring the optimal use of allocated resources. <b>Specific Background:</b> This study investigates the financial performance of Waringinsari Village, located in Takokak District, Cianjur Regency, West Java, through the lens of Value for Money (VFM) for the period 2021-2023. <b>Knowledge Gap:</b> Previous research lacks a comprehensive analysis of village financial performance using VFM indicators, particularly in the context of rural Indonesian governance. <b>Aims:</b> The primary objective of this research is to evaluate Waringinsari Village's financial performance in terms of economy, efficiency, and effectiveness, and to provide recommendations for improving financial management practices. <b>Results:</b> The analysis reveals that Waringinsari Village performs "Quite Economically," is "Efficient," and is "Very Effective" in its financial management. Despite this, 0.92% of the budget was unutilized in 2023. <b>Novelty:</b> This study offers a detailed examination of budget realization using VFM indicators in a rural Indonesian village setting, highlighting the village's strong financial performance and the minor issue of underutilized funds. <b>Implications:</b> The findings suggest that Waringinsari Village should enhance its planning and budgeting processes, improve financial management discipline, and explore new income sources. Community participation, especially by the younger generation through social media, is recommended to ensure accountability and improve budget implementation. These insights can guide other villages in similar contexts towards better financial practices and development outcomes.</p> <p>This is an open-access article under the <a href="#">CC-BY 4.0</a> license.</p> 

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## INTRODUCTION

Villages are part of the smallest government of the government structure of the Republic of Indonesia. The village is in direct contact with the community through *pamong-pamong*, so that the village government has its own policies and household governance in managing relations between communities. The community can assess and measure the performance of the village through reports made by the government that are associated with the development produced both physical and non-physical. Waringinsari Village, Takokak District, Cianjur Regency, like other villages in Indonesia, which is entrusted to manage Village finances in an accountable and transparent manner. One form of accountability and transparency is the preparation and submission of Village financial reports, including budget realization reports. This budget realization report is an important reference to assess the financial performance of the Village in achieving the development goals that have been set. Budget realization also shows the government's ability to absorb or use the planned budget to finance planned programs and activities[1].

One part of the government's financial statements that details the realization of revenue, expenditures, transfers, surplus/deficit, and financing of a reporting organization for one reporting period is the budget realization report[2]. In practice, there are various problems that often occur in budget realization reports, such as uneven budget absorption, remaining budget overcalculation (SILPA), remaining minimal budget at the end of the year, untimely reporting of budget realization, and inconsistency between budget realization reports and facts on the ground. These problems can result in the efficient use of the budget, lack of accountability and low quality of programs and activities implemented.

In 2023, there are findings that there are spending funds of IDR 21,267,760 that are not absorbed in Waringinsari Village. The non-realization of this fund reflects several crucial problems in the financial management of Waringinsari Village both in terms of planning, human resources, supervision and control.

To analyze the financial performance of Waringinsari Village, the concept of Value for Money was used which includes three aspects, namely economy, efficiency and effectiveness. Measuring financial performance using the concept of Value for Money can describe the extent to which the government budget is managed economically, efficiently, and effectively in achieving organizational goals. This study aims to measure the financial performance of Waringinsari Village, Takokak District, Cianjur Regency in budget management, as well as provide recommendations for future budget management improvements.

## Hypothesis Development

Based on previous research that has been studied, the Value for Money Approach has proven to be effective in measuring the financial performance of public sector organizations, including villages. These aspects include economics, efficiency, and effectiveness providing a comprehensive picture of how budgets are managed and the extent to which organizational goals are achieved. The application of Value for Money in Villages in Indonesia shows mixed results. There are villages that show good financial

performance with a satisfactory ratio of economy, efficiency, and effectiveness. However, there are also villages that still need to improve their performance. the financial performance of the village is influenced by factors of planning, resources, supervision, and local economic conditions [6]. Previous research provided a strong basis for this study, which aimed to analyze the application of the concept of Value for Money in measuring the financial performance of Waringinsari Village. The results of the study are expected to provide recommendations to optimize the finances and governance of Waringinsari Village

## **METHODS**

Waringinsari Village, located in Takokak District, Cianjur Regency, West Java, receives funding from both the State Budget and Regional Budget, with a budget allocation of IDR 4,678,043,743 for 2023. This study employs a qualitative quantitative approach with a descriptive focus to analyze the budget realization report for Waringinsari Village using the Value for Money (VFM) framework. The research relies on secondary data sourced from budget realization reports covering the period 2021-2023, obtained from documentation at the Waringinsari Village Office. The analysis involves a quantitative examination of this data to assess VFM indicators, specifically economy, efficiency, and effectiveness.

## **RESULTS AND DISCUSSION**

Waringinsari Village receives income from a variety of sources, which can be distributed to fund various demands and goals, including village development, community training, community empowerment, and government administration. Village Original Income (PADes), which is budgeted for one year and is used for all needs in the Village for Village development and village community empowerment, is one of the three main categories of Village income distribution[7]. Revenue transfer consisting of Village funds, allocation of Village funds, distribution of tax and import duty revenues, state financial assistance and district/city financial assistance 3. Miscellaneous income. Each source of income has its own purpose to provide benefits to the village or community.

In addition to getting income from various sources, Waringinsari Village also receives a spending budget of 2,331,455,893 in 2023 which is allocated for employee spending, goods and services spending, capital spending and also for unexpected spending.

The following is a table of the 2023 Waringinsari Village revenue and expenditure budget realization report:

Table 1. 2023 Budget Realization Report, Waringinsari Village  
Source: Data processed, 2024

Description	Budget	Realization	Presented	Difference
<b>Precipitation:</b>				
Village Original Income	40.000.000	40.000.000	100%	0
Transfer Revenue	2.306.479.000	2.306.479.000	100%	0
Miscellaneous income	108.850	108.850	100%	0
<b>Total Revenue</b>	<b>2.346.587.850</b>	<b>2.346.587.850</b>	<b>100%</b>	<b>0</b>
<b>Shop:</b>				
Village Government Implementation Field	819.777.893	798.490.133	97,40%	21.287.760
Village Development Implementation Field	1.257.378.000	1.257.378.000	100%	0
Community Development	45.290.000	45.290.000	100%	0
Community Empowerment	79.410.000	79.410.000	100%	0
Disaster Management, Emergency and Village Urging	129.600.000	129.600.000	100%	0
<b>Amount Spent</b>	<b>2.331.455.893</b>	<b>2.310.168.133</b>	<b>99,08%</b>	<b>21.287.760</b>

Based on the Budget Realization Table above, in the field of local government implementation, there is a budget that is not absorbed in the amount of Rp. 21,287,760 due to the purchase of vehicles that are not carried out, the difference is included in the following year's SILPA revenue. In the field of Village Development implementation, it has been realized 100% but in reality it is not appropriate because the output produced is not visible. As quoted in the Jabar.Id Cianjur Tribune News, the condition of the suspension bridge connecting Waringinsari Village, Takokak District and Kadupandak District, Cianjur Regency, is no longer suitable for use. <https://jabar.tribunnews.com/2023/11/17/sadly-the-condition-of-the-suspension-bridge-linking-2-sub-district-di-cianjur-has-been-damaged-even-though-it-is-the-main-access>.

#### Economic Measurement

Measurement and finding out the economic level of the performance of Waringinsari Village, Takokak District, Cianjur Regency which is measured by comparing the expenditure budget with the realization of expenditure. Formula used in economic measurement (Mahsun: 2013:186)[2].

$$\text{Economic Ratio} = \frac{\text{Expenditure Realization}}{\text{Budget Shopping}} \times 100\%$$

Percentage Criteria for assessing the Economic ratio.

Table 2. Percentage of Economic ratio performance criteria

Source:(Mahsun: 2013:186)[2].

Percentage of Economic Ratio	Economic Ratio Criteria
>100	Economy
85-100	Quite Economical
65-84	Less Economical
<65	Not Economical

Results of the Calculation of the Economic Ratio of Waringinsari Village Performance, Takokak District, Cianjur Regency in 2021-2023.

Table 3. Performance Economic Ratio in 2021-2023, Waringinsari Village

Source: Data processed, 2024

Year	Spending Realization (Rp)	Budget (Rp)	Economic Ratio (%)	Criterion
2023	2.310.168.133	2.331.455.893	99,09	Quite Economical
2022	1.837.069.809	1.841.569.809	99,76	Quite Economical
2021	1.904.098.236	1.904.098.236	100,00	Quite Economical
	Rata-rata		99,61	Quite Economical

Based on table 2, the economic ratio of Waringinsari Village for 3 years averaged 99.61%, namely from 2021, 2022, and 2023. The Village economic ratio in 2021 is 100.00%, which means that the realization of Village expenditure is equal to the expenditure budget. In 2022, the village's economic ratio decreased slightly to 99.76%, but it is still in the "Quite Economical" category. In 2021-2023, the village's economic ratio will rise again to 99.09%. Overall, the performance of Waringinsari Village in the economic aspect over the past 3 years has been classified as "Quite Economical". This shows that the Village is able to manage its finances well and make optimal use of the spending budget. The realization of village expenditure is always close to or equal to the expenditure budget, so that there is no budget shortage.

#### Efficiency Measurement

Measuring and determining the level of efficiency of the performance of Waringinsari Village, Takokak District, Cianjur Regency which is measured by comparing the realization of expenditure with the realization of income The formula used in measuring efficiency (Mahsun, 2013:186)[2].

$$\text{Efficiency Ratio} = \frac{\text{Expenditure Realization}}{\text{Revenue Realization}} \times 100\%$$

Percentage Criteria for assessing Efficiency ratio

Table 4. Percentage of performance criteria Efficiency ratio

Source: (Mahsun, 2013:186) [2].

Efficiency Ratio Percentage	Efficiency Ratio Criteria
<90	Highly Efficient
90-99	Efficient
100	Quite Efficient
>100	Inefficient

Results of the Calculation of the Performance Efficiency Ratio of Waringinsari Village, Takokak District, Cianjur Regency in 2021-2023.

Table 5. Performance Efficiency Ratio in 2021-2023, Waringinsari Village

Source: Data processed, 2024

Year	Spending Realization (Rp)	Revenue Realization (Rp)	Efficiency Ratio (%)	Criterion
2023	2.310.168.133	2.346.587.850	98,45	Efficient
2022	1.837.069.809	1.881.937.852	97,62	Efficient
2021	1.904.098.236	1.956.568.051	97,32	Efficient

Based on Table 4, the efficiency ratio of Waringinsari Village for 3 years averaged 99.61%, namely from 2021, 2022, and 2023. The Village efficiency ratio in 2021 is 97.79%, which means that the realization of Village expenditure is only slightly smaller compared to the realization of its income. In 2022, the Village efficiency ratio increased slightly to 97.62%, and in 2023, the Village efficiency ratio increased again to 98.45%. Overall, the performance of Waringinsari Village in terms of efficiency over the last 3 years is classified as "Efficient". This shows that the Village is able to manage its finances well and utilize its sources of income optimally. Waringinsari Village implements several strategies to increase its efficiency ratio, such as increasing spending efficiency, finding new sources of income, and strengthening the capacity of village apparatus. The efficient efficiency ratio in Waringinsari Village shows that the Village is able to manage its finances well and make optimal use of its sources of income. Increasing the efficiency ratio in Waringinsari Village is expected to improve the welfare of the Village Community.

#### Effectiveness Measurement

Measuring and finding out the level of effectiveness of the performance of Waringinsari Village, Takokak District, Cianjur Regency in 2021-2023 which is measured by comparing revenue realization with the revenue budget. Formula used in measuring Effectiveness (Mahsun, 2013:187)[2].

$$\text{Effectiveness Ratio} = \frac{\text{Revenue Realization}}{\text{Revenue Estimates}} \times \frac{100}{\%}$$

Percentage Effectiveness ratio assessment criteria.

Table 6. Percentage of performance criteria Effectiveness ratio  
Source: (Mahsun, 2013:187) [2].

Percentage of Effectiveness Ratio	Effectiveness Ratio Criteria
Percentage of Effectiveness Ratio	Effectiveness Ratio Criteria
<b>≥100</b>	Highly Effective
<b>85-99</b>	Effective
<b>65-84</b>	Less Effective
<b>&lt;65</b>	Ineffective

Results of the Calculation of the Effectiveness Ratio of Waringinsari Village, Takokak District, Cianjur Regency in 2021-2023.

Table 7. Performance Effectiveness Ratio in 2021-2023, Waringinsari Village  
Source: Data processed, 2024

Year	Revenue Realization (Rp)	Revenue Estimates (Rp)	Effectiveness Ratio (%)	Criterion
<b>2023</b>	2.346.587.850	2.346.587.850	100,00	Highly Effective
<b>2022</b>	1.881.937.852	1.866.569.809	100,82	Highly Effective
<b>2021</b>	1.956.568.051	1.956.507.726	100,00	Highly Effective
<b>Rata-rata</b>			<b>100,28</b>	<b>Highly Effective</b>

Based on table 6, the effectiveness ratio of Waringinsari Village for 3 years averaged 100.28%. namely from 2021, 2022, and 2023. The Village effectiveness ratio in 2021 is 100.00%, which means that the realization of Village revenue is equal to the Village revenue budget that has been set. This shows that the Village is able to realize all its revenue budget and achieve the set targets. In 2022, the Village effectiveness ratio increased slightly to 100.82%, and in 2023, the Village effectiveness ratio stabilized again at 100.00%. Overall, the performance of Waringinsari Village in terms of effectiveness over the past 3 years is classified as "Very Effective". This shows that the Village is able to manage its finances well and utilize its sources of income optimally. Waringinsari Village can achieve the same or even greater revenue realization than the set revenue budget. This achievement should be appreciated, considering that many villages in Indonesia still have a low effectiveness ratio. This research shows that Waringinsari



Village has been able to manage its finances very well. This is evidenced by the realization of Village revenue that is the same as the Village revenue budget that has been set. This ability is very important to realize an independent and sustainable village. The achievement of a fairly economical economic ratio, an efficient efficiency ratio and an effective effectiveness ratio shows that Waringinsari Village is able to manage its finances well and efficiently. This is one of the indicators of the success of the Village in carrying out development and public services. However, in 2023 there is still a budget of 0.92% that is not absorbed.

In terms of financial report data, Waringinsari Village has shown quite good performance. This can be analyzed using Value for Money, however, the output and outcomes produced are not satisfactory enough. This can be seen from the news mentioned above. Therefore, it is necessary for the participation of the community represented by the younger generation to evaluate and control the community to see the results of development and the budget that has been issued through social media in the form of content that educates the community so that the village leaders become focused on working on the implementation of the budget for both physical and non-physical development

## CONCLUSION

**Fundamental Finding:** This study reveals that Waringinsari Village demonstrates a commendable level of financial performance, classified as "Quite Economical," "Efficient," and "Very Effective" based on Value for Money (VFM) indicators over the 2021-2023 period. Despite this positive assessment, a minor shortfall of 0.92% in fund absorption was noted in 2023. **Implication:** The findings underscore the need for enhanced village planning and budgeting practices, greater financial management discipline, and innovative strategies for income generation. Moreover, increasing community engagement, particularly through the younger generation's use of social media, can further drive accountability and focus on budget implementation. **Limitation:** The study relies solely on secondary data from budget realization reports and does not incorporate qualitative insights from community stakeholders or direct observations of the budget implementation process. **Further Research:** Future studies should explore primary data collection methods, such as interviews with village leaders and community members, to provide a more comprehensive understanding of the factors influencing financial performance and to evaluate the impact of community engagement strategies on budget execution.

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