

Managerial Challenges of Work Unit X in the Ministry of Finance: Avoiding Spending Inefficiencies Amidst Pressure from Absorption Percentage Targets

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Abstract

The Ministry of Finance has implemented two main instruments for measuring budget performance in central government work units, namely the Budget Execution Performance Indicator (IKPA) and the Budget Performance Evaluation (EKA). IKPA emphasizes budget absorption as one of the key indicators of budget execution effectiveness, whereby high performance is generally associated with optimal budget absorption. In contrast, EKA evaluates budget efficiency, one aspect of which encourages savings in budget utilization. These different orientations may create instrument conflicts when both indicators are simultaneously applied to the same work unit. This study aims to examine the implementation of these two budget performance indicators and identify the relationship between IKPA and EKA in budget execution within a government work unit. The study employed secondary data in the form of budget performance recapitulations based on IKPA and EKA indicators from Work Unit X. Data were analyzed using a correlation test to identify the relationship between the two performance indicators. The findings reveal a significant negative correlation between IKPA and EKA, with a correlation coefficient of $^{**}-0.503^{**}$, indicating an inverse relationship between the achievement of the two indicators. This finding suggests that higher achievement of the indicator oriented toward budget absorption may be associated with lower achievement of the indicator oriented toward budget efficiency and savings. Theoretically, this study contributes to *contingency theory*, particularly in explaining instrument conflict, by demonstrating that two performance measurement instruments issued by the same authority may generate competing performance demands when they are not adequately designed and synchronized. From a practical perspective, such conditions may create operational challenges for work units in determining budget management priorities and strategies for achieving performance targets. This study is limited to a single case involving Work Unit X; therefore, its findings cannot necessarily be generalized to other government work units with different organizational structures, budget characteristics, or budget scales. Future research should employ comparative studies involving multiple work units to provide broader evidence regarding the relationship and potential conflict between IKPA and EKA.

Keywords

Budget Absorption, Efficiency, Budget Performance, IKPA, EKA, Contingency Theory.



INTRODUCTION

The government budget is reflected in the budgets of ministries/agencies, coordinated by the Ministry of Finance in its role as the State General Treasurer (Bendahara Umum Negara/BUN). In carrying out this responsibility, the Ministry of Finance makes continuous efforts to uphold the principles of quality financial management. In accordance with Minister of Finance Regulation (PMK) Number 62 of 2023, the Ministry of Finance exercises control and oversight of budget performance from the planning stage through to budget execution (Ministry of Finance, 2023c). The agency within the Ministry of Finance responsible for evaluating budget planning performance is the Directorate General of Budget (Direktorat Jenderal Anggaran/DJA), with this evaluation referring to Minister of Finance Decree (KMK) Number 466 of 2023 (Ministry of Finance, 2023a). Meanwhile, evaluation of budget execution is carried out by the Directorate General of Treasury (Direktorat Jenderal Perbendaharaan/DJPb) using a set of indicators known as the Budget Execution Performance Indicators (Indikator Kinerja Pelaksanaan Anggaran/IKPA).

The aspects considered in budget planning evaluation include output achievement, efficiency, consistency of absorption against planning, and budget absorption. In the early stages of implementation, these two evaluations overlapped, with several aspects reviewed by both DJA and DJPb. A number of adjustments to the evaluation indicator formulas were made to arrive at the most appropriate formula, and also to eliminate indicators that were redundant. In line with Minister of Finance Regulation Number 62 of 2023, DJA no longer monitors and evaluates all aspects. Instead, it focuses primarily on output achievement as an effectiveness indicator and the implementation of output cost standards (Standar Biaya Keluaran/SBK) as an efficiency indicator. Efficiency has become a focal point of public attention because it demonstrates how a budget is managed to produce outputs that exceed established targets using the allocated budget.

A number of efficiency measurement formula designs have been developed by DJA. One of the approaches used is the cost accounting approach. Under this approach, efficiency can be measured by comparing standard costs against actual costs (Carter, 2006). When actual costs exceed standard costs, the outcome is considered unfavorable. Conversely, when actual costs fall below standard costs, the outcome is considered favorable. Efficiency reflects a work unit's ability to optimize results with limited resources, or to minimize resource consumption in order to achieve targeted

outcomes (Madiasmo, 2018). Efficiency also serves as a tool for determining the following year's budget allocation. If spending is deemed inefficient, the subsequent year's budget will be adjusted accordingly (Prasetyo & Nugraheni, 2020).

Work Unit X is an echelon I-equivalent unit that reports directly to the Minister of Finance. As one of the work units without vertical sub-units, Work Unit X manages a considerably large budget. The budget realization percentages from fiscal year 2020 through fiscal year 2023 indicate that budget management at Work Unit X has not been optimal. Realization up to the third quarter of each year has yet to reach 70%, suggesting that Work Unit X still tends to cluster its fund disbursements toward the end of the year.

Table 1. Percentage of Budget Realization of Work Unit X

Year	Percentage of Budget Realization of Work Unit X							
Q1	Q2	Q3	Q4	Q1	Cumul. Q2	Cumul. Q3	Full Year	
2023	22%	14%	19%	42%	22%	36%	54%	97%
2022	22%	13%	19%	43%	22%	35%	54%	96%
2021	13%	10%	29%	40%	13%	22%	51%	91%
2020	16%	6%	23%	49%	16%	22%	45%	94%

Source: Processed by the authors

The IKPA requires that ideally, budget absorption up to the third quarter (Q3) reaches at least 70% of the total annual allocation. The highest budget absorption percentage occurs in the fourth quarter, ranging between 40% and 49% of the budget ceiling. Large-scale budget realization at the end of the fiscal year potentially triggers fraudulent actions and generates negative public perception that government activities during that period are merely aimed at spending the remaining budget (Sukmono, 2022).

Budget absorption and efficiency are viewed as two sides of the same coin, pulling in opposite directions. Budget absorption indicator assessments push work units to spend their managed budget to the maximum, while efficiency focuses on using resources as minimally as possible to achieve set objectives (Mardiasmo, 2018). Work units face a dilemma in implementing both indicators simultaneously. Budget absorption demands spending in line with established targets, with the maximum limit being the allocated budget, the closer to the allocation, the better. Meanwhile, the efficiency indicator expects work units to achieve set outputs, or even more, with the allocated budget, or to meet output targets using less than the allocated budget. The lower the budget used to achieve the targeted output, the better. Even though, excessive focus on the efficiency indicator potentially hampers budget absorption.

Delays and uncertainty in budget absorption trigger excessive idle cash in the BUN account, which runs counter to sound cash management principles (Ramadhani & Setiawan, 2019). Low budget absorption can cause economic harm through a suboptimal multiplier effect of government spending (Sirin et al., 2020).

The dilemma of implementing both budget absorption and efficiency indicators at the work unit level is illustrated in Figure 1. The first condition shows efficiency being prioritized over absorption. The second condition reflects a balance between efficiency and absorption. The third condition depicts absorption being prioritized over efficiency. Work units need to find alternative methods to achieve absorption targets without neglecting efficiency. This challenge becomes increasingly complex given that both aspects are equally important yet often difficult to achieve simultaneously.

METHODS (Palatino Linotype 12, Space 1.15, Justify)

This study employs a quantitative approach. Both primary and secondary data are used. Secondary data consists of budget absorption data for Work Unit X from 2021 to 2024, output achievement data for Work Unit X from 2021 to 2024, and achievement reports. IKPA and EKA achievement data, presented in categorical form, were tabulated and analyzed using a correlation test for categorical (qualitative) data. The analysis aims to identify the relationship or correlation between these two variables. This study uses a quantitative approach, namely correlation analysis for qualitative data (using the chi-square test). The hypothesis used is whether there is a relationship between the realization of IKPA and the realization of EKA. Decision making is based on the probability p-value.

Primary data was obtained through interviews to corroborate the findings from secondary data analysis. Interview informants included the Payment Order Signing Official (Pejabat Penandatangan Surat Perintah Membayar/PPSPM), the Commitment-Making Official (Pejabat Pembuat Komitmen/PPK), the Expenditure Treasurer, and PPK staff. These informants are parties directly involved in budget management at the work unit level and have a strong stake in the achievement of both IKPA and EKA

FINDINGS AND DISCUSSION

As one of the agencies within the Ministry of Finance, Work Unit X also implements both budget quality indicators — the indicator measuring the quality of budget execution and the budget performance evaluation indicator. The budget execution quality indicator used in this study is budget absorption. The details of budget execution quality can be seen in Table 4.

Table 4 Budget Absorption Quality

Year	Quality Categories					Total
	Very Poor	Poor	Sufficient	Good	Excellent	
2021	0	8	8	10	7	33
2022	0	5	6	7	14	32
2023	0	1	6	8	18	33
2024	0	10	11	5	7	33
Total	0	26	31	30	46	134

Source: Processed by the authors

Generally, the quality of budget execution falls in the excellent category. The best year for this indicator was fiscal year 2023, where more than 75% of assessments were rated at least good. This indicator has undergone several formula changes. In 2021, realization was calculated based on the average quarterly budget absorption performance. The average performance was computed by comparing actual budget realization against established targets. In 2022 and 2023, the formula was largely similar, but with one difference: targets were differentiated by type of expenditure. While 2021 used total expenditure as a single target, 2022 and 2023 disaggregated spending by type: personnel, goods, capital, and social assistance expenditure. In 2024, the formula was revised again, with performance assessment using a weighted average of quarterly absorption performance, thereby accounting for the proportion of each expenditure type within the work unit's DIPA.

Budget performance evaluation is measured to assess the level of efficiency of work unit budgets. The monitoring unit for this achievement is DJA. The category system for the efficiency indicator mirrors that of the budget execution performance indicator, very poor, poor, sufficient, good, and excellent. Table 5 shows the efficiency levels of Work Unit X from 2021 through 2023.

Table 5 Efficiency Levels of Work Unit X

Year	Quality Categories					Total
	Very Poor	Poor	Sufficient	Good	Excellent	
2021	1	3	9	0	20	33
2022	4	3	5	3	20	32
2023	2	9	6	1	16	33
2024	0	0	0	0	3	3
Total	7	15	20	4	55	101

Source: Processed by the authors

Similar to the budget execution indicator, the efficiency indicator has also

undergone changes in its calculation approach. The efficiency formula for fiscal years 2021 and 2023 involved comparing the difference between 'expenditure that should have occurred' and actual budget realization, against the available budget allocation. 'Expenditure that should have occurred' refers to the amount of budget needed to produce the level of output actually achieved. Efficiency measurement is applied to detailed outputs that use the output cost standard (SBK) criteria. This efficiency formula compares the applicable SBK index per output against budget realization per output.

Both IKPA and EKA are implemented simultaneously at every ministry/agency work unit. The Ministry of Finance, in its role as BUN, continuously monitors the achievement of both indicators. Financial performance tracked through IKPA and EKA monitoring and evaluation reflects the quality of budgeting at the work unit level. However, for work units themselves, implementing both indicators simultaneously has felt confusing. Consistent with interview findings, financial managers at Work Unit X stated that the work unit experiences uncertainty about which indicator to prioritize. Prioritizing IKPA leads to a suboptimal EKA score, and vice versa. The relationship between the two indicators is inversely directional: IKPA expects budget realization in line with established targets, while EKA expects adequate efficiency from the available budget. The IKPA indicator pushes work units to spend the budget up to the maximum target, while EKA pushes work units to save as much of the budget as possible.

To test the relationship between these two indicators, this study uses a qualitative data correlation test. This method was chosen because the data used are categorical, namely, the achievement categories of each indicator. Both indicators share the same category system: very poor, poor, sufficient, good, and excellent. Since several category pairs have zero frequencies, the very poor and poor categories were merged into a single 'poor' category for the correlation test. Similarly, the excellent and good categories were merged into a single 'good' category. The cross-tabulation is shown in Table 6.

Table 6 Cross-Tabulation of Budget Absorption Quality (IKPA) and Efficiency Levels (EKA) Achievement at Work Unit X

IKPA	EKA		
	Poor	Sufficient	Good
Poor	0	0	15
Sufficient	0	1	19
Good	22	19	25

Source: Processed by the authors

Table 6 shows that the majority of assessments from both indicators are in opposite directions. When IKPA receives a good rating, EKA tends to receive a poor rating, and vice versa. On 78 occasions, the two indicators produced contradictory results. However, the highest single frequency was when both IKPA and EKA received a good

rating simultaneously, occurring 25 times. This finding can serve as a focus area for both agencies to improve the indicator measurement formulas, with the goal of arriving at more aligned conclusions. Aligned policies will make it easier for work units to optimize both budget planning and execution.

Looking at the frequency of each achievement category in the cross-tabulation, the results are dominated by inverse outcomes — a good IKPA corresponds to a poor EKA, and vice versa. This study therefore tests the nature of the relationship between the two indicators using the Chi-Square test. This test was selected to determine whether a relationship exists between two variables measured on a categorical scale. The hypothesis used in this study is that there is a relationship between IKPA and EKA. The test was conducted at a 95% confidence level with a 5% error rate. The test statistic used is the Chi-Square statistic, as shown in Table 7.

Table 7 Chi-Square Test Calculation

IKPA	EKA		
	Poor	Sufficient	Good
Poor	0 (3,27)	0 (2,97)	15 (8,76)
Sufficient	0 (4,36)	1 (3,96)	19 (11,68)
Good	22 (14,38)	19 (13,07)	25 (38,55)
df = (3-1)(3-1) = 4			
$\chi^2_{hit} = \sum_{i=1}^{i=3} \sum_{j=1}^{j=3} \frac{(o_{ij} - e_{ij})^2}{e_{ij}} = 43,13$			
p-value = 0.000			

Source: Processed by the authors

The test results show a Chi-Square statistic of 43.13 with a p-value of 0.000, leading to the rejection of H_0 . It can therefore be concluded that a relationship exists between IKPA and EKA. The next step in the analysis was to apply Pearson and Spearman correlation approaches. Based on Minitab 15 output, the Pearson and Spearman correlation values were -0.503 and -0.553, respectively, both statistically significant. Both correlation values are negative, confirming that IKPA and EKA have an inversely related, or opposing, relationship.

Based on the analysis results, the relationship between IKPA and EKA is indeed inverse. This finding aligns with conditions on the ground, where work units experience confusion about which indicator to prioritize. According to interview

results, Work Unit X prioritizes IKPA, though EKA continues to be implemented as well. The primary reason IKPA is given precedence is that it is monitored periodically (monthly) and receives attention from leadership starting at the highest level, namely the Minister of Finance. IKPA is one of the Key Performance Indicators (KPI) of the Ministry of Finance, which is then cascaded down to the KPIs of each echelon I unit within the Ministry. Monitoring of KPI achievement is conducted periodically, every month, and each KPI owner is expected to be able to explain whether or not targets have been met. This drives every level of leadership, from the top down, to remain engaged with and attentive to this indicator. Despite institutional pressures demanding high budget absorption, these expenditures must be matched with efficiency to yield real economic benefits. This is in line with Abdillah (2023), who found that increased government spending in Indonesia has an optimal threshold. If expenditure expansion surpasses this threshold without concurrent efficiency, it could actually hinder long-term economic growth

CONCLUSION

The quality of budget execution as reflected in the IKPA for Work Unit X over the past four years (2021 to 2024) shows that 56.72% of assessments reached the good category, while the remaining 43.28% were still suboptimal. As for EKA achievement, the past four years were dominated by assessments rated at least good, at 58.42%, while 41.58% were rated below good. Taken together, both indicators paint a picture that both budget planning and execution at Work Unit X have yet to reach their full potential.

When each indicator is viewed in isolation, both IKPA and EKA present broadly similar pictures, each rating budget management at Work Unit X as at least good, 56.72% for IKPA and 58.42% for EKA. However, a more detailed examination reveals divergence: assessments that are good on IKPA often do not correspond to good on EKA, and vice versa. Such contradictory evaluation results between the two indicators occurred in 77.23% of cases, a finding that is consistent with the correlation test results, which confirmed an inverse (negative) relationship between the two indicators.

A negative correlation indicates that the two indicators pull in opposite directions. The IKPA indicator expects spending to be as high as possible, up to the maximum target. The EKA indicator, on the other hand, expects the opposite, work units should save as much of the budget as possible. Both contradictory policies must be implemented simultaneously at every ministry/agency work unit, making it

entirely understandable that work units struggle to determine which indicator to prioritize.

Work units view both indicators as equally important and valuable. To navigate the dilemma, Work Unit X gives precedence to IKPA, primarily because it is the indicator that is regularly monitored by the highest-level leadership on a periodic basis. Awareness of the importance of a performance indicator tends to cascade downward when leadership at the top is actively engaged in and concerned about the achievement of that indicator's targets.

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