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Community-Based Accounting for Sustainable Rural Development

Badriyatun Nufus[1], Cut Hamdiah[2*], Farah Salsabila M[3], Mutia Rahmi[4], M. Risky[5]

[1,3,4,5]Student of the Accounting Study Program, Faculty of Economics, Universitas Serambi Mekkah – Banda Aceh

[2*]Lecturer of the Accounting Department, Faculty of Economics, Universitas Serambi Mekkah – Banda Aceh

*Corresponding email: cut.hamdiah@serambimekkah.ac.id

Abstract: *Sustainable rural development increasingly depends on effective financial governance and meaningful community participation at the local level. Although decentralization policies have expanded fiscal resources for villages, many rural areas continue to face challenges related to weak transparency, limited accountability, and low public involvement in financial management. This study aims to examine the role of community-based accounting in supporting sustainable rural development by strengthening participatory financial governance at the village level. Using a qualitative descriptive research approach, data were collected through field observations, semi-structured interviews, and document analysis involving village officials, community leaders, and local stakeholders engaged in village financial management. Relevant academic literature and institutional reports were also reviewed to support the analysis. The findings indicate that community-based accounting enhances transparency and accountability by actively involving citizens in budgeting, implementation, monitoring, and reporting processes. Community participation reduces information asymmetry, strengthens downward accountability, and increases public trust in village governance. Moreover, participatory accounting practices contribute positively to sustainable rural development outcomes, including improved infrastructure quality, economic empowerment, and social inclusion. The study concludes that sustainable rural development cannot be achieved solely through financial allocations and compliance-based accounting systems, but requires inclusive, participatory, and accountable financial practices embedded within local community structures.*

Keywords: *Community-based Accounting; Rural Development; Financial Accountability; Community Participation; Public Sector Accounting; Sustainability*

1. Introduction

Sustainable rural development has become a central pillar of national and global development agendas, particularly in developing countries where the majority of the poor reside in rural areas. Rural development is closely linked to poverty reduction, food security, employment creation, and balanced regional growth (UNDP, 2017; World Bank, 2023). In response to this agenda, many governments have implemented decentralization policies that transfer financial authority and development responsibilities to local governments and village institutions. In Indonesia, for example, the Village Fund policy has significantly increased fiscal resources at the village level to support infrastructure development, public services, and community empowerment. However, despite the substantial growth of rural financial allocations, many villages continue to face persistent problems such as inefficiency, limited transparency, weak accountability, and low community participation in financial management (OECD, 2020; Sofyani et al., 2022). These problems indicate that financial availability alone is insufficient to ensure sustainable rural development without strong governance mechanisms and inclusive accounting practices.

Accounting plays a strategic role in public financial governance as it serves not only as a technical tool for recording and reporting financial transactions, but also as a social mechanism for ensuring accountability and public trust (Grossi & Argento, 2022). In conventional public sector accounting, financial management is largely dominated by bureaucratic procedures, standardized reporting formats, and upward accountability to higher authorities. While this system is important for legal compliance, it often fails to accommodate the informational needs of local communities and tends to marginalize citizen participation. In contrast, community-based accounting emphasizes community involvement in budgeting, financial implementation, monitoring, and evaluation as a fundamental principle of accountability. This approach positions citizens not merely as passive recipients of development programs, but as active stakeholders in financial decision-making processes. Previous studies have shown that participatory accounting and community-driven financial governance improve transparency, reduce corruption, and enhance the efficiency of public spending (Srirejeki & Khairurrizqo, 2025; Touchton et al., 2024).

Despite the growing recognition of participatory governance, the practical implementation of community-based accounting in rural settings remains limited and uneven. Many rural communities still experience low financial literacy, weak institutional capacity, and limited access to understandable financial information (World Bank, 2020). Financial reports are often prepared solely to meet administrative requirements rather than to inform and empower the community. This situation creates a significant gap between formal transparency and substantive accountability. Moreover, most empirical studies on rural financial accountability focus predominantly on internal control systems, regulatory compliance, and digital financial technologies (Hamed, 2023; Purnamasari et al., 2024), while the role of community participation as the core driver of accounting accountability remains underexplored. From an institutional perspective, (Tole, 2010) argues that effective governance is shaped not only by formal rules, but also by informal institutions such as social norms and collective practices. However, the integration of accounting systems with community-based social mechanisms in rural development has not been sufficiently addressed in existing research.

Based on these issues, this study is conducted to examine the role of community-based accounting in supporting sustainable rural development. Specifically, this research aims to analyze how community participation in financial planning, implementation, monitoring, and reporting contributes to transparency, accountability, and development effectiveness at the village level. The significance of this study lies in its contribution to both theory and practice. Theoretically, this research enriches the literature on public sector accounting and social accounting by emphasizing accounting as a participatory and socially embedded governance instrument rather than merely a technical function. Practically, the findings are expected to provide policy-relevant insights for village governments and local authorities to strengthen participatory financial governance mechanisms that empower communities and enhance public trust. Ultimately, this study is expected to demonstrate that sustainable rural development cannot be achieved solely through financial allocations and compliance-based accounting systems, but must be supported by strong community engagement and accountable, inclusive financial practices aligned with the Sustainable Development Goals.

Community-Based Accounting

Community-based accounting is increasingly recognized as a participatory approach to public financial management that emphasizes the involvement of citizens in budgeting, financial implementation, monitoring, and reporting processes at the local level. In contrast to traditional compliance-oriented public sector accounting, community-based accounting focuses on transparency, accessibility of financial information, and collective control over public resources (OECD, 2020; UNDP, 2022). This approach aligns with the broader concept of participatory governance, which places citizens as active stakeholders rather than passive recipients of development programs.

Recent studies demonstrate that community-based accounting strengthens downward accountability and enhances public trust in local governments. According to (OECD, 2020), participatory financial governance significantly reduces information asymmetry between government and citizens and improves the legitimacy of public financial decisions. (World Bank, 2020) also reports that villages with strong community involvement in financial management show better budget discipline and lower risks of fund misallocation. These findings indicate that community-based accounting functions not only as a technical reporting system, but also as a social accountability mechanism.

From an institutional perspective, contemporary research emphasizes that formal financial systems must be supported by strong informal governance mechanisms to function effectively. (Asongu & Odhiambo, 2019) argue that inclusive institutions where communities are actively involved in governance—are key drivers of sustainable development. In rural financial governance, community participation serves as an informal control mechanism that complements formal accounting standards and audit procedures. Recent empirical evidence from developing countries confirms that villages with inclusive financial governance structures demonstrate higher levels of transparency and fiscal responsibility (Banerjee et al., 2020; Sofyani et al., 2022).

However, the implementation of community-based accounting faces significant challenges. Low financial literacy, limited access to understandable financial information, and weak institutional capacity hinder effective community participation (Kirkby et al., 2018; UNDP, 2022). In many rural areas, financial reports are technically available but remain inaccessible to ordinary citizens due to complex accounting formats. Therefore, recent literature emphasizes the importance of simplifying financial information, strengthening financial literacy, and institutionalizing participatory monitoring mechanisms to ensure that community-based accounting can operate effectively.

Rural Development and Sustainability

Sustainable rural development is defined as a long-term process of improving economic well-being, social equity, and environmental protection in rural areas through inclusive and responsible governance (FAO, 2016; Pathak & Deshkar, 2023; United

Nations Department of Economic and Social Affairs, 2021). The Sustainable Development Goals (SDGs) explicitly place rural areas at the core of global development efforts, particularly in relation to poverty reduction (Goal 1), food security (Goal 2), decent work (Goal 8), and sustainable communities (Goal 11). Recent development literature emphasizes that sustainability in rural development cannot be achieved without strong local institutions and accountable financial governance (OECD, 2020; World Bank, 2020).

Public financial management is widely recognized as a critical determinant of sustainable rural development. According to the (World Bank, 2020), ineffective financial governance at the village level leads to low development impact, inefficiency, and leakage of public funds. Conversely, villages with transparent and accountable financial management tend to demonstrate better development outcomes in infrastructure quality, health services, education access, and economic empowerment. (OECD, 2020) further emphasizes that sustainable development requires fiscal responsibility, transparency, and long-term planning to ensure that public spending generates lasting socio-economic benefits.

Environmental sustainability has also become a central dimension of rural development in recent literature. (Yu et al., 2024) highlight that rural development programs must integrate environmental considerations to avoid natural resource degradation and climate vulnerability. Sustainable rural finance therefore requires accounting systems that can support environmentally responsible decision-making, including the tracking of environmental expenditures and sustainable livelihood programs.

Despite strong policy commitments to sustainable rural development, recent studies show that many rural areas still struggle with weak accountability, limited coordination, and insufficient community participation (OECD, 2020; World Bank, 2020). These weaknesses reduce the effectiveness of development spending and undermine the long-term sustainability of rural development programs. This condition reinforces the importance of integrating community-based accounting into sustainable rural development strategies.

Community Participation and Accountability

Community participation is widely regarded as a core pillar of accountable and democratic local governance. Contemporary governance literature defines participation as the active involvement of citizens in decision-making processes, including planning, budgeting, implementation, and evaluation of public programs (UNDP, 2023). Participatory governance reforms over the last decade increasingly emphasize the importance of citizen engagement in public financial management as a means to strengthen transparency and accountability.

Recent accountability studies emphasize that participation enhances both vertical and horizontal accountability. (OECD, 2020) explains that citizen participation enables communities to directly assess government performance, request justification for public spending, and influence budget priorities. Similarly, (World Bank, 2020) finds that participatory monitoring mechanisms significantly improve financial discipline and reduce corruption risks in local governments. These findings confirm that participation is not merely a democratic ideal but a practical instrument for strengthening accountability.

Social trust and civic engagement are also highlighted as crucial factors in participatory accountability. Contemporary studies show that high levels of community engagement create strong social control mechanisms that discourage opportunistic behavior among public officials and increase compliance with financial regulations (Aaref, 2015; UNDP, 2023). In rural areas, close social relationships further strengthen this social accountability mechanism, making community participation a powerful complement to formal audits and inspections.

Nevertheless, recent literature also identifies persistent barriers to meaningful participation. Limited access to financial information, low financial literacy, elite domination of decision-making forums, and digital divides remain major obstacles in many rural communities (OECD, 2020; World Bank, 2020). In many cases, participation remains procedural rather than substantive, where citizens are formally invited to meetings but have little real influence on financial decisions. This gap between formal participation and substantive accountability remains a central challenge in the implementation of community-based accounting.

2. Method

This study employs a qualitative descriptive research method to analyze the role of community-based accounting in supporting sustainable rural development. A qualitative approach is used to capture in-depth insights into community participation, financial accountability practices, and governance dynamics at the village level that cannot be adequately examined through quantitative techniques. Data were collected through field observations, semi-structured interviews, and document analysis involving village officials, community leaders, and local stakeholders directly engaged in village financial management. Relevant documents such as village financial reports, regulations, and community meeting records were reviewed to support primary data. In addition, academic literature and institutional reports related to public sector accounting, participatory governance, and rural development were examined to strengthen the analytical framework. Data analysis was conducted using thematic qualitative analysis by identifying patterns linking community participation, accounting practices, and accountability outcomes. To ensure data credibility, triangulation was applied by comparing findings from interviews, observations, documents, and literature sources. To provide a clearer overview of the research process, the methodological stages, data sources, and analytical purposes applied in this study are summarized in **Table 1.**

Table 1. Research Methodological Framework

Research Stage	Main Activities	Data Sources	Purpose of Analysis
Research Design	Qualitative descriptive approach focusing on community-based accounting practices	Conceptual framework, previous studies	To understand the role of participatory accounting in rural financial governance
Data Collection	Field observations, semi-structured interviews, and document analysis	Village officials, community leaders, village financial reports, regulations	To capture empirical evidence of community participation and accountability practices
Data Processing	Data organization	Interview	To systematically

	and categorization	transcripts, observation notes, official documents	organize qualitative data for analysis
Data Analysis	Thematic qualitative analysis	Coded qualitative data	To identify patterns linking community participation, accounting practices, and accountability outcomes
Validation	Data triangulation	Interviews, observations, documents, literature	To ensure credibility and consistency of research findings

3. Results and Discussion

Community-Based Accounting Practices in Villages

The findings of this study indicate that community-based accounting practices in villages are generally implemented through participatory mechanisms embedded in the stages of planning, budgeting, implementation, reporting, and accountability. In most observed villages, the budgeting process begins with community deliberation forums, where residents are invited to propose development priorities and discuss budget allocations. Financial plans are subsequently formalized into village budgets and implemented by village administrations with varying degrees of community involvement. Financial reporting is normally prepared in accordance with government regulations, while public disclosure is conducted through information boards, village meetings, and in some cases digital platforms.

However, the level of effectiveness of community-based accounting varies significantly across villages. Some villages demonstrate high levels of transparency, timely financial reporting, and active public monitoring, while others still show compliance-oriented practices that prioritize administrative requirements over public accountability. Villages with stronger community-based accounting practices tend to simplify financial information into formats that are easily understood by citizens, such as graphical budget summaries and public financial briefings. This finding is consistent with (OECD, 2020; UNDP, 2022), which emphasize that accessibility of financial information is a prerequisite for meaningful public participation and accountability.

The results further show that the success of community-based accounting is strongly influenced by institutional capacity and financial literacy at the village level. Villages with trained financial staff and active civil society groups are more capable of implementing participatory accounting practices. Conversely, limited human resource capacity, weak information systems, and low public understanding of financial reports remain major barriers in less developed villages. These findings align with (World Bank, 2020), which reports that weak local capacity remains one of the main constraints in the implementation of participatory financial governance in rural areas.

From an accountability perspective, community-based accounting strengthens downward accountability, where village governments are accountable not only to higher authorities but also directly to citizens. This shift from predominantly vertical accountability to more balanced horizontal accountability enhances public trust and reduces information asymmetry between government and the community. However, the findings also indicate that community-based accounting is still in an early stage of institutionalization in many villages and requires continuous support from local governments and development stakeholders.

Community Participation in Financial Management

Community participation in financial management is found to be a central pillar of community-based accounting. The study reveals that participation occurs primarily through community meetings, monitoring committees, and informal social oversight during the implementation of development projects. Community members are actively involved in identifying development priorities, supervising project execution, and evaluating development outcomes. In villages with strong participation, residents feel a sense of ownership over development programs, which encourages collective responsibility for the proper use of public funds.

The findings show that active participation significantly improves transparency and accountability in financial management. Community monitoring reduces opportunities for fund misuse and increases the likelihood that budget allocations reflect genuine local needs. These findings support recent governance literature that highlights participation as an effective mechanism for strengthening public accountability and reducing corruption risks (OECD, 2020; World Bank, 2020). Moreover, community participation enhances the legitimacy of financial decisions, as budget priorities are determined through collective deliberation rather than unilateral decisions by village elites.

Social interaction and trust play an important role in sustaining participation. In villages with strong social cohesion, community members are more willing to engage in financial oversight and to question irregularities in fund use. Participation is not only institutionalized through formal meetings but also supported by informal social networks that enable rapid information sharing and collective monitoring. This form of social accountability reinforces formal financial control mechanisms and creates moral pressure on village officials to act transparently.

Nevertheless, the findings also reveal several challenges that limit meaningful participation. In some villages, participation remains symbolic, with community members formally invited to meetings but having little real influence on financial decision-making. Elite domination of village forums, limited access to financial information, and low financial literacy among citizens are persistent obstacles. These challenges reflect recent empirical findings that participation can be procedural rather than substantive if not supported by inclusive institutional designs and capacity-building programs (OECD, 2020; UNDP, 2022).

Furthermore, digitalization of financial management presents both opportunities and challenges for participation. On the one hand, digital platforms enhance transparency and broaden public access to financial information. On the other hand, digital divides in rural areas limit the ability of some community members to access and utilize digital financial data. This condition highlights the need for hybrid participation models that combine digital tools with traditional face-to-face deliberation mechanisms to ensure inclusivity.

Implications for Sustainable Rural Development

The findings of this study demonstrate that effective community-based accounting has significant implications for sustainable rural development. Villages with strong participatory financial governance tend to achieve better development outcomes in terms of infrastructure quality, economic empowerment, and social welfare improvement. Transparent financial management increases public confidence in development programs and encourages greater community involvement in economic and social initiatives. This condition supports the achievement of several Sustainable Development Goals (SDGs), particularly Goal 1 (No Poverty), Goal 8 (Decent Work and Economic Growth), and Goal 11 (Sustainable Communities). From a governance perspective, community-based accounting strengthens institutional sustainability by embedding accountability within community practices rather than relying solely on external supervision. Sustainable development requires not only financial resources but also strong local institutions that can manage those resources responsibly over the long term. The literatures discussion emphasizes that sustainable public governance depends on transparency, participation, and accountability as mutually reinforcing principles. The findings of this study confirm that when these principles are integrated through community-based accounting, rural development becomes more inclusive and resilient.

Economically, participatory financial management improves the effectiveness of public spending by ensuring that resources are allocated to priority sectors that directly benefit the community. Communities become more motivated to support village-owned enterprises, local infrastructure projects, and community empowerment programs when they trust that funds are managed transparently. This creates a positive cycle between accountability, economic participation, and sustainable growth. Socially, community-based accounting promotes social inclusion and collective responsibility. Community members, including women and marginalized groups, gain greater opportunities to participate in financial decision-making processes. This inclusivity strengthens social cohesion and reduces social tensions related to perceived unfairness in resource allocation. Environmentally, participatory governance also supports sustainability by allowing communities to prioritize environmentally responsible development programs, such as clean water management, waste management, and sustainable agriculture.

Despite these positive implications, the study also highlights that the contribution of community-based accounting to sustainable rural development is not automatic. Without institutional support, capacity building, and consistent policy commitment, participatory accounting practices may weaken over time. Therefore, sustainable rural development strategies must integrate technical financial governance reforms with continuous efforts to strengthen community participation and accountability culture.

4. Conclusion

Key Findings

This study concludes that community-based accounting plays a significant role in strengthening transparency, accountability, and the effectiveness of financial management in rural development. The findings indicate that villages which actively involve communities in budgeting, implementation, monitoring, and reporting processes tend to demonstrate higher levels of financial transparency and public trust. Community participation enables citizens to directly observe how public funds are allocated and used, thereby reducing information asymmetry between village governments and residents.

The study also finds that community-based accounting strengthens downward accountability, where village governments are accountable not only to higher administrative authorities but also directly to the community. This form of accountability encourages more responsible financial behavior and discourages opportunistic practices. Furthermore, meaningful community participation fosters a sense of collective ownership of development programs, which increases public support for village development initiatives. In addition, the findings confirm that community-based accounting contributes positively to sustainable rural development. Villages with participatory financial governance tend to achieve better development outcomes in infrastructure quality, economic empowerment, and social welfare improvement. These results demonstrate that sustainable rural development is not determined solely by the availability of financial resources, but also by how inclusively and responsibly those resources are managed.

Practical Implications

The findings of this study provide several important practical implications for village governments, policymakers, and development stakeholders. First, village financial governance reforms should prioritize not only compliance with regulations and technological innovation, but also the strengthening of community participation as a core element of accountability. Community-based accounting should be institutionalized through clear mechanisms that guarantee public involvement in financial planning, monitoring, and evaluation.

Second, capacity-building programs are essential for the effective implementation of community-based accounting. Village officials and community members need continuous training in basic financial literacy, budget analysis, and participatory monitoring techniques. Simplification of financial information into formats that are easily understood by the public is also crucial to ensure meaningful participation.

Third, local governments should promote inclusive participation by ensuring that women, youth, and marginalized groups are actively involved in financial decision-making processes. Inclusive participation strengthens social equity and improves the legitimacy of village development programs. In addition, the use of digital financial information systems should be accompanied by offline participation mechanisms to avoid excluding communities with limited access to digital technology. Finally, for policymakers, this study suggests that sustainable rural development strategies should integrate community-based accounting with broader governance reforms. Accountability, transparency, and participation should be treated as interconnected principles that jointly support long-term rural development sustainability.

Limitations and Future Research

Despite its contributions, this study has several limitations. First, the analysis is limited to the village context and therefore may not fully reflect financial governance dynamics at other levels of government. Second, this study focuses primarily on qualitative patterns of community participation and accountability, which may limit the ability to generalize the findings across wider regions. Third, the level of community participation may vary significantly depending on local social, economic, and institutional conditions, which were not fully controlled in this study.

Future research is recommended to expand this study in several directions. Quantitative approaches using surveys and statistical analysis could be employed to measure the strength of the relationship between community-based accounting and sustainable rural development outcomes. Comparative studies across different regions and cultural settings would also provide a deeper understanding of how social, economic, and institutional variations influence the effectiveness of participatory accounting practices. In addition, future studies could explore the integration of community-based accounting with digital financial governance systems to assess how traditional participation mechanisms can adapt to technological transformation in rural areas.

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