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## Principal Agen Relationship in the Local Government: Case of Village's Fund Allocation in Indonesia

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### Abstract

Principal and agent relationship system influenced by formal contracts, transaction costs and agency costs. The system influenced by adverse selection, moral hazard and goal's conflict behaviours show by principal agen conflict. This paper aims to analyzes the influence of formal contracts, transaction costs, agency costs and principal agent conflict on principal agent relations in allocation of village funds in local government. This paper using structural equation model (SEM) to test the power of relationship variables research to explain relationship's of principal agent to village fund allocation influenced by formal contract, transaction cost, agency cost and principal agent's conflict. The result of study found that; it is necessary to improve human resources, outcome-based contract and the pattern of principal agents relationship. Agents are from outside parties village government structure with special competence. Improving the quality of management principles by transaction cost through increasing transparency and accountability in the management of the village fund allocation, increasing coordination with local/city governments so that the optimality of the village fund allocation can be improved. Reducing agency cost by strengthening institutional and managerial ownership in the context of the principal agent's duties and functions. Adverse selection such as Collusion, Corruption and Nepotism can be minimized by improvement village government accounting system and competent human resources. Moral hazard, adverse selection and goal conflict can be minimized by increasing accountability and transparency, organizational commitment, communication and improvement of human resource.

**Keywords:** Principal agent conflict, principal agent relation, villagefund allocation.

### 1. Introduction

This paper is based on the concept of the new institutional economic level's by Williamson, (2000; 597). First level, there is an informal environment such as religious customs, rules and norms. The results of system are non-calculative and run spontaneously. The second level is system has produced regulations, laws, politics with the results of good institutional interaction (first order economizing). The third level is good governance (second order economizing). The fourth level, institutions have given rise to agency theory to strengthen new institutional economic applications (NIE) and become an important part of the interaction process (third order economizing). Refers to Menard, and Shirley (2005: 1), institutions consist of (i) written rules and agreements in regulating contractual relationships and corporate governance, (ii) constitutions, laws and rules governing politics, government, finance, and society more broadly, and (iii) unwritten codes of conduct, norms of behavior, and beliefs. In institutional relationship there are agency problems.

Relationship agencies cause a tendency for different interests between principle and agent. They maximize utility for their personal gains. Down (1964), Jensen and Meckling, (1976), Eisenhard (1989), Hadiprajitno, (2013) and Olievera and Filho (2017: 599) defines agency relationships as contracts in which one part (agent) is tasked with carrying out certain activities in the name of another part (principal). In the institutional economic literature, agency relations are known as Principal Agent Relations.

Agency theory analyzes the impact of contractual behavior between two parties: principal and agent. This relationship is definitely characterized by the existence of information

asymmetry because the agent holds substantially a greater volume of information than the principal. The negative effects of information asymmetry cause additional costs, namely monitoring and/or incentives/grants. Asymmetry information between principal agents raises information gap. There are three factors that cause the emergence of information gap between principals and agents, namely: adverse selection, moral hazard and things that cannot be verified named goal conflict. (Laffont and Martimort, 2001: 14), Attila (2012: 709).

Macias (2012: 45-46) says that adverse selection is a condition where the principal cannot ascertain if the agent has the ability to carry out the burden of the task given to him. This situation occurs when both parties make an agreement. They are bound by contracts and have the opportunity to benefit from actions that are different from those agreed upon in the contract. In the other hands, moral hazard is equivalent to rational economic behavior in an organization or individual, Attila (2012: 709-710).

Moral hazard involves rational behavior, namely self-interest, which is characterized as opportunistic because it utilizes opportunities for personal gain, even though it harms others. Oliveira and Filho (2017) said that moral hazard behavior will increase through the financial mechanism carried out by agents in the contractual relationships that are carried out.

Goal conflict is a situation where the principal and agent conflict in terms of achieving goals and both are in different actions. The principal's aim is agents has to develop as much as possible the principal's business. Instead of the agent is assumed to act for his own interests and will work at the minimum level accepted by the principal (Petersen, 1993), Macias (2012: 48). Therefore, the principal must make a guarantee that the agent will act in accordance with the contract. Goal's conflict between principal agents can be resolved if there is an incentive mechanism that regulates the relationship (Milgrom and Robert, 1992).

Adverse selection, moral hazard and goal conflict are factors is called the principal agent of conflict as a situation where in carrying out a principal agent relationship, both parties are influenced by behavior which causes the goal not to be reached optimally. Optimizing the principal agent relationship can be done by minimizing the negative effects of principal agent conflict. In the literature several factors that can encourage the optimization of principal agent relations are formal contracts, transaction cost and agency costs. Referring to Macias, (2012: 48), addressing problems that arise in the principal agent's relationship, especially to avoid deviant actions by agents in carrying out their duties, requires a mechanism that can force the agent to work in accordance with the wishes of the principal. The mechanism is made in a contract that regulates the rights and obligations that must be carried out between the principal agent.

According to Carr and Brower (2000), Halim and Abdullah (2006), Sarwoko (2010: 27), to address agency problems, agency theory provides two types of formal contracts. The first is a contract based on an agent's behavior (behavioral based contract) and the second is contracts based on outcome (outcome-based contract). Contract selection accuracy refers to the efficiency of the exchange between a) information acquisition costs for monitoring agents and b) costs for determining outcomes and transferring risk to

agents. Based on the scheme of Manus (2007: 111), and Sarwoko, (2010: 28) in the behavioral base contract the principal agent has a common assessment that the agent has the right to receive compensation and reward in accordance with the provisions. In the outcome base contract, the principal provides rewards based on performance.

According to Williamson's, (1979; 1985: 2013), Lin and Nugen (1995), Klein (1999), Joskow (2004), McCann et al. (2005), Macher, R (2008), transaction cost basically focuses on the governance structure in implementing contracts between the two parties not on the real aspects of financing. The governance structure in implementing contracts aims to minimize financing. Furthermore, agency conflicts between principals and managers lead to agency costs, Jensen and Meckling (1976); Sarwoko (2010), Roshanawaty (2012); and Tumiwa (2013). Agency costs occur to convince management actions that all are in the best interests of the owner. Handoko (2014) argues that agency costs are costs incurred to reduce agency problems. Agency costs according to Jensen and Meckling (1976: 308) are the sum of (1) Monitoring Cost, (2) Bonding Cost (3) Residual Loss. Monitoring Cost is a cost incurred by principals to measure, observe and control agent's behavior. Agency relations in the public sector are generally analyzed using public choice theory, namely by assuming that the State depends on democratically elected politicians, to make public policy, such as the service of the interests of civil society (Lemieux, 2015). Several studies of public sector agency relations were conducted by Oliveira and Filho (2017) on the problems of agency in the public sector: the role of mediators between the municipalities and the executive bodies; Sopta, M., Mikić, M., Botički, M. (2017), Impact of the private and public theory companies based on the analysis of Croatian health care systems; Schönert, L.F., (2016), In what way is there a problem in the Principal and the relationship agent between the home minister and the Europeanized national civil servant and what factors explain higher or lower loyalty of the agent to the principal..

In contrast to the paper conducted by the previous author, this paper analyzes the principal relationship of agents in the overall concept of principal agent relations in public policy. Analysis of the principal agency relationship includes aspects of formal contracts, transaction costs, agency cost and principal agent conflicts in carrying out government policies to allocate village funds. The novelty to be conveyed in this paper is to measure the implementation of government policies in village fund allocation from the aspect of principal agent relations, how much the relationship of the influence of formal contracts, transaction costs, agency costs and agents' conflict on village fund allocation through principal agent relationships as intervening.

## 2. Methodology

The relationship of principal agents in this study is arranged in a structural equation model consisting of independent and dependent variables. Independent variables are formal contracts, transaction costs, agency costs and conflict of principal agent. The dependent variable is village fund allocation and principal agent relationship as intervening variable. The principal agent relationship is an intervening variable from the influence of formal contracts, transaction costs and agency costs on

village fund allocation. Principal Agent conflict is influenced by the interaction of information asymmetry in the form of moral hazard, adverse selection behavior, and goal's conflict. This research adopts the principal agent concept into the form of principal agents in public institutional. Operational definitions of variables and indicators are taken from Law, Number 6, year 2014 concerning villages and Minister of internal affair regulation's number 113, year 2014 and number 20, year 2018, concerning village financial management and agency theory in public institutions.

Principals are village heads and agents are village secretaries in under developed and very under developed villages in the North Padang Lawas District, North Sumatra Province which amounts to 351. The number of respondents is 702 people. Data obtained from questionnaires. Data from research results are arranged in one table using the SPSS program. Data were analyzed descriptively and multivariate regression analysis. Data validity using confirmatory factor analysis (CFA). Analysis of data using the SPSS and Amos 22 computer's software program. This study quantitatively measures the correlation and their's effect to each variable in the principal relationship of public institutional agents formed by law. The effect of contract formal, transaction cost, agency cost and prinsipal agent conflict to village fund allocation with principal agent relationship as intervening formulated by next structural equation model:

$$Y_{1i} = Y_{11}X_{1i} + \zeta_1 \quad (1)$$

$$Y_{1i} = Y_{11}X_{2i} + \zeta_1 \quad (2)$$

$$Y_{1i} = Y_{11}X_{3i} + \zeta_1 \quad (3)$$

$$Y_{1i} = Y_{11}X_{4i} + \zeta_1 \quad (4)$$

$$Y_{2i} = Y_{21}X_{1i} + \zeta_2 \quad (5)$$

$$Y_{2i} = Y_{21}X_{2i} + \zeta_2 \quad (6)$$

$$Y_{2i} = Y_{21}X_{3i} + \zeta_2 \quad (7)$$

$$Y_{2i} = Y_{21}X_{4i} + \zeta_2 \quad (8)$$

$$Y_{2i} = \beta_{21}X_{1i} + \beta_{21}X_{2i} + \beta_{21}X_{3i} + \beta_{21}X_{4i} + \zeta_2 \quad (9)$$

$$Y_{2i} = \gamma_{21}X_{1i} + \gamma_{21}X_{2i} + \gamma_{21}X_{3i} + \gamma_{21}X_{4i} + Y_{1i} + \zeta_2 \quad (10)$$

(Ruliyanti, D, 2016)

description:

$\gamma$  and  $\beta$  = (gamma and Beta), the path coefficient of each variable

$\gamma$  = The direct relationship of the dependent variable to the independent variable

$\beta$  = The direct relationship of the dependent variable to the dependent variable

$X_1$  = Formal Contract

$X_2$  = Transaction Cost

$X_3$  = Agency Cost

$X_4$  = Prinsipal Agent Conflict

$Y_1$  = Prinsipal Agent Relationship

$Y_2$  = Village Fund Allocation

$\zeta$  (Zeta) = Measurement error

The principal agent relationship in this paper refers to the notion of agency relations by Down (1964); (Jensen and Meckling, 1976); Eisenhard (1989); (Hadiprajitno, 2013). Olivevera and Filho (2017). Principal agent relationship (PAR) is a relationship created by regulation. Principal agent's relationship is the relationship between the village head (principal) as the person in charge and the village

secretary (agent) as the executor of village fund allocation activities. There are 10 indicators for principal agent relations.

Formal Contract refer to behavior base contract. Based on Manus (2007) and Sarwoko, (2010). Formal contract in this paper is the authority held by the principal and agent using in village fund allocation. There are 3 indicators for formal contracts.

Transaction Cost refers to Macher, R (2008). The governance structure in this paper is governance structur in carrying out activities. The governance structure consists of 2 indicators referring to regulations.

Agency cost refers to Jensen and Meckling (1976: 308) is the sum of (1) Monitoring Cost, (2) Bonding Cost (3) Residual Loss. (1983), Sarwoko (2010). In this paper, agency costs are fostering and supervising village fund allocation by higher-level government institution and guidance and supervision from the community. Agency cost has 3 indicators.

Principal Agent conflict is a situation where in carrying out a principal agent relationship, both parties are influenced by behavior that causes the goal to not be achieved due to information asymmetry in the form of adverse selection, moral hazard and goal's conflict. There are 3 indicators, namely adverse selection referring to Macias (2012). Moral hazard refers to Attila (2012); Oliveira and Filho (2017) In this paper, moral hazard is a different motivation in decisions. Goal conflict refers to Petersen, (1993); Macias (2012: 48) is a situation where the principal and agent conflict in terms of achieving goals and both are in different actions.

### 3. Result and Discussion

The results of formal contracts, transaction costs, agency costs on village fund allocation through principal agent relations as intervening and principal agent conflicts as moderators are  $X_2$  is more influential than other independent variables.  $X_1$  has the lowest influence on  $Y_2$  compared to  $X_1$  to  $Y_1$  and  $Y_2$ .  $X_2$  has the biggest influence on  $Y_2$  compared to other variables.  $X_3$  has an effect on  $Y_2$  and  $Y_1$  but is lowest in  $Y_2$ . The relationship between  $Y_2$  and  $Y_1$  is strong.  $Y_1$  as intervening variable was proven  $Y_1$  is more influential to  $X_4$  than  $Y_2$  to  $X_4$ . The relationship between  $X_2$  and  $X_3$  is negative greater than the others. Relationship measured by correlation between variable and affecting of indicator to variables measured by standardized coefficient regression.

There for, based on analysis: in the study of the principal agent relationship for public institutions on village fund allocation policies,  $X_2$  has a strong influence than other independent variables.  $X_2$  is governance structure or village governance in carrying out village fund allocation policies. This study proves that the influence of governance structure or governance has a very strong influence on village fund allocation. Public institutions through regulation have succeeded in providing good governance in carrying out policies. Principals and agents carry out good governance. This governance structure also has a strong influence on village fund allocation and principal agent conflicts. In public institutions, principal agents are given authority based on the power hierarchy in the government

$X_3$  as guidance and supervision in public institutions carried out by superiors tend to be weak compared to guidance and supervisions carried out by independent

parties.  $Y_1$  is the relationship between the principal as the person in charge of the allocation of village funds and the agent as the executor. Associated with  $Y_2$ , the relationship went well, and  $Y_1$  proved to be intervening. This study proved that in the  $Y_2$  policies, the effect of  $X_4$  on  $Y_1$  was greater than  $X_4$  on  $Y_2$ . Information gaps and goal conflicts can be overcome with good  $Y_1$  relations with  $Y_2$ .

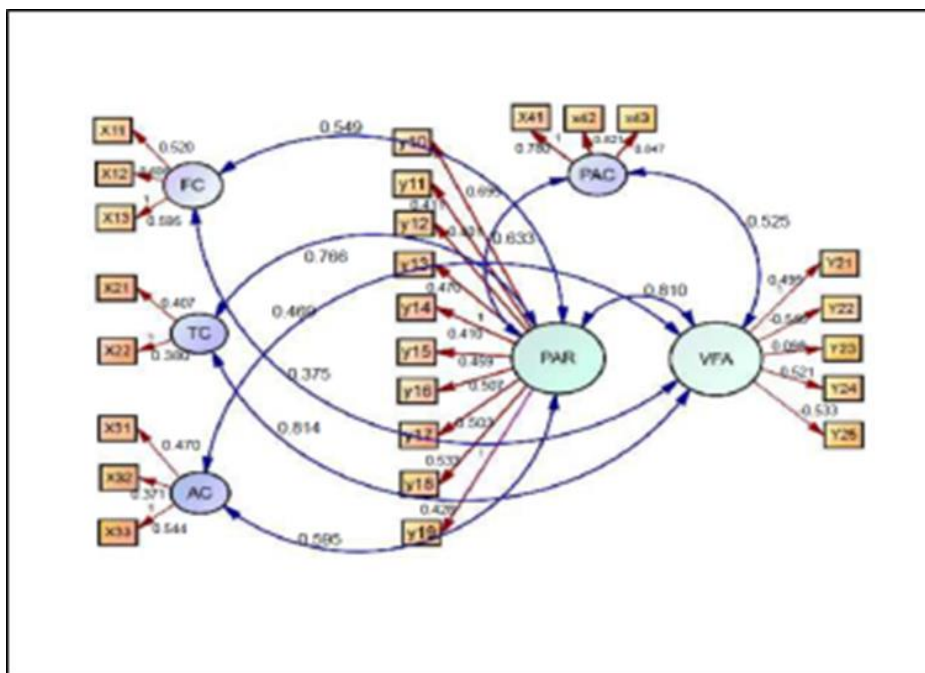
Regression coefficients for indicators of research variables are:  $x_{12}$  is more influential than  $x_{11}$  and  $x_{13}$  for  $X_1$ .  $y_{21}$  more influential than the other indicators of  $X_4$ .  $y_{22}$  and  $y_{25}$  have a negative effect on  $X_4$ .  $x_{21}$  more influential than  $x_{22}$  with  $X_1$ .  $x_{33}$  more influential than other indicators of  $X_3$ .  $y_{10}$  more influential than other indicators of  $X_4$ . All  $X_4$  indicator values have the highest influence compared to other indicators of all variables.  $x_{43}$  is more influential than other indicators of  $X_4$  and has the strongest influence compared to all indicators of all variables.  $X_4$  is a moderator

In this study,  $x_{12}$  is formal contracts are influenced by the authority of the agent because they are considered to have competence. Its influence is greater than the principal's authority and the agent's right to execute the contract. Competence encourages the success of the program village funds allocation.  $y_{21}$ , namely the allocation of village funds used for government administration. Greater influence on the use of village fund allocation compared to

the others.  $Y_2$  is used for administrative activities in village government.  $y_{22}$  and  $y_{25}$  negatively affect village fund allocation.

The effect of  $x_{21}$  is greater than the implementation of village fund allocation based on the principle of transparency, accountability, participatory, orderly and budgetary discipline. This study proves that the allocation of village funds has been carried out procedurally but had not been yet on the principle of transparency, accountability, participatory, orderly and budgetary discipline.  $x_{33}$  is stronger than official guidance and supervision from the provincial government and district/city government.  $y_{21}$  is the principal establishes policies regarding the implementation of the Village Budget higher than other indicator of  $Y_2$

The 10 of indicators for principal agents, this principal indicator has more influence than agent because the law requires such things. For influential factor agents, it is  $y_{18}$ , that is, the agent arranges the exposure and the person responsible for implementing the Village Budget.  $x_{41}$ ,  $x_{42}$  and  $x_{43}$  in  $X_4$  has highest effect than others. It means  $X_4$  dominates effect to  $X_4$  and  $Y_2$ .  $x_{43}$  is a goal conflict in.  $x_{43}$  is the difference in objectives and interests in village fund allocation, which means that in the planning phase conflict objectives have occurred. As a illustration for all relation and affecting of indicators, we see the figure below.



The results of this study proves that formal contract (FC) has a greater indirect relationship to Principal Agent Relationship (PAR) compared to directly related to Village Fund Allocation (VFA) or Principal Agent Conflict (PAC). In economic institutions, the achievement of one goal of success is related to how the Principal Agent Relationship's contained

In general, the relationship of formal contract to village fund allocation, principal agent relation and principal agent conflict at a low correlation. The formal contract in the principal agent relation against village fund allocation refers to the concept of behavioral based contract. Carr and Brower (2000), Halim and Abdullah (2006), Sarwoko (2010: 27). Based on the scheme of Manus (2007: 111), and Sarwoko, (2010: 28), in a behavioral based contract the

agent is entitled to receive compensation and reward in accordance with the provisions. Compensation and incentives received are not based on program success but are based on activities made.

Transaction Cost (FC) has a direct relationship to village fund allocation with a very high correlation value, compared to an indirect relationship to principal agent relation and a comparison relationship to principal agent conflict. Overall, transaction cost relationship to village fund allocation, principal agent relation and principal agent conflict is high correlation. In public institutions, transaction cost is of governance or service to the community related to principal agent relation. The results of the study prove that transaction cost is run only refers to the management of village fund allocation which is based

on planning, implementation, administration, reporting and accountability as specified by the indicator coefficient value is still moderate. Likewise, the x22 is still weak. It is necessary to improve the quality of x21 and transparency and accountability in the management of village fund allocation and increasing coordination with local/city governments so that the optimality of village fund allocation can be improved. as research by Ruliyanti, D (2016) Hotimah, H (2017), Pramesti, FA, and Yuwono, T (2018), Damayanti, W (2018).

Agency Cost (AC) has a direct relationship to village fund allocation with moderate strength. Agency cost has a greater relationship through an indirect relationship to principal agent relation and is very low on principal agent conflict as a comparison. In public institutions, agency cost is coaching and supervision. The results of the study, prove that x33, namely the guidance and supervision of the internal village government such as BPD and other institutions is greater than the regional/city government. The results of the research prove that the internal control of the agent's principal relationship is more effective in fostering and overseeing village Fund allocation. Institutional ownership is still relatively large compared to managerial ownership. Ahmad and Septriani, (2008), Roshanawaty (2012), Kusuma and Wayan (2013), Arumsari, Djumahir and Aisjah (2014), said managerial and institutional ownership inherent in principals and agents could reduce agency cost.

This is in line with the results of the study that managerial ownership is negatively related to agency cost. Therefore, it is necessary to strengthen institutional and managerial ownership in the context of the agent's duties, principal and principal functions so that agency cost can be derived. The application of outcome based contracts on principal agent relation is an alternative solution in increasing institutional and managerial ownership. Coordination with regional/city governments in the context of guidance and supervision (x31 and x32) is faced with technical obstacles, namely the extent of the area of guidance and supervision (Hotimah, H, 2017).

x41, namely adverse selection through principal agent conflict has a direct correlation to village fund allocation with a high correlation value. The indirect relationship between village fund allocation and principal agent relation is greater with a high correlation. Comparative relationship to formal contract to transaction cost correlates highly and agency cost has a low correlation. Overall, the principal agent conflict comparative value to transaction cost has a greater relationship than the direct or indirect relationship. x41 has a relationship to principal agent conflict with a high relationship. The results of this study are in line with Bergen, (1992), Macias, (2012) namely the adverse selection problem arises because principals do not have certainty about the intensity and ability of agents. In this study, the authority in preparing the village fund allocation plan rests with the principal and is technically carried out by the agent because the x41 problem in this study is greater due to the principal agent relation compared to village fund allocation.

x41 is program planning based on false information and facts so the results are not in accordance with the real purpose. The factor that caused it was because in the preparation of the Village fund allocation plan's was not based on the principles of transparency, accountability,

participation, discipline and budget discipline (x22) optimally. Accountability and transparency in the preparation of the program will minimize the impact of x41 (Dwiyanto, A., 2006: 80) and (Kholmi, 2016); World Bank (1992); UNDP (1997); Widodo (2001); Sedarmayanti (2003); and Raba (2006) which states that accountability is a major element in realizing good governance. The instrument to support accountability and transparency efforts is the village government accounting system and naturally requires competent human resources from the village government apparatus.

The principles of accountability and transparency coupled with participatory, orderly and budgetary discipline will be able to minimize the impact of x41, and issues related to improving village fund allocation management can be minimized such as Collusion, Corruption and Nepotism in the management of village fund allocation, Arifiyanto, DF and Kurrohman, T, (2014), Kholmi, M, (2016), Lestari, S (2017), Pramesti, FA, (2018), Damayanti W, (2018). x51, is moral hazard through principal agent conflict has a direct correlation with village fund allocation with moderate correlation. The indirect relationship to principal agent relation has a high correlation. The comparative relationship with formal contract was moderately correlated, with transaction cost having a high correlation and with agency cost having a low correlation. Overall, the principal agent conflict comparative value to transaction cost has a greater relationship than directly, indirectly, or compared.

x42 has a very high relation to principal agent conflict. Petrie (2002), Macias, (2012: 45) mentions x42 or moral hazard can occur at any time on both parties that make an agreement. Moral hazard is basically rational behavior that is selfish, opportunistic and take advantage of opportunities to meet their own interests different from others, Petrie (2002), Dow, (2010: 2), Poblete and Spulber, (2011: 3) and Macias, (2012: 45). The x42 value is very high and this opens up opportunities for various forms of mis using of the village fund allocation program. To overcome this, accountability and transparency in managing village fund allocation and public services are needed, Dwiyanto (2006), Arifiyanto, DF and Kurrohman, T, (2014), Kholmi, M, (2016), Lestari, S (2017), Pramesti, FA, (2018), Damayanti W, (2018).

x43, namely goals conflict through principal agent conflict has a direct relationship to village fund allocation with moderate correlation. Indirectly related to principal agent relation with high correlation. The comparative relationship with formal contract of moderate value, with transaction cost having a high correlation and with agency cost having a low correlation. Overall, the principal agent conflict comparative value to transaction cost has a greater relationship both directly and indirectly. x43 has a very high relation to principal agent conflict. Overall, x41, x42 and x43 through principal agent conflict have a high correlation both direct relationships, indirect relationships and comparative values, with x43 has the greatest relationship compared with x41 and x42. x43 is a conflict of objectives of Peterson, (1993), Milgrom and Robert, (1992) and Macias, (2012: 48). budget (x22). The success in overcoming x43 is related to the need for village fund allocation management planning in accordance with established regulations and implementing it in the village accounting system, providing incentives by establishing the

regular income of village officials, and implementing internal control. Dewi, RA et al. (2016) and technically, accountability and transparency in preparing financial management plans must be supported by the use of a computerized system, Kartiko, K.W and Novasari, L (2019).

Based on the results of the study, all the problems that arise in this study are sourced from the high principal agent conflict in dealing with all the variables and indicators related to principal agent relation and village fund allocation. Principal agent conflict opens opportunities for Collusion, Corruption and Nepotism in government policies, especially in the management of village fund allocation. Overcoming it requires increasing the principles of accountability, participatory transparency, orderly and budgetary discipline in organizing programs, increasing human resources, commitments, incentives and computerized service systems.

#### 4. Conclusion

The results of this study prove that the Formal Contract is directly related to the Village Fund Allocation but the indirect relationship is greater to the Principal Agent Relationship than to the direct relationship to the Village Fund Allocation and to the Principal Conflict Agent as comparison. It is necessary to strengthen the role of the Principal Relationship of Agents in the management of Village Fund Allocation, especially the improvement of human resources, performance based incentives (outcome based contract) and the pattern of principal relations of agents in the village government in carrying out village development policies such as the principal is the Village Head, Agents are from outside parties village government structure with special competence in carrying out development programs.

Transaction costs are directly related to the Village Fund Allocation with a very high correlation value, compared to an indirect relationship to the Principal Agent Relationship and a comparison to the Principal Agents Conflict. Overall, the relationship between Transaction Costs and Village Fund Allocation, Principal Agent Relationships and Principal Agent Conflicts is highly and highly correlated. Agency costs are directly related to Village Fund Allocations with moderate correlations. Agency costs have a greater influence through indirect relationships with Agent Principal Relationships and are very low on Agent Principal Conflicts as a comparison.

In public institutions, Agency Costs are coaching and supervision. The results of research, guidance and internal supervision of village governments and other institutions have greater influence compared to regional/city governments. Institutional ownership is still relatively large compared to managerial ownership. Managerial and institutional ownership inherent in principals and agents can reduce Agency Costs. It is necessary to strengthen institutional and managerial ownership in the context of the agent's duties, principal and principal functions so that Agency Costs can be reduced.

Adverse selection through Principal Conflict Agents is directly related to Village Fund Allocations with moderate correlations. The indirect effect on the Principal Agent Relationship is greater with a high correlation. Accountability and transparency in the preparation of the program will minimize the impact of adverse selection and the main elements in realizing good governance.

Corruption and Nepotism can be minimized. Moral hazard through Principal Agents Conflict are directly related to Village Fund Allocations with moderate correlations. The indirect effect on the Principal Relationship Agent has a high correlation. The comparative relationship with formal contracts is moderately correlated, with low transaction costs and agency costs. Overall, the comparative value of Agent Principal Conflicts against Transaction Costs correlates more than direct, indirect or even effects. Moral Hazard has a very high influence on the Principal Agents Conflict. To overcome this, accountability and transparency in managing Village Fund Allocation and public services, organizational commitment, communication and improvement of human. Goals Conflict through Principal Agents Conflict are directly related to Village Fund Allocations with moderate correlations. The indirect effect on the Principal Relationship of the Agent is high.

Goals Conflict has a very high influence on the Principal Agents Conflict. Overall, Adverse Selection, Moral Hazard and Goals Conflict through Principal Agents Conflict have a high influence both on direct relationships, indirect relationships and comparative values. To overcome the problem of adverse selection, Moral Hazard and Goals Conflict need to increase accountability in the Village Fund Allocation planning at the same time need to increase the principles of transparency, participatory, orderly and budgetary discipline. Success in overcoming conflicting objectives is influenced by the existence of Village Fund Allocation management planning in accordance with established regulations and implementing it in the village accounting system, providing incentives by establishing the fixed income of village officials, and implementing internal control and the use of computerized systems.

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