

# Village Fund Policy on The Indonesian Economic Sector

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**Abstract:** Realizing national development through government spending to reduce poverty and increase economic activity in villages is through Village Fund spending. This study aims to analyze the Village Fund policies that have an impact on the Indonesian economic sector. The methodology of this research is quantitative with the analysis technique of Village Fund policy simulation in the economic sector with the 2016 Input-Output model (I-O 2016) through analysis: the average portion of the Intermediate Input and Primary Input, Sectoral Push and Attractiveness Index, Multiplier Forward and Backward Linkage, Multiplier Linkage Total, calculation of the main driving sectors of economic growth and simulation of economic impacts through the Village Fund policy. The results of this study showed that the average portion of the Intermediate Input, namely the input obtained from other economic sectors used for the production process in 185 economic sectors, was 47.48%. The average portion of Primary Input which includes compensation for labor, gross operating surplus, taxes, and subsidies used in 185 economic sectors is 52.52%. The results of the calculation of the Sectoral Driving Force Index and the Multiplier Forward Linkage of the economic sectors recorded in the top 5 (five) sectors, namely: (1) Basic Chemicals except Fertilizers; (2) Electricity; (3) Oil and Gas Refinery Products; (4) Rental Services and Business Support Services; (5) Petroleum. The results of the calculation of the Sectoral Attractiveness Index and the Backward Linkage Multiplier of the economic sector which recorded 5 (five) major, namely: (1) Electricity; (2) Printed Goods; (3) Apparel; (4) Starter Engine; (5) Results of Skin Preservation and Tanning. Based on 185 economic sectors, there are 57 economic sectors that have a Sectoral Drive Index above 1 (one) and 104 economic sectors that have a Sectoral Attractiveness Index above 1 (one). Based on 185 economic sectors, there are the top 5 (five) economic sectors that have a Total Multiplier Linkage value and if all simulated (100%) the Village Fund is only allocated to these economic sectors, it will generate significant economic added value from GDP in 2019, namely: (1) Basic Chemistry except Fertilizers; (2) Electricity; (3) Oil and Gas Refinery Products; (4) Rental Services and Business Support Services; (5) Petroleum. Based on the results of the Village Fund policy simulation, the Government needs to consider continuing the Village Fund distribution policy which has a major impact on economic value added to several economic sectors that are supporting activities for the community's economy.

**Keywords:** Economic Sector, Government Spending, Input-Output, Village Fund

## Introduction

National development in general aims to improve people's welfare, one of the components of government spending aimed at reducing poverty and increasing economic activity in the village is the Village Fund expenditure. Susilowati & Hadi (2017) state that regional development is an integral part of national development so that the implementation of national development and regional development must work together to achieve development goals.

The government's efforts to achieve development goals are inseparable from various policies related to both macro and micro economics. At the macroeconomic level, the government continues to encourage inclusive economic growth, maintain price stabilization, create productive employment opportunities, and maintain the investment climate. The government also continues to develop the infrastructure of underdeveloped areas so that economic

activities in these areas can move forward. With regard to microeconomics, the government provides direct assistance, both related to food, cash subsidies and assistance for health insurance contributions for the poor. Rinusu (2006) defines a pro-poor budget as a pro-poor budget in the form of carrying out planning and budgeting that is intentionally aimed at making policies, programs, and activities whose impact can improve welfare or fulfill the basic rights needs of the community

India as a federal state, village funding is determined by the states. Village funding arrangements will vary by state. The village does have a development function within its territory. Basically, the village does not have sufficient funds for the implementation of its development. Therefore, the federal government provided a grant to Panchayat Raj, where the size of the grant showed an increase. Prior to the 2000s, the federal government provided grants of Rs 100 per capita of the rural population. In 2000–2005 this grant increased to Rs 2,000 crore for Panchayat Raj and Rs 8,000 crore for urban local agencies. Five years later between 2006–2010, the federal government further increased this grant to Rs 20,000 crore for Panchayat Raj and Rs 25,000 crore for urban local agencies (Sarma & Chakravarty, 2018).

South Korea which is a unitary state, funding for village development is highly dependent on the central government and local governments. Government support to the village can be seen in 2 (two) measures, namely the amount of government spending for development and government investment in the Saemaul Undong projects. Saemaul Undong is a new village movement as a community-based rural development program with full support from the South Korean government under President Park Chung He. Initially this program lasted for 10 (ten) years, namely 1970–1979 which was carried out in stages over 3 (three) periods. The 10 (ten) year period is divided into 3 (three) stages, namely the first stage as the basic stage or working footing (1970–1973), the second stage as an expansion (1974–1976), and the third stage as an improvement stage (1977–1979). ) (Eom, 2011).

Village funding in China is not autonomous because fiscal power is still held by the central government and local governments. The largest share of financing for village development programs lies with the provincial government. Village funding in China is divided into 3 (three) funding groups, namely village funding for administrative aspects of government, community activities, and village development related to rural infrastructure, such as roads, electricity networks and underground pipes, drainage water and reserves (Cahyono, et al., 2020)

The Village Fund Program in Indonesia has an effect on the welfare of rural communities, especially with the enactment of the Law (UU) on Villages. Previously, the Law on Villages was not a new thing in Indonesia. In 1979, Law Number 5 concerning Village Government uniformed the structure of village institutions and organizations. The position of the village is under the sub-district which is then strengthened by the existence of Law Number 22 of 1999 concerning Regional Government. Subsequently, the Law was replaced by Law Number 32 of 2004 which was later revised into Law Number 23 of 2014 concerning Regional Government and Law Number 6 of 2014 concerning Villages (Village Law).

Development constraints from the Village Fund program and its formula were also found in the following years. Infrastructure development will indeed affect the economy, but there are many villages that use development funds for things that are not related to the economy, such as building village gates, village fences or village offices. This causes not optimal management of the Village Fund to alleviate poverty. The Village Fund formula also has its own problems, the currently established formula does not support a sharper reduction in poverty because only 10 percent affects the distribution. The Village Funds are distributed based on the number of villages, not based on the number of poor people in the village. Regions that have many villages even though the number of poor people are fewer, get more Village Funds than regions that have fewer villages but have more poor people (Alvaro, et al., 2020).

Triatih, et al., (2014) stated that there are 5 (five) stages of rural economic development, namely: (i) study the characteristics of the village; (ii) identification of technology; (iii) potential sectors; (iv) mechanisms; and (v) study the institutions. Characteristics of villages are very different whose livelihoods are also very diverse ranging from farmers, breeders, fishermen, plantations so that this affects people's income and how well people use natural resources. Currently, technology is crucial to the success of development in the village. Identification of technology is needed to develop sectors that have economic potential and then carry out strategies that can develop these economic sectors.

The important thing that can be applied in the management of the Village Fund by involving the community is the need to carry out activities with a self-managed pattern, using local labor, and utilizing local raw materials in the village. Based on the background of the research above, this research will examine at the impact of the distribution of Village Funds which in recent years has been implemented on the pattern of the Indonesian economic sector.

Research related to the impact of the existing Village Fund policies to date is generally still simple in nature which only analyzes the relationship of economic and/or other variables with the Village Fund, considering that the Village Fund distribution policy has only been taking place since the last 5 (five) years since 2015. The novelty of this research is that it has a wider scope by using Input-Output (I-O) analysis to see its impact on the economic sector. Another novelty of this research lies in the database used. This study uses the latest database I-O Table 2016 (I-O 2016) which has a matrix dimension of 185x185.

## Literature Review

Public Policy is an applied science (Freeman, 2006). The definition of public policy by experts is defined in various ways, it is influenced by various interests that underlie its formulation. Understandings of public policy have developed to this day, many figures are role models for public policy experts today, such as: Friedrich & Mason (1940); Kaplan (1963); Dunn (1994); up to Dye (2013). Meanwhile, modern public policy theory is thought to have emerged around the 1920s, marked by a study conducted by political scientist Charles Merriam, who tried to link theoretical concepts with actual practice in government circles (Birkland, 2015). In essence, policies are not permanent. Policies are made once for a certain period of time as a solution to existing problems and serve their interests (Godin, et al., 2006).

The role of government through public policy, especially in the economy, arises due to various problems that exist in the market, one of which is the distribution of wealth (Stigler, 1966; Becker, 1976; and Tollison, 1989) and inefficiency & externalities (Stigler, 1966; and Gruber, 1996). 2019), despite its role in creating regulations and forcing compliance with the regulations made (Stigler, 1966; and Friedman & Friedman, 2002). So public policy is said to be efficient when the policy is able to create a level of efficiency that is greater than the dead-weight cost (Becker, 1983; and Pasour Jr., 1992). A slightly different perspective was put forward by the developer of the "Chicago Price Theory" price theory (Stigler, 1982) who said that the efficiency of a public or government policy is reflected in the capital market, especially in stock prices. This is because stock prices describe all public and non-public information. Regardless of how big the government's contribution is in economic affairs, the government is an institution that needs to continue to exist, especially in the creation of regulations. This is because absolute freedom will not be possible and will create ongoing conflict so there needs to be boundaries (Friedman & Friedman, 2002).

Along with the development of public policy science, there are many ways to define public policy theory, both definitions and aspects discussed. There are several aspects that are discussed or developed in public policy theory, such as: dynamics of public policy theory, policy models, policy implementation, analysis and evaluation, elements in the policy making system, policy tools, policy failures and other aspects (Dunn, 2003). 2011; Dye, 2013; and Birkland, 2015). The definition according to Friedrich & Mason (1940), public policy is a series of actions proposed by a person, group, even government within a certain scope that allows for obstacles in its implementation in order to achieve certain goals. Cochran & Malone (1995), public policy is a political decision that is implemented to achieve social goals. According to Parsons (2001) public policy is an action taken by the government, political parties, and policy makers for the benefit of the wider community. Furthermore, according to Dye (2013), public policy is the government's decision to take or not to take an action. In this case the government can do many things, such as: (i). regulate conflict in society; (ii). organizing the community; (iii). provide public services to the community; up to (iv). collect taxes. A quite unique definition is expressed by Dunn (2011), where public policy is an applied social science discipline that uses various methods to research and argue, to produce and transform information that is in accordance with policies so that these policies can be used in political settings to solve problems. policy.

Another definition of public policy, which relates to policies and other regulatory aspects in achieving social welfare (Theodoulou & Cahn, 1995; and Clemons & McBeth, 2011). According to Parsons (2001), public policy is an action taken by the government, political parties and policy makers for the benefit of the wider community. In addition, Boston, et al., (2010) explained that public policy is an activity in which government authorities determine what people can and cannot do. Islamy (2009) suggests the notion of public policy, as follows: (i). state policy in its initial form in the form of stipulations of government actions; (ii). it is not enough just to state policies, but to implement them in a tangible form; (iii). a good state policy to do something or not to do something is based on certain aims and objectives; and (iv). State policies must always be aimed at fulfilling the interests of all members of society. Policy implementation is a follow-up activity from the policy formulation and stipulation process. Furthermore, according to Ramdhani & Ramdhani (2017), policy can be stated as an effort to achieve certain goals, as well as an

effort to solve problems using certain means and in certain time stages. Policies are generally basic in nature because policies only outline general guidelines as a basis for action in an effort to achieve the goals that have been set.

Based on the above description of public policy, it can be concluded that public policy is a study of social science disciplines related to government decisions within a certain scope in order to achieve social goals, especially public welfare. The concept of public policy must actually be based on certain principles, such as performance-based budgeting, which puts the money follow function principle forward. This is because in general the meaning of a public policy can be seen from budget priorities or existing program priorities (Dye, 2013).

National Income according to Meade (1960) is the income received by production factors from the production and sale of goods and services on the results of the production activities carried out. Equivalently, national income can be reflected in GDP or Gross National Product (GNP). There are several definitions that are broadly the same when concluded. As according to Pass, et al., (1988), GDP is the total money value of all goods and services produced in an economy in one year. Another definition according to Mankiw (2007), where GDP is the total income earned in the domestic scope including income earned by foreign-owned production factors; total expenditure on domestically produced goods and services. Furthermore, according to Blanchard & Johnson (2013), GDP is the sum of consumption, investment, government spending, inventory investment, and exports minus imports.

GDP according to Suparmoko & Sofilda (2017) is the net result of all production activities carried out by all producers in a country from various economic sectors. From the various definitions above, it can be concluded that GDP is a proxy used in measuring national income which describes the amount of goods and services produced in an economy in a certain period.

According to Gruber (2019), state finance is a study that explains government intervention in the economy. There are several reasons why the government intervenes in the economy, namely; (i). market failure; and (ii). redistribution. Market failure is related to the problem of inefficiency in the market, while the problem of redistribution is related to the transfer of resource allocation from one group to another, meaning that the government focuses also on the aspect of equity. In simple terms, state finance can be defined as the study of the government's role in economic activity. Studies on state finances generally include the following: (i). when the government intervenes in economic activities; (ii). how the government intervenes in economic activities; (iii). what is the impact of the intervention on economic outcomes; and (iv). why the government decided to intervene in the way it was taken. According to Ukwueze (2015), government expenditure (public expenditure) is about the costs incurred by the government to provide goods and services through the public sector budget which has an impact on private sector spending.

Musgrave's theory of public spending discusses changes in the elasticity of demand for public services which consists of 3 (three) ranges. Musgrave stated that when per capita income is low, the demand for public services tends to be low. This is because in this income range, people can only use their income to meet their primary needs. When people's incomes increase, the demand for public services such as health, education and transportation will increase which will encourage the government to increase public spending to meet people's needs. Musgrave's research found that when people's per capita incomes are at a high level such as in developed countries, the level of need for public services tends to decrease because their basic needs have been met (Chude & Chude, 2013).

In macroeconomic theory, government spending consists of 3 (three) main posts which can be classified into (Boediono, 1998): (i). government spending for the purchase of goods and services; (ii). government spending on employee salaries; and (iii). government spending on subsidies (transfer payments). Transfer payments are not purchases of goods or services by the government in the goods market, but rather record payments or direct payments to citizens, which include, for example, payments for subsidies or direct assistance to various groups of people, pension payments, interest payments for government loans to the public. Economically, transfer payments have the same status and influence as employee salary posts, although administratively they are different.

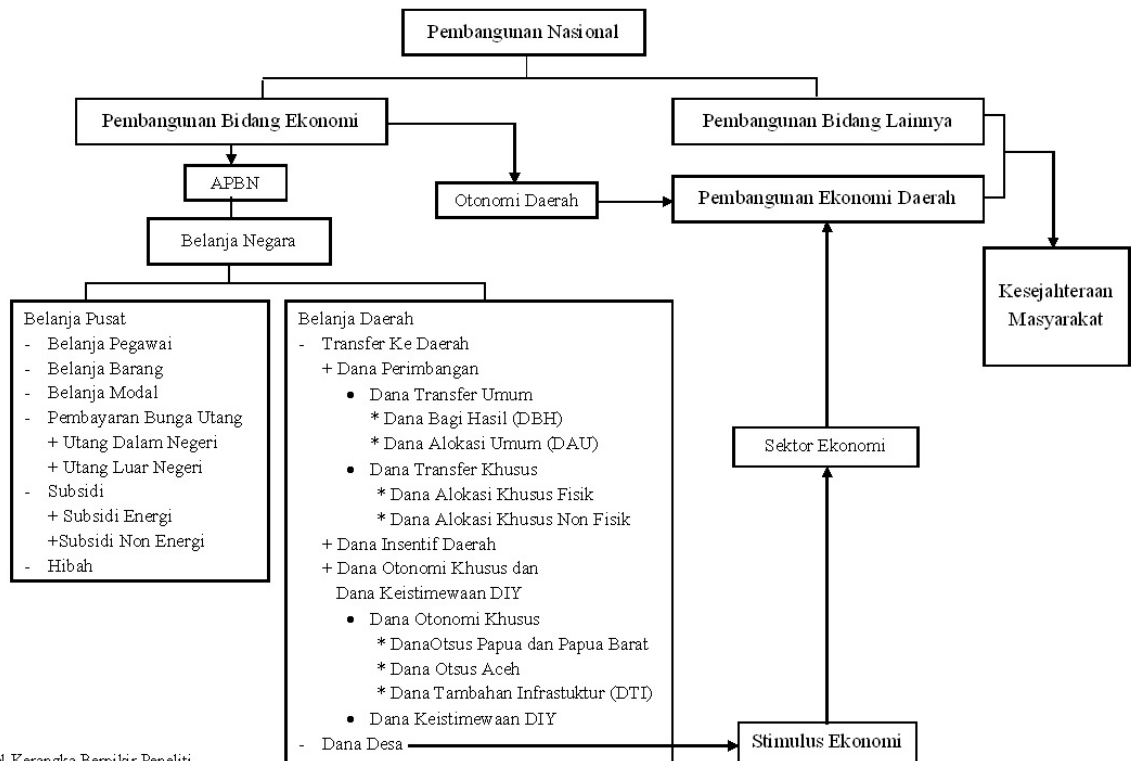
According to Peltzman (1973), the main reason for the government to subsidize is due to inequality in the distribution of consumption in a number of social groups, one of which is felt that the level of consumption is very low. Subsidies can be divided into 2 (two) types, namely direct subsidies and indirect subsidies. Direct subsidies can be in the form of cash assistance, interest-free loans, and so on. Meanwhile, indirect subsidies can be in the form of reduced rental rates, exemption from depreciation, and so on (Pass, et al., 1988). Peltzman (1973) says that, there are times when subsidies do not increase the consumption of the beneficiary, especially if the subsidies are given in kind rather than money. This is caused by the emergence of special costs in the price of the subsidized goods.

Suparmoko (2014), distinguishes subsidies into 2 (two) forms, namely subsidies with reduced prices/granting of funds and subsidies for goods. In the first type, the government provides financial assistance or money as additional income. In the case of consuming a good, consumers only pay a percentage of the actual price and the other percentage is borne by the government. This can also be reflected through the indifference curve, where the budget curve rotates to the right due to the subsidy policy given to certain goods. The second type is a subsidy in the form of a number of goods. In this case, subsidies are given by providing a certain type of goods with a certain amount to consumers without being charged or maybe with payment but below the market price. Such subsidies are known as in-kind subsidies. According to Suparmoko (2014), the disadvantages of this type of subdivision of goods are: (i). reduce the number of purchases of subsidized goods; (ii). does not change total consumption; (iii). consumption becomes too high; and (iv). consumption is too low.

Minister of Home Affairs Regulation (Permendagri) Number 37 of 2007 concerning Guidelines for Village Financial Management in article 18 that ADD is a fund originating from the Regency/City Regional Revenue and Expenditure Budget (APBD) sourced from the Central and Regional Financial Balance Fund received by the Government Regency/City for village at least 10%. The use of ADD, among others, 30% is used for operational expenditures for village apparatus and 70% is used for physical development and community empowerment such as participation in community business capital through BUMDes, costs for providing food security and environmental and settlement improvements (Nurcholis, 2011).

**Research Methodology**

The analytical tool used in this research is the 2016 Input-Output model (I-O 2016) which can be used as a decision-making tool in sectoral development planning. By using I-O analysis, it can be decided which sectors are the leading sectors in economic development. A sector that is indicated as a leading sector is considered to have a very high dispersion ability and sensitivity in an economy so that the effect it gives is multiplied. Based on the I-O table that is already available, it can be seen the role of the Village Fund in the formation of output, gross added value, and final demand. To find out the role of the Village Fund as an input provider and input user sector to other sectors and to know the impact of the Village Fund on the Indonesian economy, it can be studied based on linkage and multiplier analysis.



Sumber: Model Kerangka Berpikir Peneliti

**Figure 1. Flow of Village Fund Policy Impacts on the Indonesian Economic Sector**

## Research Results and Discussion

### Gambaran Tabel I-O Indonesia dan Hasil Perhitungan Model I-O Melalui Input Antara dan Input Primer

Based on table I-O 2016, the average share of intermediate inputs, namely inputs obtained from other sectors used for the production process in 185 economic sectors, is 47.48%. Meanwhile, the average portion of primary input which includes compensation for labor, gross operating surplus, taxes minus other subsidies on production used in 185 economic sectors is 52.52%. Ranks of 8 (eight) Major Economic Sectors based on Intermediate Input and Primary Input (Proportional Value between Intermediate Input Value and Primary Input Value) can be seen in table 1. For the economic sector of Oil and Gas Refined Goods, the intermediate input produced is 47.89% and primary input of 52.11%; the Arts, Entertainment and Recreational Services economy sector, the intermediate input produced was 48.16% and the primary input was 51.84%; Other Government Services economic sector, the intermediate input produced is 48.34% and primary input is 51.66%; the Health Services and Private Social Activities sector, the intermediate input produced was 48.45% and the primary input was 51.55%; the economic sector of land transportation services other than rail transportation, the intermediate input produced is 50.74% and the primary input is 49.26%; in the Metal Kitchen, Carpentry, Household and Office Furniture, intermediate inputs of 51.87% and primary inputs of 48.13%; and the Rail Transport Services economic sector, the intermediate input produced was 52.34% and the primary input was 47.66%; and the Government Health Services economic sector, the intermediate input produced was 52.48% and the primary input was 47.52%.

**Table 1. Ranks of 8 (Eight) Major Economic Sectors Based on Intermediate and Primary Inputs**

No.	Economic Sector	Intermediate Input	Primary Input
1	Oil and Gas Refinery Products	47,89%	52,11%
2	Arts, Entertainment and Recreation Services	48,16%	51,84%
3	Other Government Services	48,34%	51,66%
4	Health Services and Private Social Activities	48,45%	51,55%
5	Land Transportation Services other than Rail Transport	50,74%	49,26%
6	Metal Kitchen, Carpentry, Home and Office Furniture	51,87%	48,13%
7	Rail Transport Services	52,34%	47,66%
8	Government Health Services	52,48%	47,52%

Source: I-O 2016, processed.

### Sectoral Propulsion Index Calculation Results

The sectoral driving force index is a measure to describe the ability of the economic sector to encourage or move economic sectors or business fields in front of them or business fields that are users of their output. If an economic sector has a driving force index above 1 (one), the economic sector is categorized as a sector that can be prioritized in economic planning because it has a large driving force in moving the sectors in front of it. In principle, the sectoral driving force index has similarities with the forward linkage multiplier coefficient indicator. The difference is, if the forward linkage multiplier indicator is to calculate the nominal value, the sectoral driving force index calculates the index to see which sectors have an index value above 1 and below 1. The sectoral driving force index value is complementary for policy makers to be able to choose and determine which economic sectors need to be prioritized in relation to future linkages. Of the 185 economic sectors or business fields listed in the 2016 I-O table, there are 57 business fields that have a sectoral driving force index above 1 (one). The rankings of the top 5 (five) sectoral driving force indexes are as follows: Economic sectors or business fields in I-O 2016 which were recorded in the top 20 (twenty) sectoral driving force indexes were: (1) Basic Chemicals except Fertilizers of 6.849; (2) Electricity of 4.114; (3) Oil and Gas Refinery Products of 3,840; (4) Rental Services and Business Support Services amounting to 3,550; (5) Petroleum amounted to 3,336.

**Table 2. Ranks of the 5 (five) major economic sectors based on the value of the sectoral driving force**

No.	Economic Sector	Index
1	Basic Chemistry except Fertilizer	6,8491016
2	Electricity	4,1141561
3	Oil and Gas Refinery Products	3,8396638
4	Rental Services and Business Support Services	3,5504382
5	Crude oil	3,3362886

Source: I-O 2016, processed.

### Sectoral Attractiveness Index Calculation Results

The sectoral attractiveness index is a measure to describe the ability of the economic sector to attract or move the economic sectors or business fields behind it or the business fields that are suppliers of its inputs. If an economic sector has an attractiveness index above 1 (one), the economic sector is categorized as a sector that can be prioritized in economic planning because it has great attractiveness in moving the sectors behind it. The sectoral attractiveness index in principle has similarities with the backward linkage multiplier coefficient indicator. The difference is, if the backward linkage multiplier indicator is to calculate the nominal value, the sectoral attractiveness index calculates the index to see which sectors have an index value above 1 and below 1. The sectoral attractiveness index value is complementary for policy makers to be able to choose and determine which economic sectors need to be prioritized in terms of backward linkages. Of the 185 economic sectors or business fields listed in the 2016 I-O table, there are 104 business fields that have a sectoral attractiveness index above 1 (one). The ranking of the top 5 (five) sectoral attractiveness indexes are as follows: Economic sectors or business fields in I-O 2016 which were recorded in the top 20 (twenty) based on sectoral attractiveness index values were: (1) Electricity of 1,510; (2) Printed Goods amounted to 1,408; (3) Garments of 1.347; (4) Engine Starter of 1.346; (5) Results of Skin Preservation and Tanning is 1,330.

**Table 3. Ranks of 5 (Five) Major Economic Sectors Based on Sectoral Attractiveness Index Value**

No.	Economic Sector	Index
1	Electricity	1,5099747
2	Printed goods	1,4083993
3	Apparel	1,3467639
4	Starting Machine	1,3459612
5	Results of Skin Preservation and Tanning	1,3301166

Source: I-O 2016, processed.

### Calculation Results of Forward Linkage Multiplier and Backward Linkage Multiplier

The forward linkage multiplier is the multiplier coefficient of an economic sector or business field resulting from the linkage or interaction with the economic sectors in front of it or the user sector. The user sector is the output user sector (one of which is for raw materials) generated from a particular sector that produces the forward linkage multiplier coefficient indicator. The added value in future linkages is described as the result of the allocation of output from certain sectors which results in the production process. The production process carried out by certain economic sectors produces outputs that are used as inputs for the production processes of the user sectors. Meanwhile, the user sector of this particular sector also interacts with the economic sectors in front of it through the allocation of the output they produce. The creation of added economic value due to inter-sector linkages related to the allocation of output from a particular sector which is then measured in a multiplier coefficient known as the forward linkage multiplier coefficient. The ranking of the top 5 (five) forward linkage multiplier coefficients are as follows: (1) Basic Chemicals except Fertilizers at 13,244; (2) Electricity of 7,955; (3) Oil and Gas Refinery Products of 7,425; (4) Rental Services and Business Support Services amounting to 6,865; (5) Crude Oil is 6,451.

**Table 4. Ranks of 5 (Five) Economic Sectors Based on the Multiplier Forward Linkage Coefficient**

No.	Economic Sector	Direct	Indirect	Total
1	Basic Chemistry except Fertilizer	5,32571238	7,91818757	13,24389995
2	Electricity	2,21332889	5,74208990	7,95541879
3	Oil and Gas Refinery Products	3,00041853	4,42422280	7,42464133
4	Rental Services and Business Support Services	2,97800566	3,88736894	6,86537460
5	Crude oil	0,62740280	5,82387734	6,45128014

Source: I-O 2016, processed.

The backward linkage multiplier is the multiplier coefficient of an economic sector or business field resulting from the linkage or interaction with the sectors behind it or the supporting sectors. The supporting sector is the input supplier sector (one of which is raw materials) in a particular sector that produces the backward linkage multiplier coefficient indicator. The creation of added value in backward linkages is described as a result of demand from certain sectors which results in a production process. The production process carried out by certain sectors requires input from the supporting sectors. Meanwhile, the supporting sector of that particular sector also interacts with the sectors behind it in order to provide inputs for that particular sector. The creation of added economic value due to inter-sectoral linkages related to the production process in that particular sector which is then measured in a multiplier coefficient known as the backward linkage multiplier coefficient. The ranking of the top 5 (five) backward linkage multiplier coefficients are as follows: (1) Electricity of 2,920; (2) Printed goods of 2,723; (3) Garments of 2,604; (4) Engine Starter of 2,603; (5) The result of skin preservation and tanning is 2,572.

**Table 5. Ranks of 5 (Five) Major Economic Sectors Based on Backward Linkage Multiplier Coefficient**

No.	Economic Sector	Direct	Indirect	Total
1	Electricity	0,81673901	2,10305317	2,91979218
2	Printed goods	0,73503965	1,98833926	2,72337890
3	Apparel	0,64592719	1,95826934	2,60419653
4	Starting Machine	0,72493725	1,87770706	2,60264431
5	Results of Skin Preservation and Tanning	0,69338687	1,87861921	2,57200608

Source: I-O 2016, processed.

### The Main Drivers of Economic Growth

The main driving sectors of economic growth are represented by the value of the multiplier coefficient, the driving force index, and the attractiveness index. Sectors that can be grouped as the main economic sectors are the driving sectors that have a multiplier coefficient or multiplier factor that is greater than other economic sectors. The multiplier coefficient in each economic sector includes the backward linkage multiplier coefficient and the forward linkage multiplier coefficient. The economic sector that has a higher combined linkage coefficient reflects that the sector has greater attractiveness and impetus for economic growth. Table I-O 2016 shows that the characteristics of the 185 economic sectors in Indonesia are quite diverse. Economic sectors that have a larger backward linkage multiplier coefficient do not always have a higher forward linkage multiplier coefficient than other sectors. Therefore, to determine which sectors need to be prioritized, it would be more appropriate to use the total linkage multiplier coefficient indicator. The top 5 (five) rankings of the total multiplier linkage coefficient are as follows: (1) Basic Chemicals except Fertilizers at 15,359; (2) Electricity of 10,875; (3) Oil and Gas Refinery Products of 9,160; (4) Rental Services and Business Support Services amounting to 8,690; (5) Petroleum of 7,894.



**Table 6. Ranking of 5 (Five) Major Economic Sectors Based on the Total Multiplier Linkage Coefficient**

No	Economic Sector	Forward	Backward	Total
1	Basic Chemistry except Fertilizer	13,2439000	2,1152953	15,3591952
2	Electricity	7,9554188	2,9197922	10,8752110
3	Oil and Gas Refinery Products	7,4246413	1,7357835	9,1604248
4	Rental Services and Business Support Services	6,8653746	1,8250546	8,6904292
5	Crude oil	6,4512801	1,4430592	7,8943394

Source: I-O 2016, processed.

#### Simulation of the Economic Impact of Village Fund Policy

The realization of the Village Fund has been recorded to have continued to increase since it was implemented in 2015. If you look at the structure in the 2016 I-O table, an increase in the realization of the Village Fund will provide great economic benefits if the policy on the allocation or utilization of the Village Fund is right on target. Utilization of Village Funds in economic sectors that have a larger backward linkage multiplier coefficient will have an impact on the creation of greater economic added value in relation to the interaction between the supporting sectors. Meanwhile, economic sectors that have a greater forward linkage multiplier coefficient will have an impact on the creation of greater economic added value in relation to the interaction between the user sectors.

**Table 7. Development of Village Fund Realization**

Year	Village Fund Ceiling (IDR)	Village Fund Realization (IDR)	% Increase in Village Fund Realization
2015	20.766.200.000.000	20.766.200.000.000	-
2016	46.982.080.000.000	46.679.329.179.366	124,79
2017	60.000.000.000.000	59.766.577.527.403	28,04
2018	60.000.000.000.000	59.859.408.609.275	0,16
2019	70.000.000.000.000	69.814.148.478.999	16,63

Source: LKPP 2015-2019 Audited, processed.

The realization of the Village Fund as of December 31, 2015 was 20,766 billion IDR, which means 100 percent of the amount stipulated in the APBN-P for the 2015 Fiscal Year of 20,766 billion IDR. In 2016, the realization of the Village Fund as of December 31, 2016 was 46,679 billion IDR or 99.36 percent of the amount stipulated in the Revised State Budget for Fiscal Year 2016 of 46,982 billion IDR. This means that the realization of the Village Fund for the 2016 Fiscal Year is 25,913 billion IDR or an increase of 124.79 percent from the 2015 Fiscal Year realization of 20,766 billion IDR. In 2017, the realization of the Village Fund as of December 31, 2017 was 59,766 billion IDR or 99.61 percent of the amount stipulated in the Revised State Budget for Fiscal Year 2017 of 60,000 billion IDR. This means that the realization of the Village Fund for the 2017 Fiscal Year is 13,087 billion IDR or up 28.04 percent from the 2016 Fiscal Year realization of 46,679 billion IDR. In 2018, the realization of the Village Fund as of December 31, 2018 was 59,859 billion IDR or 99.77 percent of the amount stipulated in the 2018 Fiscal Year State Budget of 60,000 billion IDR. This means that the realization of the 2018 Fiscal Year Village Fund is 92.831 billion IDR or up 0.16 percent from the 2017 Fiscal Year realization of 59.766 billion IDR. Furthermore, in 2019, the realization of the Village Fund as of December 31, 2019 was 69,814 billion IDR or 99.73 percent of the amount stipulated in the 2019 Fiscal Year APBN of 70,000 billion IDR. This means that the realization of the Village Fund for the 2019 Fiscal Year is 9,954 billion IDR, up 16.63 percent from the 2018 Fiscal Year realization of 59,859 billion IDR.

Simulations on Village Funds in different economic sectors show that the added value of the economy created is also different. In this study, it is simulated that if all (100%) Village Funds are only allocated to economic sectors with 5 (five) large total multiplier linkage coefficients, then the results will be as presented in table 7:

**Table 8. Simulation of Village Funds in 2019**

No.	Village Fund Simulation in the Economic Sector	Economic Added Value (IDR)	Share to GDP 2019 (%)
1	Basic Chemistry except Fertilizer	1.072.289.135.990.140	6,77
2	Electricity	759.243.593.538.380	4,80
3	Oil and Gas Refinery Products	639.527.258.640.038	4,04
4	Rental Services and Business Support Services	606.714.911.261.358	3,83
5	Crude oil	551.136.582.208.780	3,48

Source: I-O 2016, processed.

The 2019 Village Fund Simulation can be seen in table 6. For the Basic Chemistry economic sector except Fertilizer, if it is fully simulated (100%) the Village Fund is only allocated to this economic sector, it will generate an economic added value of 1,072,289 billion IDR or 6.77% of GDP in 2019; for the electricity economy sector, if fully simulated (100%) the Village Fund is only allocated to this economic sector, it will generate economic value added of 759,243 billion IDR or 4.80% of GDP in 2019; for the economic sector of Oil and Gas Refined Goods if fully simulated (100%) the Village Fund is only allocated to this economic sector, it will generate economic value added of 639,527 billion IDR or 4.04% of GDP in 2019; for the economic sector, rental services and business support services, if fully simulated (100%) the Village Fund is only allocated to this economic sector, it will generate economic added value of 606,714 billion IDR or 3.83% of GDP in 2019; For the Petroleum economic sector, if fully simulated (100%) the Village Fund is only allocated to this economic sector, it will generate economic added value of 551,136 billion IDR or 3.48% of GDP in 2019.

The simulation of the analysis of the linkage of the economic sector with other economic activities/activities can be analyzed as in the Basic Chemistry economic sector except for Fertilizers, where all outputs produced by the Village Fund are closely related to the basic chemical industry business. The basic chemical sector is also related to other economic sectors as a result of the distribution of the Village Fund such as those that produce special chemicals for oil and gas, water treatment, rubber, paper, construction, automotive, food additives, textiles, leather, electronics, catalysts, brake fluid and other specialty chemicals. The electricity economy sector, where all output generated by the Village Fund is closely related to the use of electricity in every economic activity of the community so that the electricity sector is one of the largest sectors that have an impact on the economy as a result of the distribution of Village Funds. The economic sector of Oil and Gas Refinery Products, where the construction of facilities and infrastructure as a realization of the distribution of Village Funds causes the high use of machines driving the development of facilities and infrastructure (infrastructure) including the output generated from the Village Fund which results in increased use in the sector. from oil and gas refineries as fuel.

The economic sector of rental services and business support services, where the distribution of Village Funds increases the economic sector of rental services and business support services such as when the process of utilizing the Village Fund takes place, for example in the construction of facilities and infrastructure (infrastructure) as well as when the output of the Village Fund can be utilized by the community. Public. The economic sector of rental services and business support services includes electricity supporting activities, where businesses/activities are directly related to the electricity business, such as meter recording and billing services. Including electricity trading activities to consumers, electric power agent activities selling electricity through electricity distribution systems operated by other parties, operating activities for exchanging transmission capacity and electric power as well as trading pulses/electricity tokens and other electricity supporting activities. Water management supporting activities, where businesses or activities are directly related to the business of supplying and distributing clean water, such as meter recording services, billing and other supporting activities. Activities in this group include water distribution carried out by individuals such as water vendors/pushes/tankers. Road construction, in which the business of building, upgrading, maintaining and repairing roads. This includes development activities, improvement, maintenance of supporting, complementary and road equipment, such as fences/retaining walls, road drainage, road markings and signs to the activities of providing a combination of other facilities supporting services where this group specifically provides a combination of supporting services, such as general interior cleaning, maintenance,

garbage disposal, care and security, mail delivery, reception, laundry and related services to support operations in client facilities as well as rental services and other business support services.

The Petroleum economic sector, where the development of facilities and infrastructure as a realization of the distribution of Village Funds causes the high use of engines for the development of facilities and infrastructure (infrastructure) including the output generated from the Village Fund which consequently increases the use of the petroleum sector as fuel.

## Conclusions and Recommendations

### Conclusion

1. Based on table I-O 2016, the average portion of Intermediate Input, namely inputs obtained from other sectors used for the production process in 185 economic sectors, is 47.48%. Meanwhile, the average portion of Primary Input which includes compensation for labor, gross operating surplus, taxes, and subsidies used in 185 economic sectors is 52.52%.
2. Based on the 2016 I-O table of 185 economic sectors, there are 57 economic sectors that have a Sectoral Drive Index above 1 (one). The results of the calculation of the Sectoral Driving Force Index for the economic sector in I-O 2016 which were recorded in the top 5 (five) Sectoral Drive Indexes, namely: (1) Basic Chemicals except Fertilizers; (2) Electricity; (3) Oil and Gas Refinery Products; (4) Rental Services and Business Support Services; (5) Petroleum.
3. Based on the 2016 I-O table of 185 economic sectors, there are 104 economic sectors that have a Sectoral Attractiveness Index above 1 (one). The results of the calculation of the Sectoral Attractiveness Index for the economic sector in the 2016 I-O were recorded in the top 5 (five) Sectoral Attractiveness Indexes, namely: (1) Electricity; (2) Printed Goods; (3) Apparel; (4) Starter Engine; (5) Results of Skin Preservation and Tanning.
4. The results of the calculation of the Forward Linkage Multiplier and Backward Linkage Multiplier in the 2016 I-O recorded in the top 5 (five) Forward Linkage Multiplier coefficients, namely: (1) Basic Chemicals except Fertilizers; (2) Electricity; (3) Oil and Gas Refinery Products; (4) Rental Services and Business Support Services; (5) Petroleum. Meanwhile, the 5 (five) large Multiplier Backward Linkage coefficients are: (1) Electricity; (2) Printed Goods; (3) Apparel; (4) Starter Engine; (5) Results of Skin Preservation and Tanning.
5. Based on the 2016 I-O table of 185 economic sectors, there are 5 (five) top rankings that have a Total Multiplier Linkage value which is the main driver of economic growth, namely: (1) Basic Chemicals except Fertilizers; (2) Electricity; (3) Oil and Gas Refinery Products; (4) Rental Services and Business Support Services; (5) Petroleum.
6. Based on the 2016 I-O table of 185 economic sectors, there are 5 (five) top rankings that have a Total Multiplier Linkage value which is the main driver of economic growth and if all simulated (100%) the Village Fund is only allocated to these economic sectors, it will generate significant economic added value, namely: (1) Basic Chemicals except Fertilizers; (2) Electricity; (3) Oil and Gas Refinery Products; (4) Rental Services and Business Support Services; (5) Petroleum.

### Recommendation

1. Based on the simulation results of the Village Fund policy, the Government as the Regulator needs to consider continuing the Village Fund distribution policy which has a major impact on economic added value. The impact is not only on the primary sector (agriculture, livestock and fisheries) as the economic dominance in rural areas, but the added economic value generated based on the simulation results has a broad impact on several economic sectors that are supporting activities for the community's economy such as electricity, oil and gas. as well as several secondary and tertiary sectors in leasing and financial services. The distribution of Village Funds also has an impact on the contribution of the manufacturing/processing industry sector, such as the basic chemical industry, synthetic resin, plastic materials and synthetic fibers, animal and vegetable oils, as well as prime movers.
2. The government needs to increase accountability for the implementation of the Village Fund through a distribution policy based on implementation performance and strengthening of monitoring and evaluation of the implementation of the Village Fund policy, the capacity of village apparatus human resources as well as coordination, consolidation and synergy from the central government, regional government, sub-district to village levels. Along with the increase in the village fund budget ceiling every year, the government should always improve the formulation of the allocation of the Village Fund while still paying attention to the aspect of equity and justice so that the village government as the subject of regional development can optimize the utilization of the Village Fund in several priority village activities, such as continuing the labor-intensive

scheme. cash in the use of the Village Fund for the development of infrastructure/physical facilities and infrastructure, increasing the portion of the use of the Village Fund for community empowerment and improving the village economy through optimizing the role of BUMDes, creating superior village products and providing easy access to capital and synergy in village development through partnerships with the business world.

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