

RISK MANAGEMENT: CHALLENGES FOR VILLAGE GOVERNMENT IN MANAGING VILLAGE FUNDS, IN INDONESIA

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Abstract

This study reviews the challenges in implementing risk management for village fund management and provides insights based on current practices. Risk management provides a process for addressing risks associated with managing village funds; however, it faces barriers, particularly at the village level within government organizations. The work background and educational experience of village heads and officials are key obstacles in applying the RM village fund management. The study uses a qualitative, descriptive approach; locations were selected based on established criteria for independent villages in mountainous areas. Data collection involved interviews, searching documents for regulations, followed by analysis through preparation, reading, viewing, coding and interpretation. This study identified eight types of risk, categorized into two groups, during the implementation of risk management for the misuse of village funds. Therefore, providing socialization to village governments on training, policy setting, and local government support is crucial to solve challenges in village funds management. The research is limited to two villages in the mountainous region. The findings are useful for developing government science, particularly in local government management, and are necessary to achieve effective small-scale governance and development. Challenges come from both internal and external sources within the village government during risk management implementation.

Keywords: Risk Management, Village Fund, Challenges, Village Government

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INTRODUCTION

The provision of large amounts of Village Funds (VF) directly to villages does not necessarily lead to improved development at the village level. A number of VF abuses were found in Aceh (Zulkarnaini, 2023), Maluku (Patty, 2023), and Banten (Rifa'i, 2023), as well as in other regions. Shaleh (2022) states that social relationships between village officials and the elected village head contribute to the misuse of VF. This occurs when the village head lacks strong leadership and development insights and fails to utilize internal and external forces effectively (Muhardi et al., 2020). In contrast, stakeholders can leverage VFs for various purposes, such as the development of tourist villages by utilizing funds provided to Village-Owned Enterprises Governance. (Revida et al., 2023). Sugiharti et al. (2021) argue that the village head and his apparatus inadequately understand the rules that govern VF use, and the Village Consultative Body (Badan Permusyawaratan Desa/ BPD) provides weak supervision. The main pillar, the village government, must monitor the process of VF utilization, from planning and implementation to accountability (Marota et al., 2020). On the other hand, Chavis (2010) recommends addressing VF misuse by offering communities local competition for grants, thereby ensuring higher-quality development. In contrast, Ginting et al. (2023) argue that the village funds management should apply RM to every process: planning, implementation, reporting, administration, and accountability. Although it will face challenges in its practice, this is the focus of the study in this research.

Village funds allocation exists in China (Gomersall, 2021), Malaysia and South Korea (Marota et al., 2020) and Thailand (Boonperm, 2013). According to Shaleh (2022), misuse of VF can disrupt village social life and cause economic losses. VF has problems and risks when the village government operates it (Ginting et al., 2024). Therefore, a solution is needed to ensure proper VF operations and the goal of distributing VF for community welfare.

Villages, as public organizations, can adopt public sector risk management (RM)

(Leung & Isaacs 2008) to enhance public sector governance (Bakar et al. 2019). Bracci et al. (2021) noted that attention to public sector RM is increasingly widespread, although theory remains underdeveloped. The practice of RM has been identified in Malaysia (Ilias et al., 2023), Morocco (Haddad, 2023), Italy (Castellini & Riso, 2023; Hinna et al., 2018), Jordan (Alsharari, 2022), South Africa (Myeza et al., 2021; Nel, 2019), and Brazil (Araújo, 2021).

According to Mahama et al. (2020), RM serves as a tool for accountability. Baldry (1998) emphasizes the need for capabilities and capacity, while Cedergren & Hassel (2022) and De Lorena & Costa (2023) highlight the importance of maturity. Role alignment is also necessary (Castellini & Riso, 2023). Bracci et al., (2022) suggest that integrating RM enables strategic decision-making. Consequently, Oulasmirta & Anttiroiko (2017) note the requirement for local involvement.

RM adheres to established standards and follow specific implementation stages. Hardy (2010) describes three main steps: risk identification, analysis, and treatment. Standards have also been issued by COSO (2004), the International Organization for Standardization (ISO 31000, 2009), the Australian Standards (Australian Government - Comcover, 2009), and the UK (Treasury_HM, 2004). Certainly, the steps in running RM and meeting the set standards sometimes proceed smoothly. However, each organization—whether private or government—faces its challenges in implementing RM. These challenges are even more pronounced when RM is applied to small organizations at the village level, where responsibilities in governance, development, and community service are significant. Despite the importance of this context, only a few have discussed how RM can be implemented in small organizations, such as villages. Even the use of the RM model itself presents challenges in these settings.

This study investigated challenges in implementing risk management for VF misuse in the village. Sulaiman et al. (2023) state that village government capacity is key to understanding community interests in pol-

icy proposals. Studies also show that low RM awareness and capability are concerns in public sector organizations (Fabi, 2018).

RM challenges noted by Andersen & Young (2023) include leadership, organizational structure, and ability to respond and finance risks (Hood & Young, 2005); lack of process mapping, engagement, and training; differences in risk handling; excessive demands on staff (Araújo, 2021); insufficient trained personnel; limited commitment; lack of management coordination; absence of an audit committee; inadequate guidelines; and low awareness (Newman, Charity, & Faith, 2018; Newman, Charity, Faith, et al., 2018). These serve as the basis for understanding the challenges faced by village governments in RM for VF management. Ethical risk is another internal and external consideration (El Haber & Nagpal, 2024). Managing ethical risk in the public sector, especially amid rapid artificial intelligence (AI) development, adds complexity (Sattlegger & Bharosa, 2024). The COVID-19 pandemic also introduced new risks, requiring digital technology support in government (Narayan & Kommunuri, 2023). A deeper understanding is needed of RM challenges in Indonesian village governments, especially for managing village funds.

METHOD

The researcher used a qualitative, descriptive approach to examine challenges in implementing RM for two VF cases. This approach ensures brief subject description, in-depth information, and rich interpretation (Rubin & Babbie, 2016). The study also uses a multi-case approach (Creswell, 2014). Research was conducted in Ciberereum and Sukapura Village, Bandung Regency, Indonesia, to investigate challenges in applying RM and managing VF. Location were chosen because, in 2022, Cibeureum achieved Independent Village status with an IDM of 0.7370, supported by Social Resilience Index (0.7943), Economic Resilience Index (0.6167), and Environmental Resilience Index (0.8000). This reflects Cibereum's successful management of government-provided funds. In 2022, Sukapura also achieved Independent Village status, with an

IDM of 0.6473 and supporting Social Resilience Index (0.7086), Economic Resilience Index (0.7000), and Environmental Resilience Index (0.5333) (IDM: Indeks Desa Membangun Kementerian Desa, Pembangunan Daerah Tertinggal Dan Transmigrasi, n.d.). This is supported by good village fund management.

Based on the above considerations, this study aims to describe field phenomena focusing on intricate village fund management and specific challenges arising from the involvement of actors in village fund management. It analyzes obstacles encountered by village governments in implementing RM for VF. The employs in-depth interviews and direct field observations, analyzing findings qualitatively to obtain necessary data. Using the descriptive research method, researchers systematically and precisely outline field issue (Becker et al., 2012).

Data Collection Technique

The Qualitative research data collection techniques (Creswell, 2014) include observation, interviews, and document collection. To outline the process, data collection and analysis proceed as follows:

Observation: Researchers gather data by directly observing individual's behaviors and activities in the field (Mazhar, 2021). The researcher records observations on a cellphone, either in a structured or semi-structured way. In this technique, the researcher only observes and does not influence the informant.

Interviews: Researchers conduct face-to-face interview with informants (Döringer, 2021), preparing an interview guide in advance for consistency (Roberts, 2020). Prior to each interview, verbal consent is obtained, based on a local government research permit. Interview focus on VF management risks as well as the stages of planning, implementation, administration, reporting, and accountability. Finally, data are coded and grouped for analysis.

Researchers also collect documents from the Indonesian Law, Presidential Regulations, and Regulations of the Minister of Villages, Regulations of Minister of Finance via <https://jdihn.go.id> and related agencies.

Table 1. Informant Characteristics (n = 13 people)

Profiles	n
Gender	
Male	12 people
Female	1 person
Age	
41-50	3 people
51-50	7 people
>50	3 people
Education Level	
Junior High School	2 people
High School	4 people
Bachelor	4 people
Master	3 people
Village Government	10 people
Sub-district Government	1 person
District Government	2 people

Data on the village funds in Sukapura and Cibereum Village are used as secondary data to support analysis, enriching references from interviews and observations. Purposive sampling (Table 1) involves 10 village government members (5 per village), 1 Kertasari sub-district official, and 2 Bandung district officials.

The informants selected were risk owners facing RM challenges in managing village funds. To uphold research ethics, informants' names are coded, and interview results are reconfirmed before inclusion in the study.

Data Analysis Technique

In the data analysis stage, several steps are carried out: processing and preparing data, reading and viewing all the data, coding and interpreting it alongside data reduction, and presenting and validating the results. This process leads to conclusions that contribute to further research progress (Creswell, 2014; Miles Matthew et al., 2014).

In this study, data were collected through interviews, observations, and documents related to the research, obtained from informants and relevant policies. The data collected is then grouped according to research needs. After the data is grouped, the researchers conduct qualitative analysis in-

cluding interview transcripts, observations, and document sources (Dalkin et al., 2021).

RESULT

The research results were obtained from interviews with 13 informants of varied characteristics (Table 1) and from a review of VF management in the two villages. Data analysis identified eight risk categories and 14 causes that trigger risks in VF management (Table 2).

Eight risks have been identified that concern the Sukapura and Cibeureum Village Governments. The 14 causes are grouped into two categories: 8 internal and 8 external challenges.

Internal Challenges

According From the informant's perspective, the main internal challenge is the village government's limited resources capacity. Preparation of long-term development plans (Anggaran Pendapatan dan Belanja Desa/APBDes), village government work plans (Rencana Kerja Pemerintah Desa/RKPDes), and annual program adjustments remains difficult. Village Funds managers in both villages hold, at most, a bachelor's degree, which only the village secretary possesses. Additionally, none of them studied finance and engineering. One informant

stated,

"The workforce in our village is still limited to high school and the equivalent, for that we hope for support from the Kertasari sub-district government and from the Dinas to provide education and training in the management of this village fund" I1 and I2.

The Kertasari sub-district government supported village governments by assisting with planning documents. According to the informant, monitoring is also conducted on a rotational basis.

"We have been assisting villages since the preparation of planning documents and are tasked with harmonizing these with regional planning documents. However, personnel limitations sometimes prevent us from adhering to the formulation schedule. Furthermore, we lack sufficient knowledge regarding how to audit the management of village funds." I10.

This was also mentioned by another informant

"There are 270 villages in Bandung Regency. Education and training for village fund managers is limited by budget constraints, remote locations, and frequent changes in village officials." I12.

Another informant said,

"We have conducted management checks, but only by sampling a limited number of villages. We also receive reports from the sub-district, agencies, community, and NGOs regarding village that do not follow the reporting schedule for village funds or where there is suspected misuse of village funds." I13.

The government recognizes village governments have limitations in managing village funds. The Bandung Regency and Kertasari Sub-district governments provide assistance to support village programs and

Table 2. Risk Categories in the Planning, Implementation, Administration, Reporting and Accountability Stages

Risks	Causes	Category
Failure	Not understanding development planning	Internal
	Rejection of development plans	External
	Community participation is not maximized	External
Corruption/ Abuse	Lack of transparency	Internal
	Lack of supervision	External
	No internal control system	Internal
Sustainability	Dependence on funds from the government	External
Technology	The Development of Information Technology	External
Human sources	Limited Education and Training	Internal
	Turnover of village heads and officials	Internal/ External
Accountability	Role ambiguity	Internal
Natural disasters	Geographic location	External
	Climate Change	External
Policy	Policy Changes	Internal/ External

Source: Author, 2023

activities, ensuring that the distribution of village funds aligns with government priorities.

External Challenges

External challenges to the village organization fall into two groups: (1) external authorities, such as the central government (ministerial to local), NGOs, and village communities, and (2) external factor such as natural conditions. The central government, through the Ministry of Villages and Development of Disadvantaged Regions, issues regulation that set annual VF priority programs, which have shifted each year—including during the COVID-19 pandemic and in the current year. As the informant explained,

"We have tried to prepare development plans by involving the community so their aspirations and needs can be met through village funds. However, policy changes and delays force us to revise planning documents mid-process. This often leads community members to ask why implemented project differ from the previous design." I3 and I4.

Extreme weather conditions often disrupt development. Both villages sit at high altitude and receive more rainfall than others. Combined with steep terrain, this complicates projects and adds costs rarely addressed in planning. These physical challenges are compounded by weakness in oversight. Community supervision is limited, as many residents are busy farming and doing day labor. Supervision relies mainly on the Kertasari sub-district government and the Bandung district inspectorate. Meanwhile, NGOs supervision poses challenges, as their reports and those from community often require accuracy checks. Furthermore, some NGOs are unclear in their organization and exploit development shortcomings for income. As the informant explained,

"Our village sits at a high altitude, close to the sky, which results in very high rainfall. When we implement construction, we often incur additional costs because the location is remote, so it requires (additional) transportation costs, not to mention changes in market prices for building materials. This

is quite difficult for us." I5 and I6.

Community participation is required from planning through reporting in VF management. Most residents of Sukapura and Cibeureum Village are employed as farmers and laborers, resulting in participation generally limited to the Hamlet Meeting (Musyawarah Dusun/Musdus) and Village Development Planning Meeting (Musyawarah Perencanaan Pembangunan Desa/Musrenbangdes). Any policy changes to current-year development programs must be documented and approved by the community. This anticipates potential complaints alterations prompted by new central government directives in response to national trends. This was explained by the informant,

"As the area coordinator, I explained changes in the location, form, or volume of development. I found that by using family-based, normative explanations, I could communicate these changes." I7 and I8.

Currently, all government work is digital, including the management of VF. This is evident in the preparation of VF management reports, which now use the village financial system application (Sistem Keuangan Desa/Siskeudes). This application supports improved village financial governance, but requires adequate facilities and infrastructure, such as computers/laptops with sufficient specifications, printers, and other office supplies. Human resources are also needed as operators. Additionally, sending reports via Siskeudes depends on a reliable network. The informant explained that,

"We have made sending reports easier with the Siskeudes, but our laptop cannot be used for other daily tasks. The network must also be stable. While we are in the mountains, being near the sub-district capital helps. The main issue is that, as operators, we have to wait for accountability reports from implementers work full-time. I9 and I10.

As mandated by Indonesian Law No. 6/2014 on Villages, the term of office for a village head is 6 years. A change in leadership brings major shift to the village, as the new head's vision and mission shape gov-

ernance, development, and public services. Cibeureum Village took part in simultaneous village head elections (Pemilihan Kepala Desa/Pilkades) in Bandung Regency. Regulation requires the incumbent to resign 6 months before their term ends, creating a vacancy. An official from the Kertasari Sub-district Government was appointed to fill this role and was inaugurated by the Regent of Bandung. This interim period presents challenges in managing village funds and maintaining ongoing or pending program. At that time, opponents from the previous village head also tried to influence active policies. As the informant explained,

"Yes, filling this position often change the established development plan. The community is also divided to choosing the next village head," 15.

Familial ties in the village are strong, leading the entire community to support a village head candidate primarily due to personal closeness. Support has not yet shifted to focus on candidates' proposed programs.

DISCUSSION

In This research identifies challenges the village government faces in managing VF as a part of broader RM issue. Internal challenges include capacity constraints, inadequate control, limited training, leadership changes, unclear roles, and shifting policy. External challenges include community involvement, limited supervision, dependency, technological developments, budget constraints, geographical constraints, and policy dynamics. Several studies have highlighted similar RM challenges relevant this study. The research shows the village head and officials recognize these VF management risks.

This is view differ from Fabi (2018), who argued that the public sector lacks sufficient risk awareness. Interviews results show the types of risks faced in VF management since the government begin allowing village government to manage the budget directly. In contrast, Andersen & Young, (2023) state that leadership is important for RM implementation, as it helps village government officials become more responsive to risks,

making RM easier to implement. Thus, how risks are addressed in VF management highlight the importance of RM. With RM, identified risks can be mitigated by ignoring, transferring, accepting, or reducing their impact. Andersen & Young also note that organizational structure is key for RM. However, in this study, organizational structure was not a major issue due to the limited personnel possible in the village organization. Still, improving the structure could facilitate RM and help achieve VF management objectives.

Hood & Young's (2005) research confirms that the risks identified require financing to mitigate their impact. Meanwhile, in VF management, no budget post is allocated for risk financing. Therefore, central government policies should be revised to explicitly allow village governments to designate a budget for risk financing. While it is true that limited budget are allocated for governance, development, and public services at the village level, providing explicit policy support for risk financing is essential. Without such financial provisions, effective governance cannot be fully achieved.

Charity & Faith in Araújo & Gomes (2021) research state that it is important to provide training to risk managers in their respective organizations. Therefore, it is recommended that the village organization—which includes the village head, village secretary, head of government section, head of general service section, head of general welfare section, head of financial affairs, head of planning affairs, head of general affairs, heads of hamlets, and staff—receive specialized education and training in RM implementation.

The training they received is still limited to their main tasks. This shows that RM has yet to be comprehensively and integratively implemented. It still requires great effort from the village government, supported by central government policies, so that RM can aid village government duties, especially in successful VF management. Clear and detailed guidelines are needed so they can be easily understood by the village head and officials. Therefore, it is important to socialize the importance of RM to all village heads and village government officials, followed

by intensive training. This, ensures that not only will VF management avoid risks, but also the main functions of the village government will avoid major risks, such as distrust. In addition, the need for innovation to address challenges in risk management implementation after the COVID-19 pandemic has not been disclosed, as stated by Rana & Parker (2023).

CONCLUSION

Proper management of VF is essential for community welfare. Risk Management helps village governments overcome challenges in running VF. This research proposes ways to address challenges in implementing RM by:

- Conducting socialization in villages about the importance of RM and the challenges of RM.
- Providing risk identification and handling training for village governments.
- Presenting policies in the form of adaptive general guidelines to village governments in implementing RM.

This study is limited to two independent villages in mountainous areas managing village funds. The challenges identified inform a risk management concept at the village level. Future research should examine villages with diverse statuses and regional context, especially focusing on characteristic like location and development stages. To support sustainable governance and development funded by village funds, stakeholders should improve knowledge through socialization for village governments and officials. Village officials should join knowledge-sharing events, while local government should organize risk management training and create relevant policies.

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