

Reconceptualisation of State Financial Losses to Prevent Misuse of Village Funds

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Abstract

Village Funds are funds provided to villages that originate from central and local government financial allocations received by districts/cities. The numerous cases of misuse of village funds in Indonesia led to the implementation of Law No. 20 of 2001, amending Law No. 31 of 1999 on the Eradication of Corruption Offences. This serves as the basis for classifying financial losses to the state resulting from the misuse of funds as acts of corruption. All village heads who misuse village funds can be categorised as committing acts of corruption. In fact, not all misuse of village funds is for personal gain, but rather to improve the financial condition of the village, Village-Owned Enterprises (BUMDes), and so on. The purpose of this study is to identify the characteristics of village fund embezzlement that constitute criminal acts of corruption. This study contributes to the development of criminal law science, particularly in relation to the elements of village fund embezzlement that constitute criminal acts of corruption. The research method used is normative legal research with a conceptual approach. The conclusion drawn from this study is that not all cases of embezzlement of village funds involve elements of financial loss to the state. Therefore, not all are categorised as criminal acts of corruption. The recommendation from this study is for the government to formulate policies for managing village funds, particularly regarding elements of embezzlement that constitute criminal acts of corruption or financial loss to the state.

Keywords: State Financial Losses, BUMDes, Village Fund Misappropriation.

Introduction

Villages are the beginning of the formation of a community. According to data from the Central Bureau of Statistics, Indonesia has 83,820 villages.¹ In 2014, the

¹ Anindya Puteri Eka Susilowati, Rini Rachmawati, and R. Rijanta, "Smart Village Concept in Indonesia: ICT as Determining Factor," *Heliyon* 11, no. 1 (January 2025), <https://doi.org/10.1016/j.heliyon.2025.e41657>.

government launched the Nawacita program, featuring the slogan "Building from the rural periphery" to enhance the welfare and quality of life for rural communities.² The size of the village fund budget allocated to each village and managed by the village government should be a concern of various parties in the village, who should jointly supervise and manage it in accordance with applicable laws and regulations.³ The need for supervision is due to the increasing cases of misappropriation of village funds that occurred in Indonesia, which ended with the implementation of the Law of the Republic of Indonesia Number 20 of 2001 concerning Amendments to Law Number 31 of 1999 concerning Eradication of Corruption Crimes (hereinafter referred to as the Corruption Law). ICW researcher Lalola Easter stated that there were 62 cases of corruption committed by village government officials, 60 cases by district government officials, and 17 cases by city government officials. In 2021, village officials were found to be the most corrupt in Indonesia.⁴ This has triggered research to explain the phenomena that occur empirically.⁵

Law Number 17 of 2003 concerning State Finance (hereinafter referred to as UUKN) defines that state finances have two meanings: state finances in a narrow sense and state finances in a broad sense. State finances in a narrow sense refer to the state's finances that are limited to the rights and obligations of the state that can be valued in monetary terms, including state property listed in the state budget for

² Rizka Amalia Farentina, "Effect of Village Funds and Other Variables on Economic Growth of Central Java Province 2015–2018," *Jurnal Ekonomi Dan Pembangunan* 30, no. 1 (December 2022): 1–14, <https://doi.org/10.14203/JEP.30.1.2022.1-14>.

³ Arwanto Harimas Ginting et al., "Village Government's Risk Management and Village Fund Administration in Indonesia," *Sustainability* 15, no. 24 (December 2023): 16706, <https://doi.org/10.3390/su152416706>.

⁴ Aini Indrijawati et al., "Accountability for Village Financial Management: Clarity of Budget Targets and Competency of Village Financial Management Officials," *Asian Development Policy Review* 12, no. 3 (September 2024): 281–303, <https://doi.org/10.55493/5008.v12i3.5170>.

⁵ Catur Budi Wiati et al., "Challenges to and Strategies for the Climate Village Program Plus: A Lesson Learned from Indonesia," *Sustainability* 14, no. 9 (May 2022): 5530, <https://doi.org/10.3390/su14095530>.

the year concerned.⁶ Meanwhile, state finances in a broad sense include state rights and obligations that can be valued in money, including money and state property included in the state revenue and expenditure budget (state budget), as well as those within the scope of State-Owned Enterprises, which include limited liability companies, public companies, and other limited liability companies.⁷

UUKN only regulates state finances. State losses are outlined in Law Number 15 of 2006 of the Republic of Indonesia concerning the Financial Audit Agency (hereinafter referred to as the BPK Law). Article 1, Point 15 of the BPK Law states that state/regional losses are shortages of money, securities, and coal, which are real and certain in amount as a result of unlawful acts either intentionally or negligently.⁸ The formulation of Article 1, Point 15 of the BPK Law can be derived from the important elements contained therein, namely shortages (of money, securities, and goods); real and certain amounts; and as a result of legal actions, either intentionally or negligently.⁹ State losses are different from state financial losses; state losses have more substance than state financial losses as an integral part of state losses.¹⁰ This means that state financial losses are essentially the substance of state losses,

⁶ Roderikus Agus Trihatmoko and Y. Sri Susilo, "Conditions, Challenges and Prospects of State-Owned Enterprises in Indonesia: The Governance Perspective Based on Economic Constitution," *Applied Research in Quality of Life* 18, no. 5 (October 2023): 2459–84, <https://doi.org/10.1007/s11482-023-10194-9>.

⁷ Syarah Siti Supriyanti and Dwi Nofiana Gita Pertiwi, "How Do Pancasila Economics and Islamic Economics Relate to Financial Governance Policies in Indonesia?," *Journal of Islamic Economics and Bussines Ethics* 2, no. 1 (March 2025): 1–22, <https://doi.org/10.24235/jiesbi.v2i1.198>.

⁸ Anwar Sadat, "The Application of the State Financial Losses' Assessment in Corruption Crime after the Verdict of the Constitutional Court No. 31/Puu-x/2012," *Indonesian Journal of Sustainability* 1, no. 1 (January 2022): 1, <https://doi.org/10.30659/ijsunissula.1.1.1-27>.

⁹ Warkhatun Najidah, I Gusti Ayu Ketut Rachmi Handayani, and Riawan Tjandra, "The Legal Certainty of Determining State Financial Losses in BUMN," in *Proceedings of the International Conference on Law, Economic & Good Governance (IC-LAW 2023)*, ed. Abdul Kadir Jaelani et al., Advances in Social Science, Education and Humanities Research (Paris: Atlantis Press SARL, 2024), 827:222–26, https://doi.org/10.2991/978-2-38476-218-7_36.

¹⁰ Gde Made Swardhana and Seguito Monteiro, "Legal Policy of State Financial Losses Arrangement in A State-Owned Enterprise," *Bestuur* 11, no. 1 (June 2023): 171, <https://doi.org/10.20961/bestuur.v11i1.61326>.

and state financial losses are an inseparable part of state losses. Therefore, state financial losses differ from state losses.¹¹

This is the basis for the idea that state financial losses in misappropriation are always directed at the crime of corruption. With the existence of Law of the Republic of Indonesia Number 20 of 2001 concerning Amendments to Law Number 31 of 1999 concerning Eradication of Corruption, all village heads who commit fraud against village funds can be included in the crime of corruption. Whereas not all misappropriation of village funds is used for personal interests, but to nourish the financial condition of the village, Village-Owned Enterprises (Badan Usaha Milik Desa or BUMDes). Law no. 20 of 2001 aims to combat and recoup financial losses incurred by the state due to acts of corruption. The notion of restorative justice, when applied to criminal acts of corruption, does not seek to abolish the consequences imposed on the wrongdoer. Instead, it emphasizes providing suitable punishments that focus on selecting the implications of the crime.¹² Specifically focusing on the reimbursement of state funds, Law no. 20 of 2001 aims to rectify financial deficits suffered by the state. This entails evaluating the expenses associated with prosecuting cases against the magnitude of financial damages incurred by the state.¹³ The research was conducted in two regions, Sampang and Pamekasan, examining the practice of village funds being misappropriated not only for the benefit of individuals or groups, but also for the public good. The forms of misappropriation are recovering village finances and developing village-owned enterprises. Therefore, investigations were needed in two regencies in Madura,

¹¹ Ag. Dwi Haryanto, Jantje J. Tinangon, and Stanley Kho Walandouw, "Analysis of the Utilization of Inspectorate Audit Report Provincial and Regency/City Inspectorates by BPK Representative of North Sulawesi Province," *The Contrarian : Finance, Accounting, and Business Research* 3, no. 2 (August 2024): 167–79, <https://doi.org/10.58784/cfabr.164>.

¹² Margarita López Maya, "Populism, 21st-Century Socialism and Corruption in Venezuela," *Thesis Eleven* 149, no. 1 (December 2018): 67–83, <https://doi.org/10.1177/0725513618818727>.

¹³ Ahmad Syahird et al., "Restorative Justice Approach as Ultimum Remedium of Corruption Crimes," *Pakistan Journal of Criminology* 16, no. 03 (July 2024): 949–62, <https://doi.org/10.62271/pjc.16.3.949.962>.

Pamekasan Regency and Sampang, to analyze and reconceptualize state financial losses resulting from the misappropriation of village funds.

That research studies discussing village funds and the misappropriation of village funds have been conducted previously, including several studies conducted by Abd. Wachid,¹⁴ Firmansyah,¹⁵ Paulina Permatasari,¹⁶ Rahmad Purba,¹⁷ Dewi Kania Suagiharti,¹⁸ and Taofik Hidajat.¹⁹ Previous studies have similarities with the study in that they discuss the misuse of village funds. However, previous studies have only discussed prevention strategies for the misappropriation of village funds, examining the issue from the perspectives of both positive law and Islamic law. However, the novelty of this article presents new research on whether the financial losses to the state resulting from the misappropriation of village funds constitute a criminal act of corruption. This is because not all misappropriation of village funds that cause financial losses to the state necessarily constitutes a criminal act of corruption. Therefore, the urgency of this study is to address the issue of fund misappropriation, so that not all cases of village fund misappropriation result in criminal prosecution, but can be discussed directly in the realm of administrative law.

¹⁴ Abd. Wachid Habibullah, Dewi Muti'ah, and Dewi Sugiarsih, "Restorative Justice Approach in Village Fund Corruption in Pamekasan Regency," *BIO Web of Conferences* 146 (2024): 01086, <https://doi.org/10.1051/bioconf/202414601086>.

¹⁵ Firmansyah Firmansyah, Hadrawi Kasma, and Mikdar Rusdi, "Addressing Corruption of Village Funds: A Perspective from Islamic Criminal Law and Positive Law on Asset Recovery," *Jurnal Ilmiah Al-Syir'ah* 22, no. 1 (June 2024): 13, <https://doi.org/10.30984/jis.v22i1.2911>.

¹⁶ Paulina Permatasari et al., "Village Fund Management and Reporting Systems: Are They Accountable?," *Transforming Government: People, Process and Policy* 18, no. 4 (October 2024): 512–28, <https://doi.org/10.1108/TG-07-2023-0098>.

¹⁷ Rahima Purba et al., "Detection of Corruption in Village Fund Management Using Fraud Analysis," *Quality - Access to Success* 23, no. 190 (January 2022), <https://doi.org/10.47750/QAS/23.190.14>.

¹⁸ Dewi Sugiharti, Zainal Muttaqin, and Rully Ramadhani, "The Supervision of Village Fund Management to Prevent Corruption," *PADJADJARAN Jurnal Ilmu Hukum (Journal of Law)* 8, no. 3 (2021): 356–78, <https://doi.org/10.22304/pjih.v8n3.a3>.

¹⁹ Taofik Hidajat, "Village Fund Corruption Mode: An Anti-Corruption Perspective in Indonesia," *Journal of Financial Crime* 32, no. 2 (February 2025): 444–55, <https://doi.org/10.1108/JFC-01-2024-0042>.

Methods

This research method uses doctrinal legal research, namely library legal research conducted by examining secondary data,²⁰ as a process of finding legal rules to produce new arguments, theories, or concepts as prescriptions to solve problems.²¹ The data collection method used in normative legal research is a literature study, which involves reading and studying various types of relevant literature. meanwhile, the approaches used in this study are the conceptual approach and the legislative approach. The research uses a qualitative normative juridical method, namely research on legal norms in legislation and court decisions as well as legal norms in society. Data collection for the study involved inventorying and identifying relevant primary, secondary, and tertiary legal materials, and then systematizing all legal materials, principles, theories, and concepts to facilitate classification. The analysis of the collected legal materials was carried out using grammatical and systematic methods of analysis and interpretation, whereby the interpretation was carried out by interpreting the law as part of the overall legal system by linking it logically and systematically with other laws.

Discussion

Characteristics of Village Fund Misappropriation

Village finances, according to Law Number 6 of 2014 concerning Villages (hereinafter abbreviated as Village Law), are all rights and obligations of the village that can be valued in money and everything in the form of money and goods related to the implementation of rights and responsibilities.²² LAW Number 6 of 2014 concerning Villages, hereinafter abbreviated as Village Law, provides an important position for villages to be able to carry out their role in national development. The

²⁰ Nasir Majeed, Amjad Hilal, and Arshad Nawaz Khan, "Doctrinal Research in Law: Meaning, Scope and Methodology," *Bulletin of Business and Economics (BBE)* 12, no. 4 (December 2023): 559–63, <https://doi.org/10.61506/01.00167>.

²¹ Tunggul Ansari Setia Negara, "Normative Legal Research in Indonesia: Its Originis and Approaches," *Audito Comparative Law Journal (ACLJ)* 4, no. 1 (February 2023): 1–9, <https://doi.org/10.22219/aclj.v4i1.24855>.

²² Wiati et al., "Challenges to and Strategies for the Climate Village Program Plus."

village's important role is the existence of a local authority owned by the village in managing its household affairs. This strategic role is then translated into the implementation of village development, encompassing the planning process, execution, and accountability of activities. This law represents a significant change from the previous law, which limited the village to being a sub-system of the government, without the authority to manage finances independently.²³ Village finances come from village funds, which are funds sourced from the state revenue and expenditure budget designated for villages that are transferred through the Regency/City regional revenue and expenditure budget and used to finance the administration of village government, implementation of village development, village community development, and village community empowerment.²⁴ Sources of village revenue consist of original village revenue, revenue sharing from local taxes and levies district/city, part of the central and regional financial balance funds received by the district/city, assistance from the government, provincial government, and district/city government, grants and donations from third parties.²⁵ Villages have the right to get a share of the proceeds from local taxes and levies and part of the central and regional financial balance funds received by the regency/city. This is called the Village Fund Allocation (hereinafter ADD), which is channeled through the village treasury.²⁶ It is through the allocation of funds that villages have the opportunity to manage their development and governance independently. ADD is a fund given to the village that comes from the central and

²³ Ellectrananda Anugerah Ash-shidiqqi and Hindrawan Wibisono, "Corruption and Village: Accountability of Village Fund Management on Preventing Corruption (Problems and Challenges)," *Journal of Indonesian Legal Studies* 3, no. 2 (December 2018): 195–212, <https://doi.org/10.15294/jils.v3i02.27524>.

²⁴ Yusran Lapananda, *Hukum Pengelolaan Keuangan Desa* (Jakarta Selatan: RMBOOKS PT.Wahana Semesta Intermedia, 2016).

²⁵ Yuyun Yulianah, "Potensi Penyelewengan Alokasi Dana Desa Di Kaji Menurut Peraturan Menteri Dalam Negeri Nomor 37 Tahun 2007 Tentang Pengelolaan Keuangan Desa," *Jurnal Hukum Mimbar Justitia* 1, no. 2 (October 2017): 608, <https://doi.org/10.35194/jhmj.v1i2.43>.

²⁶ Alif Hazmi Istifazhuddin and Antun Mardiyanta, "Evaluation of the Implementation of the Village Fund Allocation Policy," *Journal of Economic Resilience and Sustainable Development* 2, no. 1 (February 2025): 1–14, <https://doi.org/10.61511/ersud.v2i1.2025.1779>.

regional government financial consideration funds received by the Regency/City.²⁷ ADD is crucial for financing the development of underdeveloped areas within a comprehensive development plan. The implementation of ADD focuses on both physical and non-physical programs related to village development indicators, including education, community income levels, and health levels.²⁸

The determination of ADD is done in two stages, namely the allocation of village funds for each regency/city by the central government, and the allocation of village funds for each village by the regent/mayor.²⁹ ADD for each regency/city is calculated based on the number of villages and allocated fairly based on:³⁰ Basic allocation, which is the minimum allocation of village funds received by the regency/city based on certain calculations, including calculations that are evenly distributed to each village; allocations calculated by taking into account the population, poverty rate, area, and level of geographical difficulty of each regency/city village.

The second allocation of village funds refers to the allocation of funds for each village. Based on the village funds for each district/city, the regent/mayor determines the village funds for each village in his/her area. The calculation of village funds is based on the principle of equity, based on:³¹ Basic allocation, which is calculated based on the allocation that is divided equally to each village by 90%

²⁷ Ranarosyidah Rihadatul'Asy, "Supervision of Village Fund Management by the Regional Inspectorate of Pamekasan Regency," *Decova Law Journal* 1, no. 1 (2025): 18–27, <https://doi.org/10.71239/dlj.v1i1.55>.

²⁸ Caesar Marga Putri, Josep Maria Argilés-Bosch, and Diego Ravenda, "Creating Good Village Governance: An Effort to Prevent Village Corruption in Indonesia," *Journal of Financial Crime* 31, no. 2 (March 2024): 455–68, <https://doi.org/10.1108/JFC-11-2022-0266>.

²⁹ Dava Prawira Wibowo and Muhammad Zumri Aqil, "Law Enforcement of Corruption Crimes by Village Apparatuses in Village Fund Allocations," *Corruptio* 4, no. 1 (April 2023): 27–40, <https://doi.org/10.25041/corruptio.v4i1.2970>.

³⁰ Alef Musyahadah Rahmah, Ulil Afwa, and Nayla Alawiya, "Integration of the Village Fund Supervision System in Preventing Corruption in Banyumas District," in *Proceedings of the 3rd International Conference on Law, Governance, and Social Justice (ICoLGaS 2023)*, ed. Abdul Aziz Nassihudin et al., Advances in Social Science, Education and Humanities Research (Paris: Atlantis Press SARL, 2023), 805:738–51, https://doi.org/10.2991/978-2-38476-164-7_67.

³¹ Bondi Arifin et al., "Village Fund, Village-Owned-Enterprises, and Employment: Evidence from Indonesia," *Journal of Rural Studies* 79 (October 2020): 382–94, <https://doi.org/10.1016/j.jrurstud.2020.08.052>.

(Ninety percent) of ADD; the second is based on allocations calculated by taking into account the population, mortality rate, area, and level of geographical difficulty of each village.³²

Village funds are intended to finance the administration, development, community empowerment, and community. In principle, village funds are allocated in the APBN to finance the authority that is the responsibility of the village, but for the use of village funds to be more optimal, as mandated in the Law, the use of village funds is prioritized to finance community development and empowerment, including the development of basic services for education, health, and infrastructure.³³ Village funds can be used for programs or activities that are not included in the priority scale as long as priority activities, in this case, community development and empowerment activities, have been fulfilled.³⁴ The village financial management process includes planning, budgeting, implementation, administration, reporting, and accountability. Each process of village financial management has rules that must be understood and implemented according to a predetermined time limit.³⁵

Village finances are managed based on good governance practices. The principles of financial management as stipulated in Permendagri No. 113/2014 are transparent, accountable, participatory, and carried out in an orderly manner and with budgetary discipline. Transparency is the principle of openness that allows the public to know and have access to the broadest possible information about village

³² Khairul Shaleh et al., "Forensic Investigation of Fraud in Village Government Agencies: An Ethnographic Study in Indonesian," *The Qualitative Report*, ahead of print, 2022, <https://doi.org/10.46743/2160-3715/2022.5097>.

³³ Blane D. Lewis, "Decentralising to Villages in Indonesia: Money (and Other) Mistakes: Decentralising to Villages in Indonesia," *Public Administration and Development* 35, no. 5 (December 2015): 347–59, <https://doi.org/10.1002/pad.1741>.

³⁴ Paulina Permatasari et al., "The Village Fund Program in Indonesia: Measuring the Effectiveness and Alignment to Sustainable Development Goals," *Sustainability* 13, no. 21 (November 2021): 12294, <https://doi.org/10.3390/su132112294>.

³⁵ Badan Pengawasan Keuangan dan Pembangunan (BPKP), *Petunjuk Pelaksanaan Bimbingan Dan Konsultasi Pengelolaan Keuangan Desa* (Jakarta: Deputi Bidang Pengawasan Penyelenggaraan Keuangan Daerah, 2015).

finances.³⁶ This principle is a principle that opens itself to the public's right to obtain accurate, honest, and non-discriminatory information about the implementation of village governance while taking into account the provisions of laws and regulations.

Accountability is to be accountable for the management and control of resources and the implementation of entrusted policies in the context of achieving predetermined goals.³⁷ This principle dictates that every activity and the final results of village governance activities must be accountable to the village community, in accordance with the provisions of laws and regulations. Meanwhile, the participatory principle involves implementing village governance, which encompasses village institutions and elements of the village community.³⁸ So it can be said that there must be a community role in its implementation. The last is budget discipline, which is a principle of village management that refers to the rules or guidelines that underlie it.³⁹

Several budgetary disciplines need to be considered in village financial management, namely:⁴⁰ planned revenues are rationally measurable estimates that can be achieved for each source of income, while budgeted expenditures are the highest limit of expenditure; expenditures must be supported by the certainty of the availability of sufficient revenue and it is not allowed to carry out activities that are not yet available or have insufficient budget credits in the APBDesa/APBDesa Amendment; all regional revenues and expenditures in the relevant fiscal year must

³⁶ Bakhtiar Bakhtiar, "Accountability and Transparency in Financial Management of Village Fund Allocations in Achieving Good Governance," *Atestasi : Jurnal Ilmiah Akuntansi* 4, no. 2 (September 2021): 230–45, <https://doi.org/10.57178/atestasi.v4i2.269>.

³⁷ Umi Umairah Suhardi, Ulung Pribadi, and Zainuddin Losi, "The Effects of Good Governance Principles: Accountability, Transparency, and Participation on Public Trust in Village Funds Management," *International Journal of Social Science and Business* 7, no. 4 (November 2023): 1050–60, <https://doi.org/10.23887/ijssb.v7i4.57648>.

³⁸ Dedy Junaidi and M. Fachri Adnan, "Transparency and Accountability of Village Fund Management," *Jurnal Ilmiah Ekotrans & Erudisi* 3, no. 2 (December 2023): 1–11, <https://doi.org/10.69989/b216ta79>.

³⁹ Suhardi, Pribadi, and Losi, "The Effects of Good Governance Principles."

⁴⁰ Eka Amiati Ningsih, Abd Ghafur, and Norhayati Norhayati, "Analysis of Village Revenue and Expenditure Budget Management," *Jurnal Ilmiah Manajemen Kesatuan* 12, no. 2 (March 2024): 427–36, <https://doi.org/10.37641/jimkes.v12i2.2497>.

be included in the APBDesa and made through the Village Cash Account. The power to manage village finances is vested in the village. However, in practice, the power is partly delegated to village officials so that the implementation of financial management is carried out jointly by the village head and the technical executor of village financial management (hereinafter referred to as PTPKD). In the village financial cycle, the responsibilities and duties of the village head and PTPKD consist of the village secretary, section head and village treasurer.⁴¹

Village financial planning is prepared by the village government in accordance with its authority, with reference to district/city development planning. Village development planning is prepared based on the results of an agreement in the village deliberation meeting, which is carried out no later than June of the current fiscal year.⁴² The Village Medium-Term Development Plan (hereinafter referred to as the Village RPJM) is stipulated within a maximum period of three months from the date of the inauguration of the village head. Meanwhile, the Village Government Work Plan (hereinafter referred to as the Village RKP) is prepared by the village government in July of the current fiscal year. The draft Village RKP contains: evaluation of the implementation of the previous year's Village RKP; priority programs, activities, and village budgets managed by the village; priority programs, activities, and village budgets managed through cooperation between villages and third parties; plans for programs, activities, and village budgets managed by the village as the authority of assignments from the government, provincial government, and regency/city government; implementers of village activities consisting of elements of village officials and/or aspects of the village community.⁴³

⁴¹ Agus Triyono, "Framing Analysis of Village Funding Corruption in Media Suaramerdeka.Com in Central Java, Indonesia, 2019," *International Journal of Criminology and Sociology* 9 (April 2022): 1154–63, <https://doi.org/10.6000/1929-4409.2020.09.136>.

⁴² Sumadi Sumadi et al., "Evaluation of Development Planning in Kemuning Lor Village, Arjasa District, Jember Regency:," paper presented at 2nd International Conference on Social Science, Humanity and Public Health (ICOSHIP 2021), Jember, Indonesia, 2022, <https://doi.org/10.2991/assehr.k.220207.006>.

⁴³ Rifai Rifai, Kamaluddin Kamaluddin, and Rahmad Hidayat, "Exploring the Roots and Solutions of Maladministration, Power Abuse, or Corruption in Contemporary Indonesian Villages," *Pertanika*

The use of village funds is prioritized for several programs as stated in the Regulation of the Minister of Villages, Development of Disadvantaged Regions, and Transmigration of the Republic of Indonesia Number 13 of 2020 concerning Priorities for the Use of Village Funds in 2021 (hereinafter referred to as Permendes PDT 13 of 2020). The priority use of village funds in Permendes PDT 13 of 2020 is directed to programs and/or activities to accelerate the achievement of village SDGs through national economic recovery, according to village authority; national priority programs, according to village authority; and adaptation of new habits. National economic recovery in accordance with village authority is prioritized for, among others: the establishment, development, and revitalization of village-owned enterprises/joint village-owned enterprises for equitable village economic growth; the provision of village electricity to realize clean and renewable synergy villages; and the development of productive economic businesses that are primarily managed by village-owned enterprises/joint village-owned enterprises to realize environmentally conscious village consumption and production.⁴⁴

The use of village funds for national priority programs in accordance with village authority is prioritized for, among others: village data collection, mapping of potential and resources, and development of information and communication technology as an effort to expand partnerships for village development; development of tourism villages for equitable village economic growth; strengthening food security and prevention of istunting in villages to realize villages without hunger; and inclusive villages to increase the involvement of village women, peaceful villages with justice, and realize dynamic village institutions and adaptive village culture. Meanwhile, the use of village funds for adapting to new village habits

Journal of Social Sciences and Humanities 32, no. 3 (September 2024): 1115–40, <https://doi.org/10.47836/pjssh.32.3.15>.

⁴⁴ Aurora Meliala, Anis Rifai, and Jonathan Andre Woods, “Critique of the Indonesian Omnibus Law Regime: Misguided Interpretation in Narrating ‘Village Owned Enterprises,’” in *City Responses to Disruptions in 2020*, ed. Giuseppe T. Cirella and Bharat Dahiya, *Advances in 21st Century Human Settlements* (Singapore: Springer Nature Singapore, 2023), 81–100, https://doi.org/10.1007/978-981-99-7988-2_6.

is prioritized, among other objectives, to achieve healthy and prosperous villages through Covid-19-safe villages and to eliminate poverty in villages through direct cash assistance from village funds.⁴⁵

The central government gives villages a great deal of authority and financial resources to manage all the potential that exists in the village, with the hope of increasing the economy and the level of community welfare. To implement village financial management, the government issued a regulation, namely Permendagri Number 20 of 2018, concerning Village Financial Management. This is done because the amount of budget budgeted by the central government to the village continues to increase and with a large amount. Furthermore, to regulate the management of village funds, the Ministry of Finance issued a regulation, namely Minister of Finance Regulation Number 93 of 2015 concerning Procedures for Allocation, Distribution, Use, Monitoring and Evaluation of Village Funds. The regulation aims to ensure that the village budget budgeted by the central government to the village can be right on target and is regulated from allocation to evaluation.

The achievement of village independence through village funds still requires improvement. The government is very active in supervising the management of village finances, from planning and managing village funds to overseeing them, which can lead to complex problems.⁴⁶ The government must issue regulations that establish an effective, efficient, and accountable village fund management system, enabling the government to achieve its objectives. The government issues various regulations to ensure that village development runs smoothly. This regulation originates from Law Number 6 of 2014 concerning Villages. It is supplemented by Government Regulation Number 47 of 2015, which amends Government Regulation Number 43 of 2014 regarding the Regulations for Implementing Laws on Villages.

⁴⁵ Permatasari et al., "The Village Fund Program in Indonesia."

⁴⁶ Rokhman Adi Putera Nugraha and Nuria Siswi Enggarani, "Village Funds After the Emergence of the Village Law (Study of the Use of Village Funds in Providing Cash Direct Funds 'BLT' in Kelet Village during the Pandemic)," *Law and Justice* 6, no. 1 (May 2021): 96–111, <https://doi.org/10.23917/laj.v6i1.13409>.

This regulation mandates the government to allocate village funds of 1 billion per village, which is included in the State Revenue and Expenditure Budget.⁴⁷

In 2017, the government provided village assistance to 74,954 villages in Indonesia, totaling 60 trillion rupiah, which was distributed in two stages. Stage 1 was allocated from March to July of the current year, at 60%, and Stage II was allocated in August, at 40%.⁴⁸ The budget disbursed by the central government to villages is a substantial amount that is vulnerable to corruption. Indonesia Corruption Watch (hereinafter referred to as ICW) stated that the practice of corruption in village financial management from 2015 to 2017, there were 154 cases of corruption of village funds that caused a loss of IDR 47.56 billion. Based on this data, it can be concluded that the corruption of village funds is relatively high.⁴⁹ Therefore, the government issued an application called the Village Financial System (Siskeudes), issued by the Financial and Development Supervisory Agency (BPKP) and the Directorate General of Village Government Development of the Ministry of Home Affairs.

The village financial system (Siskeudes) is an application used by villages in the process of budgeting, administering, and reporting village finances.⁵⁰ The village's financial system will automatically generate the various reports required, thereby saving time and costs, reducing the potential for fraud and errors, and facilitating data aggregation. This system is online-based, but it is also prepared to operate either online or manually. This is designed to take into account the capabilities of the resources available in the village, as well as the different

⁴⁷ Purba et al., "Detection of Corruption in Village Fund Management Using Fraud Analysis."

⁴⁸ Aswin Fitriansyah and Mohamad Halilintar, "Implementation of the Village Financial System (Siskeudes) in Bandarjo Village," *Edunity Kajian Ilmu Sosial Dan Pendidikan* 3, no. 7 (July 2024): 484–95, <https://doi.org/10.57096/edunity.v3i7.255>.

⁴⁹ Hidajat, "Village Fund Corruption Mode."

⁵⁰ Nabila Maharani Safitri and Sofie Yunida Putri, "Village Financial System Application for Financial Reporting Management Village in East Java Province," *Proceedings of International Conference on Economics Business and Government Challenges* 6, no. 1 (October 2023): 212–19, <https://doi.org/10.33005/icebgc.v6i1.77>.

conditions in each region.⁵¹ The village financial system features have been designed to be simple and supported by implementation guidelines. The outputs of the village financial system are the village medium-term development plan, village government performance plan, village budget, village financial administration document, APBDesa realization report, Village property report, realization report per source of funds, and compilation report at the Local Government level.

This application has been used in all villages in Indonesia, including Pademawu Timur Village, Pademawu Sub-district, Pamekasan Regency. Based on the results of the research team's interview with the head of Pademawu Timur Village, Juma'ati Elis Susanti, she stated that Pademawu Timur Village has used an online reporting system for activity reporting and budget reporting.⁵² The same thing was also done by Tanjung Village, Pademawu Subdistrict, Pamekasan Regency. The Village Head of Tanjung Village, Pademawu Subdistrict, Zabur, stated that, in terms of budget and activity reporting, he employs a hybrid system, comprising both manual reporting and application reporting.⁵³

The East Pademawu Village Head also explained the procedure for receiving village funds. He stated that the acceptance of village funds is carried out through RKPDes planning, which is then included in the APBDes. In terms of fund disbursement, what must be done is the submission of the SPP for disbursement to the village cash account, and then the village funds will be disbursed by activity. After that, the funds are distributed according to the priority scale for each activity. Village funds are intended for development, empowerment, guidance, financing, and

⁵¹ Syofria Meidona et al., "Implementation Of The Village Financial System Applicationon The Performance Of The Village Government," *Al-Hijrah: Journal of Islamic Economics And Banking* 2, no. 1 (June 2024): 133, <https://doi.org/10.55062/al-hijrah.v2i1.492>.

⁵² Juma'ati Elis Susanti Head of Pademawu Timur Village, Pademawu Sub-district, Pamekasan Regency, "Interview Result with the Head of Pademawu Timur Village on Village Fund Allocation" October 6, 2021.

⁵³ Zabur Kepala Head of Tanjung Village, Pademawu Sub-district, Pamekasan Regency, "Interview Result with the Head of Tanjung Village on Village Fund Allocation," October 5, 2021.

urgent needs.⁵⁴ He also stated that, in terms of bookkeeping, budget accounting is carried out on a monthly basis, and for reporting, village funds are allocated per activity. When the activity is completed, the team responsible for implementing it reports and ensures accountability.⁵⁵

Village funds are very vulnerable to misappropriation. Based on research from ICW, there are several modes used by unscrupulous village officials in misappropriating village funds, which leads to criminal acts of corruption, including: drafting cost budgets above market prices; accounting for the financing of physical buildings with village funds when the project originated and sourced from other sources such as the APBD or APBN; temporarily borrowing village funds by transferring them to personal accounts but not returning them; levying or withholding village funds by unscrupulous officials at the sub-district or district level; making fictive trips for the village head and village government officials; inflating honorarium payments to village officials; inflating office stationery purchases; collecting village taxes or levies but not depositing the proceeds into the village treasury or tax office; purchasing office inventory with village funds but earmarked for personal use; cutting public budgets and then allocating them for the benefit of village officials; playing games in projects funded by village funds; creating fictitious activities or project developments funded by village funds.⁵⁶ The ICW survey results are in line with what was explained by the Pamekasan Regency Inspectorate and the Sampang Regency Inspectorate.

One of the potential forms of misuse of village funds at this time is the use of village funds for direct cash assistance to the poor in the village, which reflects on the policy of direct cash assistance (*bantuan langsung tunai* or BLT) in the past, which caused many problems ranging from problems with data collection of poor

⁵⁴ Juma'ati Elis Susanti Juma'ati Elis Susanti Head of Pademawu Timur Village, Pademawu Sub-district, Pamekasan Regency, "Interview Result with the Head of Pademawu Timur Village on Village Fund Allocation" October 6, 2021.

⁵⁵ Interview Result with the Head of Pademawu Timur Village on Village Fund Allocation

⁵⁶ Permatasari et al., "Village Fund Management and Reporting Systems."

people, distribution schemes and the cutting of BLT funds by unscrupulous people. The definition of Village Cash Assistance is derived from the policy of the Regulation of the Minister of Villages, Development of Disadvantaged Regions, and Transmigration of the Republic of Indonesia Number 6 of 2020 concerning Priorities for the Use of Village Funds in 2020, namely Village Fund Cash Assistance, hereinafter referred to as BLT-Desa is assistance for the poor sourced from the Village Fund which aims to restore or reduce the economic impact of the Covid-19 pandemic.⁵⁷

The amount of village funds allocated for BLT-Desa is IDR 600,000 (*six hundred thousand rupiah*) per month for poor families who meet the specified criteria for a period of 3 (three) months, and IDR 300,000 (*three hundred thousand rupiah*) per month for the following three months, which is exempt from taxes. The criteria for BLT-Village recipients are people who have never received any assistance from the government, namely Program Keluarga Harapan (Family Hope Program or PKH), BPNT, and Pra-Kerja cards; the second is people who have lost their livelihoods due to the impact of the Covid-19 pandemic, and the third is families who have chronic diseases, and it must be ensured that there is no overlap of BLT-Village recipient data.⁵⁸

Sampang and Pamekasan Regencies are two of the regions on Madura Island. Sampang Regency has 180 villages, and Pamekasan has 179 villages. So far, the potential for misappropriation and criminal acts of corruption in Sampang and Pamekasan Regencies is very large, even in 2017, the Regent of Pamekasan and the Head of the Pamekasan District Attorney were arrested by the Corruption

⁵⁷ Nugraha and Enggarani, "Village Funds After the Emergence of the Village Law (Study of the Use of Village Funds in Providing Cash Direct Funds 'BLT' in Kelet Village during the Pandemic)."

⁵⁸ Hyronimus Se and Lambertus Langga, "The Effectiveness of Village Fund Cash Block Grants (BLT) for the Poor Society Affected by the Covid-19 in Nangapanda District Ende Regency;," paper presented at The 3rd International Conference on Banking, Accounting, Management and Economics (ICOBAME 2020), Semarang, Indonesia, 2020, <https://doi.org/10.2991/aebmr.k.210311.004>.

Eradication Commission (KPK) for alleged bribery related to the misappropriation of village funds in one of the villages in Pamekasan.⁵⁹

The corruption case related to village funds that occurred in Pamekasan Regency and made headlines in the Area is a case that took place in 2017. The case began with a report from a non-governmental organization (NGO) to the Pamekasan District Attorney's Office regarding alleged corruption committed by the Dassokan Village Head regarding the use of village funds for procurement projects in the village.⁶⁰ A corruption case related to village funds in Kabupaten Sampang involves a physical construction project that cost around 200 million, allegedly committed by an unscrupulous Village Head in one of the villages in Kabupaten Sampang, who is currently being tried in the Corruption Court. Meanwhile, in relation to the distribution of BLT to the community, based on data from the inspectorates of Kabupaten Sampang and Kabupaten Pamekasan⁶¹. There were cases of administrative fraud in the distribution of BLT, namely, the reporting of the recipient's signature instead of the person directly concerned. However, the BLT was still delivered to those who were entitled to receive it.

The Concept of State Financial Losses in Village Funds

Democracy is expected to be more consolidated in local governments where decentralization is practiced, due to the closer interactions between central and regional governments.⁶² This demonstrates that fiscal decentralization often leads to corruption, as the overall expenditure associated with increasing the budget does

⁵⁹ Erik Junaedi, Syaiful Kiram, and Fahkrurrazi, "The Phenomenon of Religious Figures Involvement in Practical Politics: Analysis of the Role and Public Perception in the 2024 Election," *Jurnal Tapis: Jurnal Teropong Aspirasi Politik Islam* 21, no. 1 (June 2025): 184–210, <https://doi.org/10.24042/xq3xjb60>.

⁶⁰ Institut Ilmu Keislaman Annuqayah (INSTIKA) Sumenep et al., "The Implementation of Anti-Corruption Education Models In Pesantren," *El-Tarbawi* 15, no. 1 (June 2022): 23–54, <https://doi.org/10.20885/tarbawi.vol15.iss1.art2>.

⁶¹ "Interview Result with the Inspectorate of Pamekasan Regency and Sampang Regency," October 8, 2021.

⁶² Eugenia Brandao Da Silva et al., "A Model of Election Supervision Based on Village Judicial Institutions; A Review of Legal Anthropology in Madura," *Trunojoyo Law Review* 6, no. 1 (February 2024): 96–119, <https://doi.org/10.21107/tlr.v6i1.23230>.

not align with actual needs. Fiscal decentralization impacts the rate of corruption.⁶³ Past studies have identified the determinants of corruption, which serve as the basis and comparison for this study. In the economic model, corruption affects poverty through its impact on economic growth and income, ultimately exacerbating poverty. This research is supported by Das and Mahalik,⁶⁴ arguing that the loss was caused by income and investment. Corruption causes permanent distortions, benefiting certain groups or individuals more than others. It leads to recession, distorts the market, hinders competition and creativity, and increases inefficiency and business costs, ultimately contributing to increased poverty.⁶⁵

The use of village funds for the financial restructuring of BUMDes in Pamekasan Regency and Sampang Regency is currently not found to be misappropriated. Most of the misuse of village funds in Pamekasan Regency occurred in the realm of administration only. Meanwhile, in Sampang Regency, the physical development project caused a loss of IDR 200 million, in relation to village funds used for the financial restructuring of BUMDes. Village-Owned Enterprises (hereinafter referred to as BUMDes) are village business institutions managed by the community and village government in an effort to strengthen the village economy and are formed based on village needs and potential.⁶⁶ BUMDes, based on the Regulation of the Minister of Home Affairs Number 39 of 2010 concerning Village-Owned Enterprises, states that BUMDes is a village business entity formed or established by the village government whose capital ownership and management are carried out by the village government and the community.⁶⁷

⁶³ Ahmad Syarif, "Fiscal Decentralization and Corruption: The Facts of Regional Autonomy Policies in Indonesia," *Jurnal Ilmu Sosial Dan Ilmu Politik* 27, no. 1 (August 2023): 60, <https://doi.org/10.22146/jsp.69007>.

⁶⁴ Syarif.

⁶⁵ Syarif.

⁶⁶ Komang Eni Candraningsih et al., "Pengelolaan Keuangan Dan Sumber Daya Manusia Pada Bumdes Bulian Kecamatan Kubutambahan," *Jurnal Ilmiah Akuntansi Dan Humanika* 8, no. 1 (September 2019), <https://doi.org/10.23887/jinah.v8i1.19858>.

⁶⁷ Syarif, "Fiscal Decentralization and Corruption."

The use of village finances as capital for the establishment of BUMDes is hazardous, as it can lead to losses for the village finances. As mentioned above, village finances, according to the UU Desa, encompass all village rights and obligations that can be valued in monetary terms, and include everything related to the implementation of these rights and responsibilities, in the form of money and goods.⁶⁸ Which means that village finances come from village funds, village funds are funds sourced from the state revenue and expenditure budget designated for villages that are transferred through the Regency / City regional revenue and expenditure budget, and are used to finance the administration of village government, implementation of village development, village community development, and village community empowerment.⁶⁹

If we refer to the above definition, there is a direct element of state finance in village funds. This can be seen from the clause "village funds are funds sourced from the state revenue and expenditure budget.....". So it can be said that village finances, in this case, village funds that are used for the development of BUMDes (BUMDes' initial capital), if something untoward happens, such as a loss in the BUMDes, then it can be said that there has been a loss of state finances. However, according to economic concepts as stated by an expert in the field of accounting, Imam Agus Faisol, a BUMDes is said to be in a state of loss if it stops operating or can be considered dead. If a BUMDes is still operating, it cannot be said to be a loss even though in the first three years the BUMDes did not show the desired results, or some even experienced a "loss" for a certain year. He stated that even a BUMDes that is not operating cannot be said to be a loss as long as the village still has several BUMDes that are still operating. For example, if a village has four BUMDes, one BUMDes is not operating. However, the other three BUMDes are still operating if the three BUMDes have their assets calculated and can cover the losses of the BUMDes

⁶⁸ Eugenia Brandao Da Silva and Lin Asyiqoh, "The Idea of Legal Pluralism in Dispute Resolution of Village Head Election in Madura," *Journal of Indonesian Constitutional Law* 1, no. 1 (August 2024): 61–83, <https://doi.org/10.71239/jicl.v1i1.22>.

⁶⁹ Lapananda, *Hukum Pengelolaan Keuangan Desa*.

that stopped operating, then the BUMDes cannot be said to be a loss. He added that the above cannot be separated from the name risk management.⁷⁰ He also gave an example, as described in the introduction above, which is the use of village funds for the restructuring of BUMDes.

If it is related to the use of village funds for the restructuring of BUMDes, it is necessary to study the restructuring strategy of a company. The restructuring of a company begins with analyzing various factors that indicate an unhealthy company, both within the company and outside.⁷¹ Meanwhile, indicators from the business environment include economic growth, an increasing number of competitors, changes in consumer tastes, etc. This can be resolved with the divestment strategy, this restructuring is taken to avoid greater capital losses, improve cash flow positions, reduce company debt, reduce business risks, including the risk of failure, reduce operating costs, address weak managerial capacity in business units, business opportunities, government regulations, or the perception of disharmony with other strategic units.⁷²

This can be done by conducting a comprehensive sale (to obtain a sales premium), changing business units, or liquidation by selling all assets. BUMDes can apply this strategy to nourish the company's finances, and it is this kind of strategy that can save BUMDes from losses and/or bankruptcy. So that the use of the phrase loss in BUMDes is not necessarily used literally, other elements need to be considered, including the condition of the company's health, in this BUMDes case.

In addition, the position of village finances in state finances is still being debated today. This is stated in an article entitled The Position of Village Finances in

⁷⁰ Imam Agus Faisol, "Interview Result with Imam Agus Faisol on The Concept of Loss in Economic and Accounting Perspectives" December 1, 2021.

⁷¹ Rianda Dirkareshza and Eka Nam Sihombing, "Acceleration of Village Welfare through Bumdes: Disorientation of Implementation of Bumdes Regulations and Policies," *Jurnal Penelitian Hukum De Jure* 21, no. 4 (December 2021): 419, <https://doi.org/10.30641/dejure.2021.V21.419-434>.

⁷² Eko Wardono et al., "Sustainability Strategy in Transforming Revolving Fund Management: Case Study of the Ex-National Program for Independent Community Empowerment Rural in Tuban Regency," *Journal of Governance and Administrative Reform* 5, no. 1 (June 2024): 52–67, <https://doi.org/10.20473/jgar.v5i1.54967>.

the State Financial System. The article⁷³ states that the relationship between village finances and state or regional finances only involves territorial and administrative relationships, namely the submission of accountability reports, guidance, and supervision, which does not mean that village finances are part of state or regional finances. Therefore, there is actually no law or legal provision that explicitly and clearly states that village finances are part of state or regional finances, but only the principle of sharing financial resources.⁷⁴

Conclusion

Village funds are vulnerable to misappropriation. Characteristics of misappropriation of village funds that often occur include: drafting cost budgets above market prices; accounting for the financing of physical buildings with village funds when the project originated and sourced from other sources such as the APBD or APBN; temporarily borrowing village funds by transferring them to personal accounts but not returning them; levying or withholding village funds by unscrupulous officials at the sub-district or regency level; making functional trips for the village head and village government officials; inflating honorarium payments to village officials; inflating the purchase of office stationery; collecting village taxes or levies but not depositing the proceeds into the village treasury or tax office; purchasing office inventory with village funds but intended for personal use; cutting public budgets and then allocating them for the benefit of village officials; playing games in projects funded by village funds; creating fictitious activities or project development using village funds.

Village funds are funds sourced from the state revenue and expenditure budget. The clause can be said that village finances, in this case village funds used for BUMDes development (BUMDes initial capital), if something untoward happens such as a loss in the BUMDes, it can be said that there has been a loss of state

⁷³ Herry Purnomo, "Financial Village Standing in Indonesian Financial System," *Rechtsidee* 2, no. 2 (December 2015): 121–40, <https://doi.org/10.21070/jihr.v2i2.81>.

⁷⁴ Purnomo.

finances. However, according to the economic concept of a BUMDes, it is said to be a loss if the BUMDes stops operating or can be said to be dead. If a BUMDes is still operating, it cannot be said to be a loss even though in the first 3 (three) years the BUMDes did not show the desired results or some even experienced a "loss" for a certain year. He stated that even a BUMDes that is not operating cannot be said to be a loss as long as the village still has several BUMDes that are still operating. For example, if a village has 4 (four) BUMDes, one BUMDes is not operating. However, the other 3 (three) BUMDes are still operating if the three BUMDes have their assets calculated and can cover the losses of the BUMDes that stopped operating, then the BUMDes cannot be said to be a loss. So that the use of the phrase loss in BUMDes is not necessarily used literally, other elements need to be considered, including in the condition of restructuring and saving the company, in this case, BUMDes.

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