THE EAST KALIMANTAN EXPENDITURE BUDGET AND ITS IMPACT ON HUMAN DEVELOPMENT INDEX

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Abstract

The radical changes regard to the policy of decentralisation has been implemented in Indonesia since the 1st of January 2001. By designing this policy, Indonesia was to change the formulation of economic resources movement between the Central and provincial governments in Indonesia. This project aims to explore the relationships between the Central and provincial governments in Indonesia, specifically in the economic interchange field. In particular, the thesis focuses on how the flow of funds between the Central government and East Kalimantan provincial government occurs and how the flow of funds in terms of a provincial budget from the Central Government to East Kalimantan province takes place and in what way the East Kalimantan province’s provincial budget and decentralisation policy impacted on the province’s economic growth and human development. Based on the premise that fiscal decentralisation formulation and its implementation were designed to improve the province’s Human Development Index (HDI) of the East Kalimantan provinces.

The HDI was found to have a significantly increasing trend during 1990-2007, but there is no significant structural break in HDI due to decentralisation. The teacher/student ratio does not have a significant trend but has a significant positive structural break due to decentralisation suggesting that the values of this variable are, on average, higher during the decentralisation era than in centralisation era. Doctors per 1000 of population have a significantly decreasing trend with no significant structural break due to decentralisation.

The HDI (human development index) regression estimated using data for the period 1990-2007 found that the budget real expenditures during both the centralisation period and during the decentralisation period have had a significant and positive impact on East Kalimantan province’s human development index (HDI). However, the magnitude of the impact of budget real expenditure on East Kalimantan’s HDI during both the decentralisation period and the centralisation period are similar. The estimated elasticity of HDI with respect to budget real expenditure during both the centralisation period and the decentralisation period is 0.013, implying that an increase of 1 per cent in budget real expenditure, ceteris paribus, results in a 0.013 per cent increase in HDI.

There is a need for the design and implementation of appropriate policies and programs to enhance government expenditure, domestic and foreign investment, employment and work opportunities, and exports of East Kalimantan province so that the province’s GDP can be increased faster and at higher rates. There is also a need to improve doctor/population ratio and health facilities of East Kalimantan. This, together with enhanced life expectancy, educational facilities, literacy, and GDP growth will improve the human development index (HDI) of East Kalimantan province.

Keyword: Economic Growth, Government Budget Expenditure, Human Development index, Domistic and Foreign Investement, Employment, work opportunities, export.
INTRODUCTION

Background

Decentralization era is one of the most radical changes regarding to social, economical and political fields in Indonesia when it was implemented effectively since 1st of January, 2001. Two specific pieces of legislation are of importance in the context of the promotion of greater provincial autonomy. Law No 22/1999 passed in 1999 dealt with the devolution of political authority. The focus of the law ensured the increased authority of provincial government in a range of political, social and economic considerations of importance to this thesis. Law No 25/1999 established a new system of fiscal arrangements under which provinces would gain a far larger share of revenue generated from within their areas. That is, the law promoted a new financial balance between the Central and provincial governments whereby the latter assumed greater control and responsibility of financial resources (Aspinall and Fealy 2003). These new fiscal arrangements are also of importance in the context of this thesis.

It is clear that the provision of the new laws promoting decentralisation and greater autonomy in financial matters has produced mixed outcomes in the thirty-two provinces that constitute the Indonesian republic. Some provinces benefited greatly in that although they lacked a strong natural resource base and provided limited income to the Central government, they have, under the new regime, attracted substantial additional revenue flows. For example, as reported by the Provincial Budget (APBD) for the year 2001, South Sulawesi province received Rp 365.3 billion under the 1997 Provincial Budget allocations. This had increased to Rp 1,892.6 billion in 2000. The Indonesian Central Statistical Bureau (or BPS for Biro Pusat Statistik) notes that the Province of East Kalimantan, with a population of 2,443.300 (2000 census) was allocated Rp 263.03 billion under the 1997 centralised budget (BPS, 2000). Under decentralisation, this grant had risen to Rp 1,746.75 billion in 2003, an increase of Rp 1,483.72 or 564% (BPS, 2003).

In statistical terms the province of East Kalimantan is an extreme case. It is one of the largest, less densely populated and one of the wealthiest provinces of Indonesia. With a land area of about 210,000 km², the province is almost twice as large in area as Java, although it has a population of less than 3 million compared to the total population of Java which is over 32 million (BPS, 2003). Much of East Kalimantan province’s income is derived from the extraction of mineral and natural resources, of which oil, natural gas and logging are the most important (Oosternan, 1999).

It is of interest that the nominal per capita income in East Kalimantan is over twice the national average.

As noted by Chauvel (2001), a number of outer island provinces - Irian Jaya, Aceh and East Kalimantan – were and are resource-rich and significant earners of export revenue and that the provinces of East Kalimantan, Riau, Aceh, Jakarta and West Papua contribute a large proportion of the total provincial government sourced revenue received by the Central government. These provinces are among the richest in Southeast Asia, yet the consumption per capita of residents is very low by the region’s standards. This suggests that the residents of these provinces are not enjoying the rewards from the exploitation of their resources, nor are they gaining from their development. On the other hand, the HDI of East Kalimantan is not meet to the expectation. In 2007, the average of East Kalimantan HDI only 74.40 and HDI other supporting aspects shown a poor number compared to other province such as the Central of Java Province.

Table : Facilities and Infrastructure Comparison of East Kalimantan and the Central of Java (2003).

<table>
<thead>
<tr>
<th></th>
<th>East Kalimantan</th>
<th>Ratio to Population</th>
<th>Central of Java</th>
<th>Ratio to Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitals</td>
<td>23</td>
<td>1:70,547</td>
<td>146</td>
<td>1:20,571</td>
</tr>
<tr>
<td>Health Clinics</td>
<td>159</td>
<td>1:10,663</td>
<td>1426</td>
<td>1:20,440</td>
</tr>
<tr>
<td>Doctors</td>
<td>230</td>
<td>1:5,584</td>
<td>2453</td>
<td>1:10,045</td>
</tr>
<tr>
<td>Schools</td>
<td>3005</td>
<td>1:20,68</td>
<td>25,256</td>
<td>1:1,269</td>
</tr>
<tr>
<td>Universities/Colleges</td>
<td>38</td>
<td>1:10,947</td>
<td>232</td>
<td>1:1,108,416</td>
</tr>
<tr>
<td>Teachers</td>
<td>25,813</td>
<td>1:114</td>
<td>259,810</td>
<td>1:114</td>
</tr>
</tbody>
</table>

Sources: BPS, 2003

Research Problems

The new developments have arisen in the light of the fact that the previous centralised approach that characterised such economic interchange failed to achieve both an equitable distribution of wealth and improvement in the economic welfare of much of the population. In fact, economic interaction between central and provincial governments is not well understood which led unbalanced of social and economic development. This project attempts to mention the problem behind the implementation of decentralization the case of East Kalimantan on HDI matter such as:

- Has the decentralisation enhanced East Kalimantan’s economic growth and human development?
• How is the impact of East Kalimantan expenditure budget to the progress on human development index?

Objectives of the Study

Literature Review

The Human Development Index (HDI) concept is widely used as an indicator of a country's average achievements in basic dimensions of human development such as life expectancy, educational attainment and adjusted real income measured in terms of purchasing power parity (PPP) in US$$ per person (Hopkins, 1991; Algunas, 1995). HDI is a concept that, according to the United Nations Development Program (UNDP), refers to the process of widening the options of persons, giving them greater opportunities for education, health care, income, employment, etc. The basic use of HDI is to rank countries by the level of "human development", which is also used to determine whether a country is a developed, developing, or underdeveloped country.

Human development is a process of developing peoples quality with some choice aspect to develope which needs other components including healthy life, to acquire knowledge and resources for living. Other aspect can be developed are highly valued by many people, range from political, economic and social freedom to opportunities for being creative and productive, and enjoying personal self-respect and guaranteed human rights. In measuring the quality of human, Human Development Index (HDI) was formulated to be used which appeared in 1990. It was consists of three components are:

- Healthy life can be measured by Life expectancy at birth
- Knowledge can be measured by Adult literacy rate (since 1991, this component was adjusted by combining enrolment ratios (primary, secondary, tertiary).
- Standard of living can be measured by Real GDP per capita

Algunas (1995) states that the HDI combines three basic dimensions:

- Life expectancy at birth, as an index of population health and longevity
- Knowledge and education, as measured by the adult literacy rate (with two-thirds weighting) and the combined primary, secondary, and tertiary gross enrollment ratio (with one-third weighting).
- Standard of living, as measured by the natural logarithm of gross domestic product (GDP) per capita at purchasing power parity (PPP) in United States dollars (US$).

As Quinlivan (2006) states, HDI represents the average of the following three general indices:

- Life Expectancy Index
  \[ LE = \frac{25}{85} \] (2.1)
- Education Index
  \[ EI = \frac{2}{3} \times ALR + \frac{1}{3} \times ER \] (2.2)
- Adult Literacy Index (ALI)
  \[ ALR - 0 \] (2.3)
- Gross Enrollment Index (EI)
  \[ EL = 0 \] (2.4)
- GDP Index
  \[ \log (\text{GDP}_{pc}) - \log (100) \] (2.5)

Where, LE is life expectancy at birth, ALR is adult literacy rate (ages 15 and older), ER is combined gross enrollment ratio for primary, secondary and tertiary schools and GDPpc is GDP per capita at PPP in US$.

Regression Models to Analyse the Impact of Provincial Budget Expenditure and Decentralisation HDI

The effects of East Kalimantan province's budget expenditure and decentralisation policy implementation will be examined in terms of their contribution to the province's economy and human development. Thus, multiple regression analysis will be used to examine the impact of regional budget and decentralisation on East Kalimantan's HDI.

East Kalimantan province's Human Development Index (HDI) will be modelled as a function of: provincial budget real expenditure during the centralisation era (PBEC) and the provincial budget real expenditure during the decentralisation period (PBED).

\[ \text{HDI} = f (\text{PBEC, PBED}) \] (3.1)

In log-log form the model can be specified as:

\[ \text{LHDI} = \beta_0 + \beta_1 \text{LPBEC} + \beta_2 \text{LPBED} + \mu \] (3.2)

Where, \( \beta_0 \) is constant, \( \beta_1 \) and \( \beta_2 \) are coefficients to be estimated and \( \mu \) is the error term.

The hypotheses to be tested are: \( \beta_1 > 0, \beta_2 > 0 \), and \( \beta_1 > \beta_2 \).

\( \beta_1 \) and \( \beta_2 \) are hypothesised to be positive as provincial budget real expenditure during both centralisation era and decentralisation era is...
expected to increase provincial HDI. Moreover, $\beta_2$ is hypothesised to be greater than $\beta_1$ as provincial budget real expenditure during decentralisation era is expected to contribute more positively to provincial HDI that it did during the centralisation period.

**Data Issues**

**Sources of Data Series**

There are two main sources data, namely Central and provincial government sources. Central Statistics Bureau is the Central government source, and East Kalimantan's Provincial Statistics Bureau is the East Kalimantan provincial government source. The quantitative data collected provincial budget expenditure, Human Development Index (HDI), numbers of teachers and students in schools and universities, and doctors per 1000 population. Annual time series data were collected as secondary data for the period 1984-2007, which were further classified into centralisation era (1984 to 2000), and decentralisation era (2001 to 2007).

**Data Adjustment**

The secondary data collected from different sources are of different type and relate to different periods. Hence the data had to be adjusted to become consistent data series, which can be used for the estimation of regressions. Some data series originally given on a financial year basis were converted to a calendar year basis, while the data budget expenditure given on the basis of current year money values were converted to real values using the relevant deflators. Detailed data tables showing the steps involving the adjustment of data for the relevant variables are:

Table: Data Used in the Estimation of Regression Equations, Data from 1990 to 2007

<table>
<thead>
<tr>
<th>Year</th>
<th>Human Development Index</th>
<th>Provincial Real Budget Expenditure</th>
<th>Ratio of Teachers to Students</th>
<th>Ratio of Doctors and Paramedics Per 1000 Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>66.30</td>
<td>195,121,017,99</td>
<td>0.157</td>
<td>4.621</td>
</tr>
<tr>
<td>1991</td>
<td>66.60</td>
<td>195,742,030,50</td>
<td>0.174</td>
<td>4.966</td>
</tr>
<tr>
<td>1992</td>
<td>67.50</td>
<td>213,674,301,50</td>
<td>0.177</td>
<td>3.476</td>
</tr>
<tr>
<td>1993</td>
<td>68.90</td>
<td>205,793,657,00</td>
<td>0.181</td>
<td>3.328</td>
</tr>
<tr>
<td>1994</td>
<td>69.40</td>
<td>222,034,707,44</td>
<td>0.184</td>
<td>3.114</td>
</tr>
<tr>
<td>1995</td>
<td>70.00</td>
<td>218,036,625,63</td>
<td>0.186</td>
<td>3.145</td>
</tr>
<tr>
<td>1996</td>
<td>71.00</td>
<td>218,781,725,50</td>
<td>0.184</td>
<td>4.272</td>
</tr>
<tr>
<td>1997</td>
<td>71.60</td>
<td>218,652,649,70</td>
<td>0.154</td>
<td>3.081</td>
</tr>
<tr>
<td>1998</td>
<td>69.80</td>
<td>218,325,186,91</td>
<td>0.161</td>
<td>3.065</td>
</tr>
<tr>
<td>1999</td>
<td>69.30</td>
<td>219,310,941,21</td>
<td>0.173</td>
<td>3.051</td>
</tr>
<tr>
<td>2000</td>
<td>70.10</td>
<td>218,597,283,50</td>
<td>0.174</td>
<td>3.489</td>
</tr>
<tr>
<td>2001</td>
<td>69.90</td>
<td>217,827,065,70</td>
<td>0.175</td>
<td>3.215</td>
</tr>
<tr>
<td>2002</td>
<td>70.10</td>
<td>218,321,283,57</td>
<td>0.174</td>
<td>3.435</td>
</tr>
<tr>
<td>2003</td>
<td>72.20</td>
<td>218,395,908,74</td>
<td>0.226</td>
<td>3.505</td>
</tr>
<tr>
<td>2004</td>
<td>72.85</td>
<td>217,740,285,45</td>
<td>0.227</td>
<td>2.854</td>
</tr>
<tr>
<td>2005</td>
<td>73.20</td>
<td>225,733,174,79</td>
<td>0.229</td>
<td>2.527</td>
</tr>
<tr>
<td>2006</td>
<td>73.60</td>
<td>228,034,301,92</td>
<td>0.216</td>
<td>2.945</td>
</tr>
<tr>
<td>2007</td>
<td>74.40</td>
<td>228,901,131,52</td>
<td>0.202</td>
<td>2.471</td>
</tr>
</tbody>
</table>

Source: BPS East Kalimantan, 2008

**Discussion of Estimation Results**

Given the relatively short time-series of data, ordinary least squares (OLS) multiple regression technique was used in estimating all of the regression models. The models were estimated using EViews econometrics software package. The estimation results are presented and discussed below.

**Trend Analysis**

The estimation regression results, together with the relevant statistical and diagnostic tests, for the trend analysis of data for the period 1990-2007 in relation to East Kalimantan province's Human Development Index (HDI), teacher-student ratio (TSR) and doctors per 1000 of population (DOC) are presented in Tables 4.2 to 4.4.

Table 4.2 shows that the coefficient for the time trend variable (T) is positive and significant, suggesting that East Kalimantan province’s Human Development Index (LHDI) has a significantly increasing trend over the period 1990-2007. However, the coefficient for the dummy variable for decentralisation (DYD) is not significant, suggesting that there is no significant structural break in East Kalimantan province's HDI due to decentralisation.

Table: Estimates of the Trend Equation for East Kalimantan Province's

<table>
<thead>
<tr>
<th>HDI, 1990-2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent Variable: LHDI</td>
</tr>
<tr>
<td>Independent Variable</td>
</tr>
<tr>
<td>T</td>
</tr>
<tr>
<td>DYD</td>
</tr>
<tr>
<td>Constant</td>
</tr>
</tbody>
</table>

As shown in Table 4.3, the coefficient for the time trend variable (T) is positive but not significant suggesting that East Kalimantan province's teacher/student ratio (LTSR) has no significant trend over the period 1990-2007. However, the coefficient for the dummy variable for decentralisation (DYD) is positive and significant, suggesting that there is a significantly positive structural break in East Kalimantan province's TSR.
due to decentralisation. This implies that on average, East Kalimantan’s teacher/student ratio has been higher during the decentralisation era compared to that during centralisation era.

### Table 4.3: Estimates of the Trend Equation for East Kalimantan Province’s Teacher/student Ratio, 1990-2007

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Coefficient</th>
<th>t-statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>T</td>
<td>0.002</td>
<td>0.036</td>
</tr>
<tr>
<td>DY</td>
<td>0.197***</td>
<td>2.845</td>
</tr>
<tr>
<td>Constant</td>
<td>-1.730***</td>
<td>-39.610</td>
</tr>
</tbody>
</table>

\[ R^2 = 0.898, \text{ Adjusted } R^2 = 0.886, \text{ F } = 17.247***; \]
\[ D.W. = 1.655 \]
\[ \text{Note: } *** \text{ is significant at the } 1 \text{ per cent level.} \]

Jarque-Bera Normality Test: \( \chi^2 = 1.131 \)

Breusch-Godfrey Serial Correlation LM Test: \( F_{(2,135)} = 3.902 \)

White Heteroskedasticity Test: \( F_{(4,135)} = 1.904 \)

Ramsey RESET Test: \( F_{(1,144)} \)

Table above shows that the coefficient for the time trend variable (T) is negative and significant (at the 10 per cent level) suggesting that East Kalimantan province’s doctors per 1000 (LDOC) population has a significantly decreasing trend over the period 1990-2007. However, the coefficient for the dummy variable for decentralisation (DY) is not significant, suggesting that there is no significant structural break in East Kalimantan province’s DOC due to decentralisation.


<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Coefficient</th>
<th>t-statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>T</td>
<td>-0.019*</td>
<td>-1.755</td>
</tr>
<tr>
<td>DY</td>
<td>0.003</td>
<td>0.262</td>
</tr>
<tr>
<td>Constant</td>
<td>1.431***</td>
<td>16.493</td>
</tr>
</tbody>
</table>

\[ R^2 = 0.483, \text{ Adjusted } R^2 = 0.414, \text{ F } = 7.018***; \]
\[ D.W. = 1.048 \]
\[ \text{Note: } *** \text{ is significant at the } 1 \text{ per cent level; } * \text{ is significant at the } 10 \text{ per cent level.} \]

Jarque-Bera Normality Test: \( \chi^2 = 2.040 \)

Breusch-Godfrey Serial Correlation LM Test: \( F_{(2,135)} = 1.582 \)

White Heteroskedasticity Test: \( F_{(4,135)} = 1.449 \)

Ramsey RESET Test: \( F_{(1,144)} = 2.485 \)

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### Impact of Provincial Budget Expenditure and Decentralisation on HDI

The partial correlation coefficient between East Kalimantan province’s human development index (LHDI) and budget real expenditure during centralisation era (LPBEC) is -0.08 (negative, low). The correlation between LHDI and budget real expenditure during decentralisation era (LPBED) is 0.63 (positively and relatively highly correlated).

As the estimated OLS regression for East Kalimantan province’s HDI seemed to have the heteroskedasticity problem, the results presented in Table 4.5 are the White heteroskedasticity corrected regression estimates. As shown in Table 4.5, as hypothesised, the variables for the budget real expenditure during the centralisation period (LPBEC) as well as for the budget real expenditure during the decentralisation period (LPBED) have significant and positive coefficients suggesting that budget real expenditure during both periods had a positive impact on East Kalimantan province’s HDI (LHDI). Contrary to the hypothesis, the magnitude of the estimated coefficients for LPBED and LPBEC variables is the same, suggesting that there has been a similar impact of the budget real expenditure on East Kalimantan’s HDI during both the centralisation period and the decentralisation period.

### Table Estimated Regression Results (White Heteroskedasticity Corrected): Impact of Provincial Budget Real Expenditure and Decentralisation on Kalimantan Province’s Human Development Index (HDI).

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Coefficient</th>
<th>t-statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>LPBEC</td>
<td>0.013**</td>
<td>1.823</td>
</tr>
<tr>
<td>LPBED</td>
<td>0.013**</td>
<td>2.129</td>
</tr>
<tr>
<td>Constant</td>
<td>3.978***</td>
<td>29.233</td>
</tr>
</tbody>
</table>

\[ R^2 = 0.573, \text{ Adjusted } R^2 = 0.517, \text{ F } = 10.113***; \text{ D.W. } = 0.444 \]
\[ \text{Note: } *** \text{ is significant at the } 1 \text{ per cent level; } ** \text{ is significant at the } 5 \text{ per cent level.} \]

\[ * \text{ is significant at the } 10 \text{ per cent level.} \]

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### OLS Diagnostics:

Jarque-Bera Normality Test: \( \chi^2 = 0.975 \)

Breusch-Godfrey Serial Correlation LM Test: \( F_{(2,135)} = 10.654 \)

White Heteroskedasticity Test: \( F_{(4,135)} = 0.386 \)

Ramsey RESET Test: \( F_{(2,39)} = 17.717 \)
In Table above, each of the estimated coefficients for LPBEC and LPBED can be interpreted as the elasticity of HDI (LHDI) with respect to each of these independent variables, given all other factors that affects HDI remain constant. Elasticity in this context refers to the percentage change in East Kalimantan province’s HDI resulting from one per cent change in the relevant independent variable. Thus, for example, an increase of one per cent in the provincial budget real expenditure during both the centralisation era as well as the decentralisation era (LPBEC and LPBED), ceteris paribus, results in 0.013 per cent increase in the province’s HDI. Based on this elasticity estimate and actual HDI of East Kalimantan province in the year 2007 (74.40), it is predicted that a one per cent increase in the provincial budget real expenditure, ceteris paribus, will result in a provincial HDI of only 74.41 in the year 2008 and 74.42 in the year 2009.

Conclusion

This chapter developed and estimated the regression models, and discussed the results of estimation of such models: (i) to examine the trends and the effects of decentralisation policy on the trends of East Kalimantan province’s Human Development Index (HDI) and other related variables, and (ii) to analyse the impact of provincial budget expenditure and decentralisation policy on East Kalimantan province’s and HDI.

According to the HDI (human development index) regression estimated using data for the period 1990-2007 the budget real expenditures during both the centralisation period and during the decentralisation period have had a significant and positive impact on East Kalimantan province’s human development index (HDI). However, the magnitudes of the impact of budget real expenditure on East Kalimantan’s HDI during both the decentralisation period and the centralisation period are similar. The estimated elasticity of HDI with respect to budget real expenditure during both the centralisation period and the decentralisation period is 0.013, implying that an increase of 1 per cent in budget real expenditure, ceteris paribus, results in a 0.013 per cent increase in HDI.

The trend analysis also found that, on average, East Kalimantan province’s human development index (HDI) was not any higher during the decentralisation period, compared to the whole period trend during 1990-2007. One of the HDI related factors, doctors per 100 of population were found to have a declining trend during 1990-2007. Thus, there is a need to improve doctor/population ratio and health facilities of East Kalimantan. This, together with enhanced life expectancy, educational facilities, literacy, and GDP growth will improve the human development index (HDI) of East Kalimantan province.

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