

ABSTRACT

Fiscal decentralization give ability to local government to manage their own fiscal resources more flexible. Income of local government are didn't same each other and this condition made fiscal capacity also vary. Due to this condition, central government of Indonesia need to transfer Balancing Fund (Dana Perimbangan) which amount is increasing every year in order to reduce the horizontal fiscal imbalance.

The main purpose of this research is to analize the horizontal fiscal disparity among each local government in Indonesia from 2000-2013 fiscal year and to analyze the effect of Balancing Fund to its disparity. Data of Local Government Revenues (Pendapatan Asli Daerah); Balancing Fund (Dana Perimbangan) which consist of General Grant (Dana Alokasi Umum) and Specified Grant (Dana Alokasi Khusus) and population of each local subprovince region are observed to measure the fiscal capacity.

Using statistic descriptive, the average, variance, standar deviation and coeficient variation of fiscal capacity are analyzed and intrepreted. To explain the fiscal disparity, data of fiscal capacity from local governmnet in the same province are classified in to seven major region of Indonesia and then the fiscal disparity of that seven major region are compared each other. The study show that the disparity of the local government in Indonesia are in the middle level. The effect of Balancing Fund are reduce fiscal disparity although the disparity remains in the middle level.

Key words: fiscal disparity, local government revenue, balancing fund, Indonesia