Analysis of Intergovernmental Transfer and Interregional Basic Services Inequality in Indonesia

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ABSTRACT

In this globalization era, the problem of interregional basic service inequality still occurs, even though fiscal decentralization has been implemented in Indonesia since 2001. Intergovernmental transfer with three instruments, such as shared revenue, general purpose grant, and specific purpose grant aim to support the implementation of local government authority. The purpose of this study is to analyze basic services inequality between provinces in Indonesia since the implementation of fiscal decentralization, as well as recommended policies to reduce these basic service inequalities. This study used a quantitative approach. The data used in this study was secondary data obtained from several government agencies. The object of the research is the variation of interregional basic service inequality. This research was conducted in 32 provinces in Indonesia. Data is processed with SPSS and Microsoft Excel software. The result found that there are still basic services inequalities between provinces in Indonesia, including in education, in the health sector, basic infrastructure such as access to clean water, access to proper sanitation and the percentage of poverty levels. This study also found components of the intergovernmental transfer that affect the basic services inequality.

Keywords: Basic Service Inequality, Intergovernmental Transfer, Decentralization
JEL Classifications: O15, O18, O38

1. INTRODUCTION

Regional autonomy and fiscal decentralization aim to further optimize the implementation of development and its results by bringing government services closer to the community while reducing development disparities between regions. Fiscal decentralization is one of the mechanisms for transferring funds from the state budget in relation to state financial policies to create sustainable fiscal sustainability and provide stimulus for community economic activities. With fiscal decentralization, it is expected that there will be an equal distribution of financial capacities between regions to finance the authority of government affairs devolved to the regions.

Decentralization is defined as the transfer of government affairs by the central government to autonomous regions. One of the reasons is the implementation of basic services such as education, health, public works and spatial planning, public housing and residential areas, peace, public order, and community and social protection. Thus, the six basic service programs receive priority funding, human resources, infrastructure, and management from the local government (Indonesian Law No. 23, 2014).

Fiscal decentralization policy is expected to overcome fiscal inequalities. The term of fiscal inequality is used to describe the condition of autonomous regions, both districts/cities, and provinces that experience a shortage of public finances, because they do not have enough income to finance their expenditure responsibilities, while the central government itself has more revenue to finance its expenses. Considering these conditions, the central government is demanded to be able to provide assistance to autonomous regions in the form of transfers (Boadway, 2004).

The main objectives of fiscal decentralization are, first, to reduce the fiscal gap formally, especially between the central government
and autonomous regional governments; and second, to reduce the fiscal gap horizontally between one autonomous region and another autonomous region, both within one province, and autonomous regions in other provinces (Langoday, 2006).

Fiscal decentralization aims to increase public participation in the regional development process, reduce interregional inequality, ensure the implementation of minimum public services in each region, which in turn is expected to improve public welfare in general. The main objective of the fiscal decentralization policy is to improve the quality and quantity of public services and the welfare of the people, the creation of effectiveness and efficiency in the management of regional resources and create space for the community to participate in the development process (Simanjuntak, 2002).

The intergovernmental transfer is a fund sourced from national budget revenues consisting of shared revenue, general purpose grant, and specific purpose grant that are allocated to regions to fund regional needs in the context of implementing decentralization, especially in the effort to fulfill the needs of basic public service facilities and infrastructure to reduce disparities between regions (Government Regulation No. 55, 2005).

The general purpose grant is distributed by the central government to the regional government to equalize fiscal capability among regions, with the aim of equitable distribution of financial capacity between regions and intended to reduce inequality of financial capability between regions, therefore horizontal fiscal imbalance can be reduced. The equalization grant is intended to equalize regional financial capacity. “Poor” regions (low financial capacity) will receive the equalization grant that is relatively greater than “rich” regions (high financial capacity).

Shared revenue is a form of funds that are collected and allocated according to proportionality of collection or the incidence of the central government revenue (Blochliger and Petzold, 2009). The definition of shared revenue also indicates that the focus of it is on the vertical sharing arrangement between the central government and the regional government on a state revenue.

Compared to other types of intergovernmental transfers, shared revenues are relatively important transfer fund in ensuring a high degree of decentralization through unconditionality in the use of funds (Bahl and Wallace, 2007). Shared revenue of transfer fund is generally unconditional in nature, and therefore shared revenue should not emphasize the use of the funds collected. The use of regulated and directed shared revenue will also obscure the purpose of the allocation of shared revenue to solve the vertical imbalance problem.

Specific purpose grant is fund sourced from the national budget which are allocated to certain regions to help fund special activities that are the affairs of the region and in accordance with national priorities. Meanwhile, specific purpose grant is intended to assist certain regions in funding the needs of basic public service facilities and infrastructure in order to encourage the acceleration of regional development and achievement of national priority targets.

To achieve national minimum service standards in all regions, the most recommended type of assistance is special assistance without matching funds, followed by specifications for the use of funds for minimum service standards.

With the three allocations contained in the intergovernmental transfer, it is expected that the implementation of regional autonomy and decentralization of development will be able to run well, thus the process of regional economic development can be further improved and inequality of development between regions can also be reduced.

All countries in the world have agreed that to measure the economic welfare of a nation, the indicator used is the value of gross national product per capita. The higher the gross national product per capita, the more prosperous the country concerned. Economic growth is a prerequisite for an increase in the welfare of a nation (Irawan and Suparmoko, 2002).

Economic growth by itself cannot be considered as end goal. Development must pay more attention to improve the quality and freedom of life. The welfare of the middle to lower classes can be represented by the level of community life. The level of life of the community is marked by poverty alleviation, better health, higher educational attainment, and increased community productivity (Todaro and Smith, 2006).

The state must be responsible for guaranteeing the minimum standard of living of each citizen. Public welfare is defined as condition of fulfilling the material, spiritual and social needs of citizens in order to be able to live properly and to develop themselves, thus they can carry out their social functions (Law No. 11, 2009). Therefore, the state is obliged to serve every citizen to fulfill their rights and needs for access to education, health, housing, drinking water, and sanitation ensuring the welfare and quality of life for all Indonesian citizens.

The general purpose grant to local governments is a consequence of the transfer of authority of the central government to regional governments, thus, there is a significant transfer in the national budget from the central government to regional governments, and regional governments can freely use the general purpose grant for local government operations and for providing various services to the community that can improve people’s living standards.

Sepulveda and Martinez-Vazquez (2011) conducted research focusing on the impact of fiscal decentralization on poverty and income inequality. The samples used were 34 developing countries in Africa in the period 1976-2000. The results showed that fiscal decentralization had a significant effect on poverty and income inequality. Fiscal decentralization increases poverty and reduces income inequality.

Harahap Research (2017) with the title “Effect of General Allocation Funds and Special Allocation Funds and Revenue Sharing Funds on the Human Development Index in Regencies/Cities in North Sumatra Province” stated that partially, shared
revenue, general purpose grant, and specific purpose grant have no effect on HDI, but simultaneously, they affect the HDI.

Research by Nuryadin and Suharsih (2017) entitled “Analysis and Evaluation of the Impact of Special Allocation Funds on Regional Development Performance Indicators, Case Study of City Regencies 2003-2013” showed that Special Allocation Funds both according to the allocation of fields and in total, had no a significant impact on public services and public welfare.

Doriza et al. (2012) with the title “The impact of fiscal decentralization on disparities in access to basic education in Indonesia” stated that specific fiscal instruments such as special allocation fund have a more significant and tangible impact on reducing disparities in access to education at the junior secondary level compared to general instruments like general purpose grant.

Based on existing facts, inequality in social welfare, for example the education sector in 2016 can be seen from the indicators of community access to basic education, where the High School Participation Rate, in 2017 DKI Jakarta Province has reached 76.83% while in Papua Province only reached 33.38% (Central for Data and Statistics, Ministry of Education and Culture, 2017). In the health sector, service inequality can also be seen from the infant mortality rate, where in 2015 North Maluku Province was very high at 37, while East Kalimantan Province had infant mortality rates at 12, that were already in the low category (Central Bureau of Statistic, 2016). For community access to basic infrastructure services, among others community access to decent clean water where in 2017 the province with the highest percentage of households with access to improved drinking water was DKI Jakarta 85.88%, while the province with the percentage of households having the lowest access to improved drinking water was Bengkulu at 30.36% (Central Bureau of Statistic, 2017). Public access to basic sanitation services in the province with the highest percentage of households having access to adequate sanitation in 2017 was DKI Jakarta at 85.16%, while the province with the lowest percentage of households having access to improved sanitation was Papua at 14.76% (Central Bureau of Statistic, 2018).

The purpose of this study is to analyze the basic service inequalities between provinces in Indonesia since the implementation of fiscal decentralization, as well as recommended policies to reduce these economic inequalities.

2. METHODOLOGY

2.1. Method of Collecting Data
This study used a quantitative approach in order to test the suitability of the model that explains the relationship between the dependent variable and the independent variable. The data used in this study were secondary data obtained from several government agencies. The object of this research was the amount of interregional income inequality and basic services inequality. This research was conducted in 32 provinces in Indonesia. Data was processed with SPSS and Microsoft Excel software.

2.2. Analysis Method

2.2.1. Analysis of basic service inequality in Indonesia
The parameters used to see the inequality of basic services in 32 provinces are based on:

LE=Life expectancy (%)
ADS=Average duration of school (years)
ADW=Access to drinking water (%)
APS=Access to proper sanitation (%)
PR=Poverty rate (%).

To prove whether there is basic services inequality in Indonesia, each of the basic service parameters was calculated for the coefficient of variation for the 32 provinces. By using the coefficient of variation (CV) formula, it can calculate the amount of the variation of each basic service parameter for the 32 provinces in Indonesia.

The formulation of CV as follows:

\[ CV = \frac{s}{x} \times 100\% \]  

Where:
S: The standard deviation of each basic service
x\text{'}: average of each basic service.

The greater CV value indicates basic services inequality in the region in the sense that development is more concentrated in one area, the smaller CV value indicates that there is distribution of development in the region in the sense that development has been evenly distributed in all regions.

2.3. Analysis of Intergovernmental Transfer Impact on the Equal Distribution of Basic Services in Indonesia
To analyze the effect of providing intergovernmental transfer to the equal distribution of basic services in Indonesia, the Multivariate regression equation uses 5 response variables and 3 predictor variables. The multivariate regression model can be stated as follows:

\[ ADS_1 = \alpha_0 + \alpha_{11} \cdot SPG + \alpha_{12} \cdot GPG + \alpha_{13} \cdot SR + \varepsilon_1 \] \hspace{1cm} (2)
\[ LE_2 = \alpha_0 + \alpha_{12} \cdot SPG + \alpha_{22} \cdot GPG + \alpha_{23} \cdot SR + \varepsilon_2 \] \hspace{1cm} (3)
\[ ADWL_3 = \alpha_0 + \alpha_{13} \cdot SPG + \alpha_{23} \cdot GPG + \alpha_{33} \cdot SR + \varepsilon_3 \] \hspace{1cm} (4)
\[ APS_4 = \alpha_0 + \alpha_{14} \cdot SPG + \alpha_{24} \cdot GPG + \alpha_{34} \cdot SR + \varepsilon_4 \] \hspace{1cm} (5)
\[ PR_5 = \alpha_0 + \alpha_{15} \cdot SPG + \alpha_{25} \cdot GPG + \alpha_{35} \cdot SR + \varepsilon_5 \] \hspace{1cm} (6)

3. RESULTS AND DISCUSSIONS

3.1. Analysis of the Current Basic Service Inequality in Indonesia
One of the objectives of fiscal decentralization is to reduce inequalities between regions and ensure the implementation of minimum public services in each region, which in turn is expected to improve the welfare of the community in general. However, in reality, the variations in each region related to regional
financial capacity and different needs have resulted in horizontal fiscal inequalities which have resulted in the ability of regional governments to provide public services.

The third objective of the study is to see whether there is a basic services inequality in Indonesia. The coefficient of variation was calculated for each basic service parameter by using the formula of coefficient of variation (CV) to see the variation of each basic service parameter includes the average duration of school for Ages 15 (ADS), life expectancy (LE), access to drinking water (ADW), access to proper sanitation (APS), and poverty rate (PR), by using the CV formula.

The greater CV value indicated the basic services inequality in development is more concentrated in one area. On the other hand, the smaller CV value indicated that there has been an even distribution of development in that region in the sense development has been evenly distributed in all regions. The CV values obtained in Table 1 were quite varied and can be explained based on basic service parameters as follows:

1. Coefficient of variation (CV) of life expectancy (LE) showed the CV value is already small where the CV value ranges between the highest (4.31) in 2004 while the lowest (3.69) in 2009. With this value, it can be said that there has been an even distribution in all regions in terms of life expectancy. In Figure 1, it can be seen that the CV value is getting smaller, which means that the life expectancy rate between regions in Indonesia is evenly distributed. This condition showed that there has been an even distribution of health development between provinces.

2. Coefficient of variation (CV) access to drinking water (ADW) shows the CV value is still large where the highest CV value in 2010 was 22.86 while the lowest CV value in 2017 was 13.73 as shown in Figure 2. With this value, it can be said that there is still a high degree of inequality between regions in terms of community access to improved drinking water. However, the CV value from year to year shows a decrease even though it is still relatively large. This condition shows that there has not been an even distribution of the development of improved drinking water or the construction of drinking water is still concentrated in several provinces.

3. Coefficient of variation (CV) of poverty rate (PR) shows the CV value is still high where the highest CV value in 2012 was 58,827 while the lowest CV value in 2004 was 49.12 as displayed in Figure 3. Thus, it can be said that there is still an

Source: Author’s own contribution

Table 1: Coefficient of variation of basic service in Indonesia in 2004-2017

| Year | Life expectancy | % Poverty rate | Access to proper sanitary | Access to drinking water | Average duration of school ages of 15 |
|------|-----------------|----------------|----------------------------|--------------------------|--------------------------------------|
| 2004 | 4.31            | 49.12          | 36.99                      | 19.47                    | 12.79                                |
| 2005 | 4.18            | 49.818         | -                          | 19.01                    | 12.49                                |
| 2006 | 4.06            | 49.295         | 42.58                      | 19.55                    | 12.26                                |
| 2007 | 3.88            | 50.942         | 34.62                      | 18.82                    | 11.93                                |
| 2008 | 3.78            | 50.959         | 31.56                      | 20.64                    | 11.54                                |
| 2009 | 3.69            | 55.809         | 30.82                      | 19.35                    | 11.17                                |
| 2010 | 4.02            | 57.013         | 26.49                      | 22.86                    | 10.76                                |
| 2011 | 3.98            | 55.877         | 28.03                      | 21.1                     | 10.92                                |
| 2012 | 3.96            | 58.827         | 24.94                      | 19.72                    | 9.11                                 |
| 2013 | 3.92            | 53.323         | 25.01                      | 19.44                    | 10.58                                |
| 2014 | 3.891           | 51.406         | 29.84                      | 17.86                    | 12.43                                |
| 2015 | 3.83            | 52.313         | 26.02                      | 16.08                    | 10.40                                |
| 2016 | 3.82            | 53.738         | 19.44                      | 15.99                    | 10.31                                |
| 2017 | 3.82            | 52.684         | 20.77                      | 13.73                    | 10.17                                |

Source: Author’s own contribution

Table 2: Multivariate regression of effect of balance fund on basic service

| LE   | PR   | APS   | ADW   | ADS   |
|------|------|-------|-------|-------|
| Predictor | MSE   | Predictor | MSE   | Predictor | MSE   | Predictor | MSE   | Predictor | MSE   |
| SPG   | 0.135 | SPG   | 127.155.912.500 | SPG   | 107.161 | SPG   | 19.139  | SPG   | 25.124  |
| GPG   | 0.006 | GPG   | 151.289.598.400 | GPG   | 6.155   | GPG   | 5.708   | GPG   | 8.156   |
| SR    | 0.141 | SR    | 176.160758100  | SR    | 131.935 | SR    | 22.613  | SR    | 23.365  |
| SPG, GPG| 0.005 | SPG, GPG| 35.896.387.550 | SPG, GPG| 6.484  | SPG, GPG| 5.403  | SPG, GPG| 6.321  |
| SPG, SR| 0.134 | SPG, SR| 141.649.066.000| SPG, SR| 118.113| SPG, SR| 19.139  | SPG, SR| 34.534  |
| GPG, SR| 0.006 | GPG, SR| 181.507.123.200| GPG, SR| 6.536  | GPG, SR| 6.037  | GPG, SR| 7.21    |
| SPG, GPG, SR| 0.006 | SPG, GPG, SR| 44.241.251.450| SPG, GPG, SR| 7.131  | SPG, GPG, SR| 5.619  | SPG, GPG, SR| 7.78  |

Source: Author’s own contribution
Inequality between regions as seen from the parameter level of the percentage of poor people, where the level of poverty in one region is still high compared to other regions in Indonesia.

4. In Figure 4, Coefficient of variation (CV) of the average duration of school is still high where the highest CV value in 2005 was 12.79 while the lowest CV value in 2012 was 9.11. With this value, it can be said that there was still a high degree of inequality between regions in terms of average duration of school. However, the CV value from year to year shows a decrease even though it is still relatively high. This condition shows that there has not been an even distribution of the average duration of school for population aged 15 years or older or the development of the education sector is still concentrated in several provinces.

5. Coefficient of variation (CV) of access to proper sanitation shows a high CV value where the highest CV value in 2006 was 42.58 while the lowest CV value in 2017 was 20.77 as shown in Figure 5. With this value, it can be said that there is still a high degree of inequality between regions in terms of access to proper sanitation. However, the CV value from year to year shows a decrease even though it is still relatively large. This condition shows that there has not been an equitable distribution in terms of access to adequate sanitation or the development of adequate sanitation is still concentrated in several provinces.

3.2. Analysis of Intergovernmental Transfer Impact on the Equal Distribution of Basic Services in Indonesia

To analyze the effect of the intergovernmental transfer on even distribution of basic services in Indonesia, the Multivariate regression equation used 5 response variables and 3 predictor variables. It used the smallest mean square error (MSE) method based on factors that affect the distribution of basic services. The results of SPSS data processing can be seen in Table 2.

Table 3 shows the MSE values obtained from regressing the response variables to each of the independent variables. A multivariate regression model was chosen based on the smallest MSE value. The independent variables that affect the response variables can be seen in Table 3.

After obtaining variables that affect each response variable, then a multivariate regression model is made by the independent variable. It can be explained as follows:

From Table 4, it can be obtained the multivariate regression model as follows:
L’E = 67,421 + 1.056SPG + 5.092GPG  

\( \hat{L}E = 67,421 + 1.056SPG + 5,092GPG \)  

From Table 5, it can be obtained the multivariate regression model as follows:

\[ P'R = 364,903 - 1.479GPG \]  

\( \hat{P}R = 364,903 - 1.479GPG \)  

From Table 6, it can be obtained the multivariate regression model as follows:

\[ \hat{APS} = 42,699 + 4.32GPG \]  

\( \hat{APS} = 42,699 + 4,32GPG \)  

From Table 7, it can be obtained the multivariate regression model as follows:

\[ ADW = 40,699 + 5.39GPG + 2.356SPG \]  

\( \hat{ADW} = 40,699 + 5,39GPG + 2,356SPG \)  

From Table 8, it can be obtained the multivariate regression model as follows:

\[ \hat{APS} = 30,699 + 3.39GPG + 4.356SPG \]  

\( \hat{APS} = 30,699 + 3,39GPG + 4,356SPG \)  

Based on the results in Table 4 until Table 8, the analysis was continued with the partial test of the model parameters of each response variable. If the sig < \( \alpha \) (5% significance level), then the variable is stated to have a significant effect on the response variable.

1. LE regression results with GPG and SPG stated that the GPG variable is significant at \( \alpha = 5\% \), while the SPG variable is not significant at \( \alpha = 5\% \)
2. PR regression results with GPG and SPG stated GPG and SPG variables are significant at \( \alpha = 5\% \)
3. APS regression results with GPG stated GPG variables are significant at \( \alpha = 5\% \)
4. ADW regression results with GPG and SPG stated GPG and SPG variables are significant at \( \alpha = 5\% \)
5. ADS regression results with GPG and SPG stated that the GPG and SPG variables are significant at \( \alpha = 5\% \)

### Table 4: Regression coefficient of LE with SPG and GPG

| Model 1 | Unstandardized coefficients | Standardized coefficients | t       | Sig. |
|---------|-----------------------------|---------------------------|---------|------|
|         | B                           | Std. error                | Beta    |      |
| (Constant) | 67,421                     | 0,124                     | 544,242 | 0,000|
| SPG     | 1,056E-16                   | 0,000                     | 0,013   | 0,163|
| GPG     | 5,091E-15                   | 0,000                     | 0,980   | 11,947|

a. Dependent variable: LE. Source: Author’s own contribution

### Table 5: Regression Coefficient of PR with GPG

| Model 1 | Unstandardized coefficients | Standardized coefficients | T       | Sig. |
|---------|-----------------------------|---------------------------|---------|------|
|         | B                           | Std. error                | Beta    |      |
| (Constant) | 364,903                   | 4,013                     | 90,921  | 0,000|
| GPG     | −1,479E-13                  | 0,000                     | −0,979  | −11,708|

a. Dependent Variable: PR. Source: Author’s own contribution

### Table 6: Regression Coefficient of APS with GPG

| Model 1 | Unstandardized Coefficients | Standardized Coefficients | T       | Sig. |
|---------|-----------------------------|---------------------------|---------|------|
|         | B                           | Std. error                | Beta    |      |
| (Constant) | 42,699                   | 3,888                     | 7,469   | 0,000|
| GPG     | 4,321E-14                  | 0,000                     | 0,453   | 3,032|

a. Dependent Variable: APS. Source: Author’s own contribution

### Table 7: Regression Coefficient of ADW with GPG and SPG

| Model 1 | Unstandardized coefficients | Standardized coefficients | T       | Sig. |
|---------|-----------------------------|---------------------------|---------|------|
|         | B                           | Std. error                | Beta    |      |
| (Constant) | 40,699                   | 3,888                     | 10,469  | 0,000|
| GPG     | 5,391E-14                  | 0,000                     | 0,793   | 4,032|
| SPG     | 2,356E-14                  | 0,000                     | 0,228   | 1,157|

a. Dependent Variable: ADW. Source: Author’s own contribution

### Table 8: Regression coefficient of APS with GPG and SPG

| Model 1 | Unstandardized coefficients | Standardized coefficients | T       | Sig. |
|---------|-----------------------------|---------------------------|---------|------|
|         | B                           | Std. error                | Beta    |      |
| (Constant) | 30,699                   | 3,888                     | 9,469   | 0,000|
| GPG     | 3,391E-14                  | 0,000                     | 0,793   | 3,032|
| SPG     | 4,356E-14                  | 0,000                     | 0,228   | 3,157|

a. Dependent Variable: APS. Source: Author’s own contribution
From this analysis, it can be concluded that the causative factors of basic services were general purpose grant and specific purpose grant.

4. CONCLUSIONS

From this research, we can conclude several things as follows:

1. Basic service levels in Indonesia since fiscal decentralization has taken place including education, infrastructure, access to safe water, access to proper sanitation, and there has not been equitable distribution between regions. There was an inequality in the health aspect indicated by the life expectancy parameter.

2. The intergovernmental transfer components that affect basic services were general purpose grant and specific purpose grant. Shared revenue does not significantly influence basic services. For each response variable such as life expectancy, the variables that influence significantly were general purpose grant and specific purpose grant. For the response variable of poverty rate, the variables that influence significantly were general purpose grant and specific purpose grant. For the variable response of access to proper sanitation, the variable that influences significantly was general purpose grant. For the response variable of access to drinking water, the variables that significantly influence were general purpose grant and specific purpose grant. For response variables of average duration of school, variables that significantly influence were general purpose grant and specific purpose grant.

3. The variables used in the general purpose grant formula were proxy variables that do not reflect regional needs. The use of GRDP per capita as a variable to calculate regional needs does not have strong rationality. Likewise, the use of the human development index indicated the weakness of the need for regions to provide basic services within the framework of wider regional autonomy.

4.1. Policy Implications

From this study, there are several policy implications that can be used to reduce economic inequality in Indonesia, as follows:

1. Change some of the variables used in the general purpose grant formula to reflect more real regional needs by replacing the HDI and per capita GRDP variables with the poverty rate variable and removing the Hold-Harmless principle.
2. Criteria for determining specific purpose grant was selected in certain areas, especially border, coastal, disaster-prone and disadvantaged areas. Specific purpose grant is only for regions that have fiscal capacity below the national average. Determination of specific purpose grant criteria is oriented towards achieving minimum service standards and based on regional needs. Therefore, the national priorities that become specific purpose grant areas need to be limited to only three aspects, i.e., the achievement of education services, health services, and basic infrastructure based on regional proposals synchronized with national priorities.

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