

The Effect of Government Expenditures in Agriculture on Gross Regional Domestic Products of the Agricultural Sector in Lampung Province

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Abstract

Agricultural sector is the dominant sector in Lampung Province with a contribution of 29.90 percent to the Gross Regional Domestic Product (GRDP) of Lampung Province. The majority of Lampung residents also work in the agricultural sector. As the base sector, the government continues to support this sector. The government's budget for the agricultural sector through local government budget, Physical Specific Allocation Fund, and the Kredit Usaha Rakyat (KUR) policy continues to increase during 2017-2020. However, the GRDP growth of the agricultural sector in Lampung Province continues to decline. This study aims to analyze the effect of local Government Budget, Physical Specific Allocation Fund, KUR, and labor in the agricultural sector on the GRDP of the agricultural sector in Lampung Province. This study use secondary data 15 district/city in Lampung Province. By using panel data regression, the results show that the local government budget and KUR in the agricultural sector have a significant and positive effect, while the physical Specific Allocation Fund in the agricultural sector actually has a negatif effect on the GRDP of the agricultural sector. The local government needs to continue optimizing the local government budget and expand the distribution of KUR as support to promote growth of the agricultural sector in Lampung.

Keywords

agriculture; specific allocation fund; local government budget



I. Introduction

In Lampung Province, agricultural is the leading sector. Based on data from the Central Statistics Agency (BPS) of Lampung Province, the majority of the population in Lampung Province, namely 45.16% of the workforce, work in this sector. In 2020, the contribution of this sector reached 29.90% of the Gross Regional Domestic Product (GRDP), making it the dominant sector that makes up Lampung's GRDP. This large role shows that the basis of Lampung's economy is the agricultural sector. Moreover, the production of several agricultural commodities from Lampung occupies the top rank as a national food barn, such as the first rank of national rice production (2.65 million tons of dry milled grain), corn in the third place nationally (2.83 million tons of production) and cassava which is ranked 1st. national (production 8 million tons). This result makes Lampung Province potential as a buffer for national food needs.

The agricultural sector as Lampung's leading sector certainly requires budget and policy support from the Government. It is appropriate that the APBN and APBD are also directed to encourage increased production of the agricultural sector in order to leverage economic growth. With a large contribution to GRDP, the increasingly rapid growth of the agricultural sector will also significantly contribute to Lampung's economic growth. Government spending through the APBN and APBD is expected to have a greater multiplier effect for the agricultural sector in Lampung Province. Government budget and policy support for the agricultural sector at the Regency/City level in Lampung Province, among others, is disbursed through the Physical Special Allocation Fund (DAK) for agriculture, as well as APBD for agricultural affairs. In addition, the government also rolled out the People's Business Credit (KUR) and Ultra Micro (UMi) programs to support financing and investment in the agricultural sector because weak capital is still one of the obstacles for farmers in Lampung Province.

The GRDP growth in the agriculture, forestry and fisheries sectors of Lampung Province in the last 5 years has shown a downward trend. This sector grew by 3.11% in 2016, but fell drastically in 2017 which only grew by 0.86%. The growth of this sector in 2018, 2019, and 2020 was 0.97%, 1.34%, and 0.66%, respectively. This is not in line with the annual increase in the budget for the agricultural sector. In fact, during that period, the realization of the distribution of KUR and UMi for the agriculture, forestry and hunting sectors in Lampung Province actually increased sharply. In 2016 KUR disbursed to this sector amounted to Rp1.37 trillion and continued to increase significantly more than doubled in 2020, which was Rp3.06 trillion. Likewise, support for the agricultural sector sourced from Physical DAK whose realization increased from Rp. 62.42 billion in 2019, to Rp. 169.89 billion in 2020. APBD support for agricultural affairs in 2018 amounted to Rp.464.20 billion and increased to 498.01 billion. in 2019. These data show that increasing fiscal support is not directly proportional to the GRDP growth of the agricultural sector in Lampung Province.

Referring to Solow's theory of economic growth, in addition to capital, the role of human resources is also important to encourage economic growth. The number of workers in the agricultural sector in Lampung Province in 2020 reached 1.9 million people and made the agricultural sector the main job for the Lampung population. The large number of workers in the agricultural sector indicates the vital role of this sector in the economy and welfare of the people of Lampung. Preferably, the large number of workers in this sector can also support growth in the agricultural sector

Several studies have shown different results regarding the role of government spending, labor, and capital support in agriculture on economic growth in the agricultural sector. Study M. Taufiq dan Rafael Purtomo S (2016) shows that the APBD for agricultural affairs in the Besuki Residency EKS area has a positive and significant impact on the GRDP of the agricultural sector in the region. But research Sulaeman dan Andriyanto (2021) found that DAK in agriculture for regencies/cities throughout Indonesia had no effect on growth and development. Study results Sumedi et al., (2013) also shows that the government's budget allocation for the agricultural sector has low effectiveness in creating value added to the agricultural sector. Widyandana (2018) stated that the workforce has a positive and significant impact on the GRDP of the agricultural sector in 35 regencies/cities in Central Java Province. On the contrary, the findings Puspita Kristiana, (2015) is the workforce is actually negatively correlated with the GRDP of the agricultural sector in Central Java.

Research on the effect of government spending on agriculture and labor on the GRDP of the agricultural sector has been carried out but yielded different conclusions. Several other studies discuss the role of DAK in agriculture and credit to encourage growth in the agricultural sector. Based on the facts and data above, both government spending, labor and

access to capital in the agricultural sector are needed to encourage the growth of the agricultural sector. Therefore, this study combines several of these variables to analyze the effect of government spending on the agricultural sector, Physical DAK in agriculture, KUR in the agricultural sector and labor in the agricultural sector on the GRDP of the agricultural sector in Lampung Province.

II. Review of Literature

John Maynard Keynes in his book entitled *The General Theory of Employment, Interest, and Money* issued an idea about the need for government policy/intervention in the economy. He argued that aggregate demand determines the level of economic activity. Expansive fiscal policy through government spending will increase the amount of money in the economy so as to encourage aggregate demand and increase economic output. Furthermore, the increase in aggregate demand will make investors optimistic, thus triggering investors to increase their investment (Alqadi & Ismail, 2019). Government spending will stimulate economic growth.

Meanwhile, Solow's growth theory (Solow, 1956) states that economic growth is influenced by capital, labor, and technology. The production function uses the Cobb-Douglas production function:

$$Q = AK^aL^b$$

Where A is multifactor productivity, a and b are less than 1, indicating diminishing returns and $a+b=1$ indicating constant returns to scale. K is capital (capital) and L is labor (labor). According to Solow, an increase in L , due to the assumption of diminishing returns, will decrease Q/L or output per worker. An increase in K or capital will increase output and Q/L . An increase in A will increase Q/L or output per worker.

Several studies have been conducted to analyze the role of local government budget and labor in the agricultural sector in GRDP. Study of Widyandana (2018) in regencies/cities in Central Java Province indicate that government spending does not have a significant effect on the GRDP of the agricultural sector, while the workforce has a positive and significant effect. Other research was also conducted by Taufiq et al., (2016) found that government spending and labor in the agricultural sector significantly effect the GRDP and the coefficient was positive in the area of Besuki Residency. While Puspita Kristiana (2015) for Central Java in 2008-2013 stated that government spending and labor in the agricultural sector had a different effect to GRDP, government spending had a positive correlation, while labor had a negative correlation. This is because the addition of labor that is not accompanied by the addition of other inputs will decrease the output on agricultural sector.

Meanwhile, another study focuses on the role of DAK for agriculture in the GRDP of the agricultural sector. According to Qomariyah et al. (2017) increasing DAK allocations for roads and irrigation could improve agricultural sector GRDP, total GRDP, and total employment. The increase in special allocation funds (agriculture and irrigation) has also proven to increase irrigated rice area, production and food security in Jambi (Zainuddin, 2021). In addition, to provide capital solutions for farmers, there are also several credit schemes for the agricultural sector. Ashari (2019) examined the optimization of program credit policies in the agricultural sector in Indonesia and found that there is still a need to improve program credit policies in the agricultural sector by avoid overlapping of programs which is actually counterproductive. Study Bengi (2019) also concludes in Aceh credit in agricultural sector can improve the agricultural GRDP.

III. Research Methods

This study use panel data covering 15 regencies/cities in Lampung Province in 2017 to 2020. The data used is secondary data obtained from several sources, namely Gross Regional Domestic Product (GRDP) data in the agricultural sector which is sourced from the National Bureau of Statistics (BPS), Physical DAK from Online Monitoring SPAN (OMSPAN), realization data on People's Business Credit (KUR) and Ultra Micro (UMi) from SIKP, APBD data sourced from the Local Government Budget Realization Report (LRA) and data on the number of workers working in the agricultural business field from BPS.

The model used in this study is a modification of several previous studies, namely (Taufiq et al., 2016), (Widyandana, 2018) and (Puspita Kristiana, 2015) which uses the Solow growth model. National output (Y) is a function of capital (K) and labor (L). The APBD for agricultural affairs, the Physical DAK in the agricultural sector, and the realization of the distribution of KUR and UMi in the agricultural sector (all three are proxies for capital) and the number of workers in the agricultural sector (as a proxy for labor). The model used is as follows:

$$PDRB = \alpha + \beta_1 APBD_{it} + \beta_2 DAK_{Fisik\ it} + \beta_3 KUR_{it} + \beta_4 TK_{it} + \varepsilon$$

Where GRDP is the GRDP of the agricultural sector, Physical DAK is the Physical DAK of Agriculture, KUR is the distribution of KUR and UMi in the agricultural sector, and TK is the number of workers in the agricultural sector.

The analytical method used is panel data regression with three stages of analysis. First, the selection of the best panel data model is carried out with the Chow test (Chow Test), Hausman test and Lagrange Multiplier test. The next stage is classical assumption testing to ensure that the estimation results meet the Gauss Markoff assumptions and are BLUE (Best Linear Unbiased Estimator). The final stage of analysis is the interpretation of statistical test results and economic theory.

IV. Discussion

4.1 Panel Data Model Selection

The Chow test was conducted to choose the use of the Common Effect (Pooled Least Square) model or the Fixed Effect model. In this test, the null hypothesis (H0) is the Common Effect and the alternative hypothesis (H1) is the Fixed Effect. The rejection criterion for H0 is if the probability < is 0.05. Because prob. Cross-Section Chi-square < 0.05, then reject Ho, which means the selected model is Fixed Effect.

Table 1. Chow Test Results

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	530.282037	(14,41)	0.0000
Cross-section Chi-square	312.264105	14	0.0000

The test is continued with Hausman test to choose the Fixed Effect or Random Effect model. The null hypothesis (H0) of this test is that there is interference between individuals (Random Effect model) and the alternative hypothesis is the Fixed Effect model. Because Prob. Cross-section Chi-Square >0.05, then the model chosen is Random Effect.

Table 2. Hausman Uji Test Results

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.702477	4	0.0690

The results of the Chow test and Hausman test yield different conclusions regarding the model to be chosen. Therefore, the Lagrange Multiplier test was carried out. The test criteria for the p-value of the cross-section–Breush Pagan is greater than 0.05, so it can be concluded that the data fit the Common Effect model. Meanwhile, otherwise, the data fit with the Random Effect model. The results of the Lagrange Multiplier test conclude that the best model is the Random Effect.

Table 3. Lagrange Multipliers. Test Results

Lagrange multiplier (LM) test for panel data
Date: 12/21/21 Time: 14:12
Sample: 2017 2020
Total panel observations: 60
Probability in ()

Null (no rand. effect) Alternative	Cross-section One-sided	Period One-sided	Both
Breusch-Pagan	66.54297 (0.0000)	0.155300 (0.6935)	66.69827 (0.0000)
Honda	8.157388 (0.0000)	-0.394081 (0.6532)	5.489486 (0.0000)
King-Wu	8.157388 (0.0000)	-0.394081 (0.6532)	3.069165 (0.0011)
GHM	-- --	-- --	66.54297 (0.0000)

4.2 Classic Assumption Test

The classical assumption test performed is the normality test and the multicollinearity test. Heteroscedasticity test does not need to be done because the Random Effect model uses the Generalized Least Square (GLS) method which is a treatment for heteroscedasticity symptoms, so the Random Effect Model is assumed to be free from heteroscedasticity problems. There is also no need for autocorrelation test for panel data.

Table 4. Multicollinearity Test Results

	APBD	DAK_FISIK	KUR	TK
APBD	1.000000	0.374422	0.564662	0.625114

DAK_FISIK	0.374422	1.000000	0.017366	0.233235
KUR	0.564662	0.017366	1.000000	0.73574
TK	0.625114	0.233235	0.873574	1.000000

Normality test results using histogram/Jarque-Berra. The probability is $0.098 > 0.05$ and the Jarque Bera value is close to 1, then the data is normally distributed. The multicollinearity test shows the correlation between the independent variables < 0.8 , so the data is also free from multicollinearity problems. From the results of the classical assumption test that has been carried out, it can be concluded that the estimation results using the Random Effect Model are already BLUE.

4.3 Interpretation

The estimation results are as shown in table 5. Simultaneous test (prob. F-statistic) shows a value of $0.000018 < 0.05$ which means that together all independent variables have a significant effect on the GRDP of the agricultural sector in Lampung Province. APBD, Physical DAK, KUR, and labor in the agricultural sector together affect the GRDP of the agricultural sector.

The results of the partial test (t-statistics) show that of the four independent variables in the model, only APBD for agriculture, Physical DAK for agriculture and KUR for the agricultural sector have an effect on GRDP in the agricultural sector in Lampung Province. Meanwhile, the number of workers in the agricultural sector does not significantly affect the GRDP of the agricultural sector in Lampung Province.

Table 5. Results of Regression Random Effect Model

Dependent Variable: PDRB

Method: Panel EGLS (Cross-section random effects)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
APBD	18.43278	7.323260	2.517019	0.0148*
DAK_FISIK	-102.0776	32.19909	-3.170202	0.0025*
KUR	2.732586	0.747121	3.657486	0.0006*
TK	-5612370.	4139321.	-1.355867	0.1807
C	5.51E+12	1.10E+12	4.996463	0.0000
Effects Specification		S.D.	Rho	
Cross-section random		3.67E+12	0.9931	
Idiosyncratic random		3.05E+11	0.0069	
Weighted Statistics				
R-squared	0.385309	Mean dependent var	2.22E+11	
Adjusted R-squared	0.340604	S.D. dependent var	3.92E+11	
S.E. of regression	3.18E+11	Sum squared resid	5.56E+24	
F-statistic	8.618946	Durbin-Watson stat	0.943186	
Prob(F-statistic)	0.000018			
Unweighted Statistics				
R-squared	0.007873	Mean dependent var	5.33E+12	
Sum squared resid	9.87E+26	Durbin-Watson stat	0.005315	

*significant at =5%

The coefficient of the APBD and KUR variables is positive. The relationship between the two variables is directly proportional to the GDP of the agricultural sector. This result is in line with the study Selvaraj (1993) which states that government spending in agriculture has a positive and significant impact on the growth of the agricultural sector in India. Study Weolebo (2018) also found a positive and significant effect of government spending on agriculture on economic growth in sub-Saharan African countries where the agricultural sector is the base sector in the region. In Indonesia, research results also state that government spending in agriculture encourages an increase in GRDP in the agricultural sector, including Suwanti, (2013) who conducted research on 35 regencies/cities in Central Java Province and research Taufiq et al., (2016) and Puspita Kristiana (2015). This confirms that the role of government spending through the APBD for agricultural affairs is indeed very important in increasing the growth of the agricultural sector. The APBD funds for the agricultural sector are used to provide seed and fertilizer assistance to farmers as well as extension programs that increase agricultural productivity.

In addition to budget support, the Lampung Provincial government has also rolled out a flagship program to promote agriculture and improve farmers' welfare, namely the Berjaya Farmer Card. This program began to be implemented in 2019. The Farmers Berjaya Card is a program, which connects all agricultural interests with the aim of achieving the welfare of farmers and all parties involved in the agricultural process together. The implementer of the Berjaya Farmer Card Program has the role of connecting various interests in the agricultural sector, such as suppliers, distributors, banks, farmers, buyers, and the provincial government. This program seeks to maintain the availability of seeds, seedlings and fertilizers, harvest and post-harvest handling, cultivation assistance, availability of agricultural technology, capital, farming risk management, planting schedules, and distribution of irrigation water.

As a leading sector in Lampung Province, the Regional Government needs to continue to increase budget support for this sector. In 2017-2020, the average budget ceiling for agricultural affairs in the Regency/City APBD in Lampung Province has not yet reached 2% of the total APBD expenditure. The proportion of the budget can be further increased because the results of the study show that government spending through the APBD is able to significantly increase the GRDP of the agricultural sector. In the implementation of government politics in the regions, it is not possible to only prioritize one aspect (economics) but it is important to pay attention to other aspects, namely environmental sustainability so that the implementation of green government is very important in supporting environmental sustainability in the political process of government in the regions (Dama, 2021). The Government of the Republic of Indonesia was formed to protect the whole of the Indonesian people (Angelia, 2020).

The correlation coefficient for Physical DAK is negative at -102.0776 which indicates the relationship between Physical DAK in agriculture and GRDP in the agricultural sector is inversely proportional. An increase of Rp. 1 in the Physical DAK in agriculture will actually reduce the GRDP of the agricultural sector by Rp. 102.08. Physical DAK in agriculture is used to finance physical activities for agricultural facilities and infrastructure such as construction of reservoirs, procurement of seed storage equipment, repair of office facilities and infrastructure and others. Physical development usually takes a long time and is only completed near the end of the year at the time of distribution of Physical DAK phase 3. Therefore, the impact of spending on Physical DAK indirectly can encourage agricultural production in that year. There is a lag to see the outcome of these activities and their impact on the economy.

The distribution of Physical DAK is also sometimes constrained by administrative problems such as the issuance of Technical Instructions (Juknis) from the technical Ministry which is quite long so that the distribution of Physical DAK in agriculture cannot be carried

out immediately at the beginning of the year. This certainly makes the expected multiplier effect of government spending through the Physical DAK lower. The construction of physical facilities will have a positive impact on the growth of the agricultural sector for the next few years. In addition, several activities financed by the Physical Agricultural DAK are also indirectly felt by farmers to increase production, such as the Agricultural Physical DAK which is used to procure furniture in extension offices, repair agricultural offices, or procure personal computers for agricultural offices. These are some of the reasons why the Physical DAK in agriculture does not increase the GRDP of the agricultural sector in the current year. Local governments need to increase the effectiveness of the Physical DAK through procurement/activities that can be directly felt by farmers to increase agricultural production.

KUR and UMi has a positive and significant impact on the GRDP of the agricultural sector. These results are in accordance with the studies conducted Bengi (2019) in Aceh Province. This finding is also in line with a study conducted by the Financial Services Authority (OJK) that credit for the agriculture, hunting and forestry sectors has a positive impact on economic growth in Lampung Province (Otoritas Jasa Keuangan, 2015). The distribution of KUR for the agricultural sector in Lampung Province from 2016 to 2020 has reached Rp. 9.64 trillion. This amount is quite large so that it has a significant effect in helping farmers with capital. The ease of applying for KUR in the agricultural sector makes farmers enthusiastic about using KUR to support the development of agricultural businesses. Data from 2017 to 2020 also shows a significant trend of increasing the number of debtors accessing KUR, from 81,252 debtors in 2017 and continuing to increase to 132,588 people in 2020. This means that more and more farmers are using KUR and UMi to increase their business capital. Thus, the greater the benefits of KUR and UMi to increase GRDP in the agricultural sector. KUR is the government's effort to improve access to capital and finance for farmers because based on data from the Financial Services Authority (OJK) in August 2015, the portion of credit for the agriculture, hunting and forestry sectors is still relatively small, namely 5.96% of total lending. The low number in the agricultural sector is partly due to farmers' access to banks which are low. Loan requirements are difficult to meet), so it is considered a high risk for banks (Otoritas Jasa Keuangan, 2015). This shows the important role of GURU in overcoming obstacles to farmers' access to capital from banks.

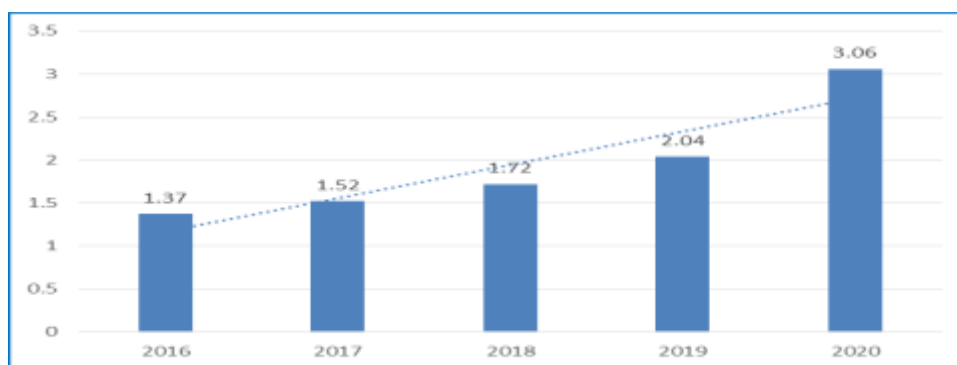


Figure 1. Total Disbursement of KUR and UMi in Lampung Province 2016-2020 (trillion rupiah)

Source: SIKP

Based on a survey conducted by the Regional Office of the Directorate General of Treasury of Lampung Province, KUR loans in the agricultural sector are mainly used to purchase raw materials such as seeds, fertilizers and pesticides. In addition, KUR loans are used to expand the capacity of farming businesses by buying agricultural land, purchasing agricultural equipment, and buying livestock. Some farmers also use loans for planning the

opening of new businesses, such as businesses in the field of crafts and animal husbandry. KUR and UMi loans are used to increase agricultural yields, so that they have a positive impact on the GRDP of the agricultural sector. The implication is that local governments through related agencies and banks need to continue to socialize the KUR and UMi programs so that more farmers in the regions can use them to develop their businesses. Based on data collected from SIKP, there is still 1 district that has not yet distributed KUR for the agricultural sector, namely the Pesisir Barat Regency.

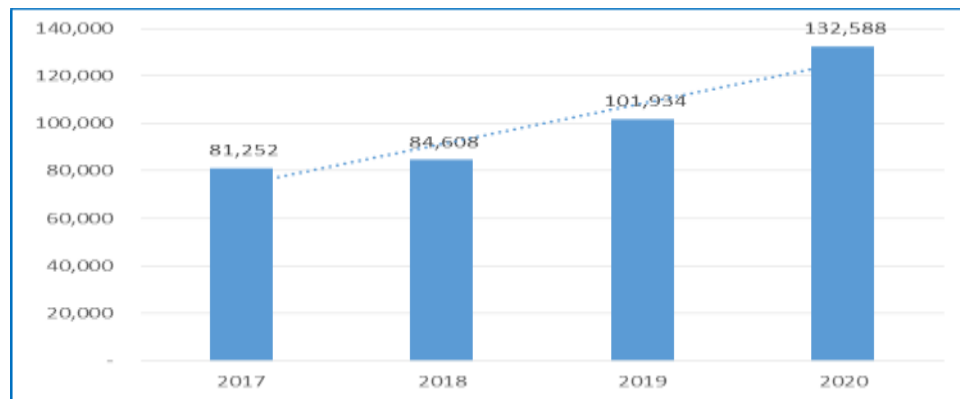


Figure 2. Number of KUR and UMi Debtors in Lampung Province

Source: SIKP

Increase in the number of workers in this sector actually reduces the GDP of the agricultural sector, but the effect is relatively small. This finding is in line with research Puspita Kristiana (2015) in Central Java. The use of excessive production factors will result in a decrease in output, as well as labor production factors. This situation is in accordance with the theory put forward by David Richardo, namely the law of diminishing returns (Law of Diminishing Return). If one input continues to increase, but the other input remains constant, then the additional output produced initially increases, but will decrease if the variable input continues to be added. According to BPS of Lampung Province, the number of Lampung residents who work in this sector has increased from 1.79 million people in 2017 to 1.92 million people in 2020. However, at the same time, the area of agricultural land is actually decreasing. Therefore, an increase in the number of workers in the agricultural sector does not increase production and tends to reduce agricultural productivity. Other factors, such as partly employed farmers, are less productive elderly workers, farmers with low levels of education and still using traditional agricultural techniques, which also hinder the increase in production in the agricultural sector.

Increasing the capacity and competence of human resources (HR) in agriculture is needed to increase agricultural productivity so that a large number of workers also has a positive impact on the GRDP of the agricultural sector in Lampung. In addition, counseling and training in land management techniques and agricultural production also need to be pursued by local governments to increase production yields. With this strategy, the increasing number of workers in the agricultural sector will contribute positively to the GRDP of the agricultural sector. To encourage GRDP growth in the agricultural sector, mastery of technology in agriculture is also needed.

V. Conclusion

Government support for the progress of the agricultural sector through APBD and distribution of KUR and UMi has proven to effect the GRDP of the agricultural sector in

Lampung Province in positive way. Government need to increase APBD allocation for this sector considering that the percentage is below 2% of the total APBD expenditure. The distribution of KUR and UMi to support farmers' capital has proven to be effective in increasing aggregate output in the agricultural sector because KUR loans are used to support agricultural production activities such as purchasing seeds, fertilizers, livestock and purchasing agricultural machinery. KUR loans are even used by farmers to develop their businesses by purchasing agricultural land and opening new businesses. The distribution of KUR and UMi needs to be continuously increased to help farmers gain access to capital and encourage the agricultural sector to develop more. Although the number of distributions and the number of debtors has increased from year to year, efforts to promote the KUR and UMi programs continue to be carried out, especially in Pesisir Barat Regency which until 2020 has not recorded the distribution of KUR and UMi in this sector.

Physical DAK on agricultural sector actually reduced the GRDP of the agricultural sector. This can happen because the use of Physical DAK still does not have a direct impact on increasing agricultural production. For this reason, the government's spending on Physical DAK needs to be further increased its effectiveness by using the benefits that are directly felt by farmers. Further research can also use the Physical DAK variable with a lag considering that the effect of physical spending (such as irrigation, roads, reservoirs) usually has an impact on increasing production several years afterward.

Although majority of the population of Lampung work in agriculture field, number of workers is not significant and have negative correlation to the GRDP of the agricultural sector. This is because human resources in the agricultural sector have relatively low education and lack knowledge of more productive modern agricultural techniques. Therefore, local government intervention is needed by intensifying extension and training on modern agricultural techniques for farmer groups so that farmers are able to increase productivity and GRDP in the agricultural sector.

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