
Comparative Study of the Flypaper Effect on Local Government Expenditure in Districts/Cities across Provinces in Java Island

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Abstract:

This study examines the Flypaper Effect phenomenon concerning Local Government Expenditure in districts/cities across provinces on Java Island from 2015 to 2022. Utilizing secondary data on population and financial indicators excluding DKI Jakarta, the research employs purposive sampling and multiple linear regression analysis. Results demonstrate the significant influence of Local Own-Source Revenue (PAD) and General Allocation Fund (DAU) on Local Government Expenditure in Banten, Central Java, East Java, West Java, and DI Yogyakarta. While the Flypaper Effect is evident in Banten, East Java, West Java, and DI Yogyakarta for the current year, it extends to the previous year's data in Banten, Central Java, East Java, and West Java. Notably, Central Java does not exhibit the Flypaper Effect in the current year. This research sheds light on fiscal behavior and has implications for local government financial management.

Keywords: Flypaper Effect; Local Government Expenditure; Java Island; General Allocation Fund (DAU); Local Own-Source Revenue (PAD); Multiple Linear Regression Analysis

1. Introduction

The governance structure in Indonesia operates under a decentralized system of regional autonomy, governed by Law No. 23 of 2014. This grants autonomous regions the authority to govern local interests within the framework of the unitary state. However, the implementation of this system faces challenges, particularly in financial management, as highlighted in Law No. 1 of 2022. Despite the decentralization efforts, there exists a significant gap in the financial autonomy of regional governments in Indonesia. The primary concern revolves around the inadequacy of Local Own-source Revenue (PAD) in covering Regional Expenditures. This reliance on PAD poses a substantial challenge to effective governance, development, and public service provision at the regional level. The gap lies in the disparity between the financial needs of regional governments and their actual revenue-generating capacity. While regional autonomy aims to empower local governments, the current financial mechanisms fall short in providing sufficient resources for them to fulfill their obligations effectively. This gap not only hampers the intended benefits of decentralization but also perpetuates disparities in development and service delivery among regions.

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The urgency of addressing this issue is paramount due to its direct impact on governance effectiveness, development outcomes, and citizen welfare. Without adequate funding, regional governments struggle to provide essential services, leading to disparities in access to education, healthcare, infrastructure, and other public goods. Moreover, the reliance on central government assistance perpetuates a cycle of dependency and undermines the autonomy envisioned by the decentralization policy. Immediate action is required to reform the financial relations between the central and regional governments to ensure fair, transparent, and sustainable financing mechanisms that support effective governance and equitable development across Indonesia.

Essentially, the central government encourages regions to be more self-reliant and maximize their potential to increase Regional Original Revenue (PAD). Based on the analysis of the 2018 APBD (Regional Budget) compiled by the Directorate General of Fiscal Balance and the Directorate of Evaluation of Regional Financial Management and Information, it can be concluded that intergovernmental funds or transfer funds have the largest share of regional revenue compared to the other two sources, both in the national, provincial, and district/city contexts. The three sources of regional revenue are Regional Original Revenue (PAD), Inter-governmental funds, and Other legitimate regional revenues. At the district/city level, Inter-governmental funds contribute the highest proportion to total revenue, amounting to 66.8%, while the proportion of Regional Original Revenue (PAD) is smaller, accounting for only 15.5% of total revenue, followed by Other legitimate regional revenues at 17.7%. At the provincial level, the acquisition of Regional Original Revenue (PAD) and Inter-governmental funds (DAPER) is almost balanced, with the proportion of PAD to total revenue at 45.8% and Inter-governmental funds at 47.2%, thus better compared to at the district/city level.

This data demonstrates that generally, district/city governments still heavily rely on intergovernmental funds or transfers from the center to finance their regional expenditures compared to provincial governments. If this situation continues, it will result in a higher dependency of Regional Governments on transfer allocations from the Central Government to support regional expenditures. When Regional Governments respond to more of their regional spending coming from transfer funds rather than genuine regional income, it may lead to wasteful spending in regional budgets, thus potentially causing the flypaper effect phenomenon (Ekawarna Unjaswati S, 2017). The flypaper Effect refers to the dependency of regions on transfer funds from the central government rather than utilizing regional income.

As governance progresses, the proportion of Inter-governmental funds to Provincial Governments in Indonesia has always increased, as seen in the graph depicting the development of central government transfers to regions (2011-2022). The increase in transfer funds from year to year indicates that provinces in Indonesia are experiencing the flypaper effect phenomenon. Consequently, the transfer funds received by regions are more likely to drive regions to make expenditures compared to their own PAD. If there is a reduction in transfer funds from the center to the regions, regional

governments are likely to maintain their budgets by increasing taxes to boost regional income (Afrizal & Khoirunurrofik, 2022).

A thorough analysis is needed to determine whether provincial governments in Java Island are indicative of the flypaper effect phenomenon, as there is a dependency of provincial governments in Java Island on transfers from the central government. Some of the financing of governmental affairs comes from transfer funds such as DAU, DAK, DBH, and only a small portion from Regional Original Revenue. One of the causes is that provincial governments are too cautious in using their Regional Original Revenue to finance their own governmental affairs.

Regional expenditure is an estimated regional expenditure burden allocated fairly and evenly to be relatively enjoyed by all segments of society without discrimination, especially in providing public services (Dinar Iskandar, 2020). Based on Article 55 of Government Regulation Number 12 of 2019, the classification of Regional Expenditure consists of: Operating Expenditure, Capital Expenditure, Contingency Expenditure, and Transfer Expenditure. Governmental affairs related to the allocation of regional expenditures that are obligatory relate to important matters; Services include: (a) education, (b) health, (c) public works and spatial planning, (d) housing and settlement areas, (e) peace, public order, and community protection, and (f) social (Sukmana P, 2022).

According to Law No. 1 of 2022, Regional Original Revenue (PAD) is defined as "Regional revenue obtained from regional taxes, regional levies, proceeds from the management of separated regional wealth, and other legitimate regional revenues in accordance with statutory regulations." Regional governments have a responsibility to manage the use of Regional Original Revenue (PAD) to implement development programs and reduce regional dependency on the central government. The inequality of Regional Original Revenue (PAD) across regions is reflected in diverse PAD variations. Some regions have high PAD, making them prosperous areas, while conversely, regions with low PAD face the opposite conditions.

The central government provides DAU to Regional Governments. General Allocation Fund (DAU) is an asset derived from the allocation of the state budget aimed at financial equalization between regions for provincial expenditure needs to carry out Decentralization (Rafi & Arza, 2023). The amount of DAU is set at a minimum of 25% of domestic revenues stipulated in the State Budget (Mentayani Rusmanto, 2013). Then, from this 25%, 90% is allocated for DAU for District/City areas and 10% for DAU for Provincial areas. The amount of DAU transfer from the central government to regional governments is determined by two main factors. The first factor is the needs of the region, while the second factor is the financial capability of the region, which includes the basic ability to finance regional expenditures from PAD and DAU. The role of the General Allocation Fund (DAU) is aimed at correcting financial imbalances arising from the sharing of natural resources in a region. According to Law Number 1 of 2022 regarding Financial Relations between the Central Government and Regional Governments, the method used to determine the needs of the General Allocation Fund (DAU) for a region (whether Province, District,

or City) is carried out through fiscal needs calculation based on unit costs and service targets, as well as fiscal capacity calculation in accordance with regional revenue potential to reflect real fiscal needs and capacity. Identifying the flypaper effect phenomenon is important to ensure that the optimal utilization of regional income and transfer fund allocation to regions does not become the primary factor in regional budget financing. This research focuses on comparing Regional Original Revenue (PAD) and transfer fund allocation (DBH, DAU, and DAK) to Regional Expenditure in the context of assumptions related to the flypaper effect.

Previous research on the analysis of the flypaper effect on regional expenditure has been widely conducted domestically and internationally. One of them is a study by Kang & Setyawan (2012) entitled "Intergovernmental Transfer And The Flypaper Effect– Evidence from Municipalities/Regencies in Indonesia." The case study in this research involves 484 Districts/Cities in Indonesia over the period 2001-2008. The results of the study show that Intergovernmental Funds and Regional Original Revenue, both partially and simultaneously, have a significant impact on Regional Government Expenditures. The influence of Regional Original Revenue on Regional Expenditure is stronger than the influence of Intergovernmental Funds. This proves the absence of the flypaper effect in the response of regional governments to transfer funds from the central government.

Another research conducted by Mutiary (2017) entitled "Fly Paper Effect: An Empirical Study of Indonesia Case (2004-2010)" aimed to determine the presence of the flypaper effect at the provincial level through panel data regression analysis. The results of the study show that both PAD per capita and DAU per capita have a significant effect on regional expenditure. The correlation is positive, meaning that both PAD and DAU effects increase regional expenditure.

This research is a development of research (Dinar Iskandar., 2020). The first novelty of this research is the addition of an independent variable, namely the General Allocation Fund (DAU). Adding the general allocation fund variable allows researchers to control external factors that can influence regional spending apart from local original income (PAD). By including the general allocation fund variable, researchers can obtain a more complete picture of the influence of transfer income from the central government on regional spending. The second novelty is that this research expands the scope of observations to districts/cities within provinces on the island of Java from 2015 to 2022.

2. Theoretical Background

The Peacock-Wiseman theory posits that governments tend to increase expenditures by relying on tax revenues, despite public aversion to taxation, in order to support their growing financial needs. Decentralization and autonomy are considered crucial for human rights as they grant individuals the freedom to pursue their aspirations without direct control from the central government. Fiscal decentralization, including administrative, political, fiscal, and economic aspects, is particularly significant. The General Allocation Fund aims to equalize financial capacities among regions,

primarily benefiting poorer areas. Regional Original Revenue, regulated by law, serves as a genuine income source for regions, intended to reduce reliance on central government transfers and provide flexibility for regional development. Regional Expenditure, governed by specific regulations, encompasses governmental obligations aimed at efficient and legal implementation within regional authorities, emphasizing principles of thriftiness, effectiveness, and compliance.

Previous studies indicate that Local Own-Source Revenue (PAD) and General Allocation Fund (DAU) have a significant and positive influence on Regional Expenditure. The hypothesis drawn from these studies is that both DAU and PAD have a significant influence on Regional Expenditure (H1).

Regarding the Flypaper Effect phenomenon, several studies in Indonesia have shown that the influence of DAU on Regional Expenditure is stronger than that of PAD, indicating the presence of the Flypaper Effect in Indonesia. However, these findings are not consistent with some other studies that suggest no Flypaper Effect on regional expenditure. Therefore, hypotheses proposed to test the Flypaper Effect are that the influence of DAU on Regional Expenditure is greater than the influence of PAD, both in the same year and in the previous year (H2 and H3).

Furthermore, there are studies indicating that the Flypaper Effect not only occurs in regions with high PAD but also in regions with low PAD. Therefore, the hypothesis that can be drawn is that both regions with high PAD and low PAD experience the Flypaper Effect (H4).

3. Methodology

The study population encompasses all provinces in Java, excluding DKI Jakarta Province, due to its exclusion from the General Allocation Fund. The data under scrutiny include General Allocation Fund (DAU), Regional Original Revenue (PAD), and Regional Expenditure. The sampling technique employed is purposive sampling, a nonprobability sampling method where respondents are handpicked based on the researcher's criteria. The exclusion of DKI Jakarta Province is essential to ensure a more homogeneous sample, given its unique administrative and financial characteristics. Purposive sampling allows for a targeted selection process, aligning with the specific objectives of the study outlined by Darmawan D (2014).

Data collection is executed through the documentation method, entailing the compilation of available records/documents. The dataset comprises actual figures on regional original revenue, general allocation fund, special allocation fund, revenue-sharing fund, and regional expenditure in Java Island's regencies/cities from 2015 to 2022. These data are sourced from authentic budget realization documents of regencies/ cities in Indonesia, publicly accessible via the Ministry of Finance and relevant local governments' publications.

Operational definitions in this research serve two-fold purposes: to ascertain the significance of the variables employed and to facilitate comprehension during

discussions. In this study, the operational definition pertains to elucidating the analysis of regional expenditure, measured through Regional Original Revenue (PAD) and General Allocation Fund (DAU). This research employs multiple linear regression analysis to further examine the relationships among the variables. This technique was chosen because it allows for the exploration of the simultaneous influence of multiple independent variables on a dependent variable.

This study employs multiple linear regression analysis with the basic equation:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + e$$

Description :

Y : Regional Expenditure

α : Equation Constant

$\beta_1 X_1$: Regression Coefficient of predictor PAD

$\beta_2 X_2$: Regression Coefficient of predictor DAU

e : Error

4. Empirical Findings/Result

Descriptive statistical analysis provides a summary of these variables. The following are the results of descriptive statistics for each province :

Table 1. Descriptive Statistical Analysis Of Each Province

	PAD	DAU	BD
Banten Province			
Min	111062806774.00	514376024000.00	1061917792736.00
Max	3665710323870.00	1222971999000.00	6708709632318.00
Mean	110041566116.817	30451522166.236	161656576455.849
Standard Deviation	880332528934.540	243612177329.884	1293252611646.794
N	64	64	64
Central Java Province			
Min	152044596332.00	400176755000.00	673865039498.00
Max	2545991747658.00	12743446060000.00	4871946697040.00
Mean	17541997932.02596	44568057920.58398	41091321813.35572
Standard Deviation	293533769105.39075	745766250448.16020	687589327973.64870
N	280	280	280
East Java Province			
Min	104233584925	367576298000.00	706783751689.00
Max	1335283958793	1765927493000.00	4330508442324.00
Mean	12496087852.69243	18169493940.66690	46401341200.36798
Standard Deviation	209099543888.11570	304033785650.18190	776442947198.33130
N	280	280	280
West Java province			
Min	64506109613.00	346807146000.00	724391370221.00
Max	2810155682282.00	2163439062000.00	7305059632892.00
Mean	46868345726.84322	29870798922.34380	98271788074.84789
Standard Deviation	679186855398.34300	432869000893.35340	1424093504514.30710
N	210	210	210
Yogyakarta Province			
Min	170822326558.00	617524294000.00	1243069952899.00
Max	1061064803656.00	1035862077000.00	3040474126756.00
Mean	38496830476.76808	23278924538.99249	68883019144.47696
Standard Deviation	243475334007.94583	147228846044.80286	435654465211.06055
N	40	40	40

Source: Secondary data processed, 2024

Regional Original Revenue ranges from a minimum of Rp. 111,062,806,774 obtained by Pandeglang District in 2015 to a maximum of Rp. 3,665,710,323,870 obtained by Tangerang District in 2022. The mean for this revenue is Rp. 110,041,566,116,817 with a standard deviation of 880,332. Meanwhile, the General Allocation Fund ranges from Rp. 514,376,024,000 obtained by Cilegon City in 2015 to Rp. 1,222,971,999,000 obtained by Tangerang District in 2019, with a mean of Rp. 30,451,522,166,236 and a standard deviation of 243,612. Lastly, Regional Expenditure ranges from Rp. 1,061,917,792,736 obtained by Serang City in 2015 to Rp. 6,708,709,632,318 obtained by Tangerang District in 2022, with a mean of Rp. 161,656,576,455,849 and a standard deviation of 129,325. Additionally, in provinces such as Central Java, East Java, West Java, and the Special Region of Yogyakarta, similar trends in these financial metrics are observed. To test the first hypothesis, an F test was carried out by comparing the calculated P value f resulting from the regression model with the degree of significance (α), namely 0.05. The criteria used to draw conclusions from the hypothesis above are if the calculated P Value $f < \alpha$ ($\alpha = 0.05$) then H_0 is rejected.

Table 1. First Hypothesis Testing

	Regression	Residual	Total
Banten Province			
df	2	61	63
SS	1.027E+26	2.713E+24	1.054E+26
MS	5.133E+25	4.448E+22	
F	1153.967		
Significance F	0.000		
Central Java Province			
df	2	277	279
SS	7.787E+25	5.404E+25	1.319E+26
MS	3.893E+25	1.951E+23	
F	199.562		
Significance F	0.000		
East Java Province			
df	2	277	279
SS	1.553E+26	1.288E+25	1.682E+26
MS	7.766E+25	4.650E+22	
F	1669.904		
Significance F	0.000		
West Java province			
df	2	207	209
SS	3.984E+26	2.546E+25	4.239E+26
MS	1.992E+26	1.230E+23	
F	1619.902		
Significance F	0.000		
Yogyakarta Province			
df	2	37	39
SS	6.73684E+24	6.65154E+23	7.402E+24
MS	3.36842E+24	1.79771E+22	
F	187.373		
Significance F	0.000		

Source: Secondary data processed, 2024

The test results indicate that in the five mentioned provinces (Banten, Central Java, East Java, West Java, and DI Yogyakarta), the independent variables of DAU (General

Allocation Fund) and PAD (Local Own-Source Revenue) collectively have a significant influence on Regional Expenditure. This is supported by the large F-values and low levels of significance (0.000) in each test. Therefore, the first hypothesis stating a significant influence of DAU and PAD on Regional Expenditure cannot be rejected for each province under study.

Testing the second hypothesis was carried out using the t test. The t test is carried out by comparing the calculated P value t produced by each independent variable in the regression equation with the degree of significance (α) which is 0.05. The criteria used to draw conclusions from the hypothesis above are if the calculated P value $< \alpha$ ($\alpha = 0.05$) then H_0 is rejected.

Table 2. Second Hypothesis Testing

	Intercept	PAD	DAU
Banten Province			
Coefficients	142153255332.847	1.279	1.955
Standard Error	102234710366.737	0.030	0.110
T Stat	-1.390	42.032	17.778
P-value		9.5E-47	8.2E-26
Significance	0.169	0.000	0.000
Central Java Province			
Coefficients	1272025711398.456	1.587	0.243
Standard Error	52948740010.622	0.091	0.036
T Stat	24.024	17.352	6.737
P-value		3.3E-46	9.3-11
Significance	0,000	0,000	0,000
East Java Province			
Coefficients	-68190671946.530	1.360	1.822
Standard Error	41048366103.200	0.073	0.050
T Stat	-1.661	18.595	36.226
P-value		5.2E-51	1.4E-107
Significance	0.098	0,000	0,000
West Java province			
Coefficients	-84516538348.752	1.186	1.970
Standard Error	67577081371.505	.039	.061
T Stat	-1.251	30.651	32.429
P-value		2.2E-79	1.4E-83
Significance	0.212	0.000	0.000
Yogyakarta Province			
Coefficients	-1.35325E+11	1.04	1.875
Standard Error	1.24992E+11	0.091	0.15
T Stat	-1.083	11.471	12.511
P-value		6.6E-14	4.8E-15
Significance	0.286	0.000	0.000

Source: Secondary data processed, 2024

The analysis results indicate that in several cases, both Local Own-Source Revenue (PAD) and General Allocation Fund (DAU) significantly influence Regional Expenditures. However, in each case, DAU tends to have a more significant impact than PAD on regional expenditure. This is evidenced by the higher t-values for DAU and lower P-values compared to PAD in each analysis. Therefore, the conclusion drawn is that DAU has a more significant influence on Regional Expenditures than PAD.

In the context of the flypaper effect, where DAU is expected to have a greater influence than PAD on regional expenditures, this conclusion is consistent with such expectations. The third hypothesis testing also employs a t-test similar to the second hypothesis testing. However, in this case, the PAD and DAU used are from the previous year, then regressed with the current year's Regional Expenditures.

Table 3. Third Hypothesis Testing

	Intercept	PAD	DAU
Banten Province			
Coefficients	-149307923297.119	1.277	1.996
Standard Error	107489594322.426	0.031	0.115
T Stat	-1.389	41.558	17.387
P-value		5.5E-47	1.6E-25
Significance	0.171	.000	.000
Central Java Province			
Coefficients	1.27565E+12	1.583	0.24
Standard Error	53986578244	0.093	0.036
T Stat	23.629	17.054	6.597
P-value		4.0E-45	2.1E-10
Significance	.000	.000	.000
East Java Province			
Coefficients	-77564470577	1.355	1.822
Standard Error	41633185205	0.075	0.050
T Stat	-1.863	18.037	36.226
P-value		5.5E-49	1.4E-107
Significance	0.064	0.000	0,000
West Java province			
Coefficients	-1.17869E+11	1.191	2.007
Standard Error	68280585144	0.039	0.062
T Stat	-1.726	30.369	32.178
P-value		2.2E-78	1.0E-82
Significance	0.086	0.000	0.000
Yogyakarta Province			
Coefficients	-1.74236E+11	0.947	2.005
Standard Error	1.40822E+11	0.102	0.17
T Stat	-1.237	9.302	11.821
P-value		2.4E-11	2.7E-14
Significance	0.226	0.000	0.000

Source: Secondary data processed, 2024

The regression analysis results indicate that both the previous year's Local Own-Source Revenue (PAD) and General Allocation Fund (DAU) received by the region significantly influence the Regional Expenditure in the subsequent period, with P values much smaller than the set significance level. While both variables show significant influence, comparative tests reveal that DAU has a stronger impact than PAD on Regional Expenditure, suggesting a tendency towards the flypaper effect where DAU reception predominantly influences government allocation for expenditure. As previously explained, the categorization of regions into areas with high and low PAD is based on the ratio of the Degree of Fiscal Autonomy (DOF) of each region. Areas with DOF ratio values above the average are categorized as areas with high PAD and areas with DOF ratio values below the average are categorized as areas with low PAD.

Table 4. Regression analysis results for each province

	PAD Low			PAD High		
	Intercept	PAD	DAU	Intercept	PAD	DAU
Banten Province						
Coefficients	-2.6456E+11	1.366	2.076	59964523761	1.519	1.165
T Stat	-1.936	9.791	14.084	0.449	19.734	4.71
P-value	-	3.7E-11	4.6E-15	-	4.9E-19	2.6E-05
Significance	0.063	0.000	0.000	0.657	0.000	0.000
Central Java Province						
Coefficients	411232155.519	1.878	1.539	927.687	1.795	.182
T Stat	0.505	1.878	11.977	10.522	14.827	4.054
P-value	-	9.5E-25	3.7E-43	-	2.4E-26	0.000
Significance	0.614	0.000	0.000	0.000	0.000	0.000
East Java Province						
Coefficients	6.46482E+11	4.516	0.318	-117286354311	1.250	1.892
T Stat	4.369	21.316	2.020	-2.461	63.185	37.215
P-value	-	3.5E-45	0.02	-	2.5E-118	9.1E-83
Significance	0.000	0.000	0.045	-2.461	0.000	0.000
West Java Province						
Coefficients	-21696623609.395	1.519	1.832	178794956835	1.189	1.664
T Stat	-2.259	8.996	20.791	.620	4.750	3.202
P-value	-	1.5E-15	7.5E-43	-	3.9E-06	0.000
Significance	0.796	0.000	0.000	0.537	0.000	0.002
Yogyakarta Province						
Coefficients	-230779.259	2.462	1.613	-44114.045	1.290	2.015
T Stat	-.961	3.951	7.251	-2.640	8.533	11.888
P-value	-	0.000	2.1E-06	-	9.958	2.4E-11
Significance	0.354	0.002	0.000	0.015	0.000	0.000

Source: Secondary data processed, 2024

The regression analysis results, as depicted in Table 4, reveal the nuanced manifestation of the Flypaper Effect across different provinces in Indonesia. Notably, in Banten Province, the effect appears to be more pronounced in regions with low PAD, indicating that Direct Allocation Fund (DAU) utilization may be more efficient in stimulating regional expenditure in economically disadvantaged areas compared to those with higher PAD. Conversely, in Central Java Province, evidence of the Flypaper Effect is observed in both low and high PAD areas, suggesting a more uniform impact across economic strata. Similarly, in West Java Province, the effect primarily affects low PAD regions, with its significance diminishing in high PAD areas, a pattern consistent with findings in East Java and Yogyakarta Special Region Provinces. These findings challenge the hypothesis of uniform impact across low and high PAD areas, suggesting instead a nuanced relationship dependent on the economic status of each region. This study's insights have significant implications for policymakers, particularly in resource allocation and fiscal policy formulation aimed at maximizing public spending efficiency. Furthermore, by providing empirical evidence of the Flypaper Effect's varying impact across regions with differing fiscal capacities, this research contributes to the existing literature, emphasizing the importance of context-specific policy interventions tailored to each region's economic realities. Such insights could aid policymakers in devising more effective strategies to promote equitable development and efficient resource allocation across provinces.

5. Discussion

DAU and PAD have a significant influence on regional expenditure

The study investigated the influence of the General Allocation Fund (DAU) and Regional Original Revenue (PAD) on Regional Expenditures across five provinces. Using SPSS analysis, it found a significant effect of both DAU and PAD on Regional Expenditures, indicating their importance in shaping regional fiscal policies. These findings corroborate previous research by Ardiansyah, Ayu Kusumadewi & Rahman, and Kustianingsih et al., highlighting the positive impact of PAD and DAU on regional spending. PAD, in particular, was noted for its positive influence on regional spending due to its role as a primary revenue source generated within the region itself. The study's validation of these relationships contributes to the understanding of regional fiscal dynamics and emphasizes the significance of government revenue mechanisms in driving expenditure decisions. This research underscores the need for policymakers to consider these revenue sources when formulating regional fiscal policies.

The influence of DAU_t on BD_t is greater than the influence of PAD_t on BD_t on Regency/City Governments in Java Province (Flypaper Effect)

The research delves into the comparative impact of General Allocation Fund (DAU) and Local Own-Source Revenue (PAD) on Regional Expenditure (BD) in Java Province's Regency/City Governments, focusing on the Flypaper Effect. It reveals nuanced patterns across provinces, where DAU exhibits a significant influence on BD compared to PAD in Banten, East Java, West Java, and Yogyakarta, aligning with the Flypaper Effect hypothesis. However, in Central Java, DAU's influence is challenged by higher P-values compared to PAD, contradicting earlier findings. This discrepancy emphasizes the complexity of regional fiscal dynamics and the necessity for context-specific analysis. The Peacock-Wiseman theory underpins the observed relationship, suggesting that increased transfers amplify spending more than local revenue, as seen in Abdullah's study confirming the Flypaper Effect in West Java. Overall, this research enriches our understanding of regional fiscal dynamics, offering insights into the mechanisms shaping governmental expenditure patterns and emphasizing the need for tailored policy interventions.

The influence of DAU_{t-1} on BD_t is greater than the influence of PAD_{t-1} on BD_t, on Regency/City Governments in Java Province (Flypaper Effect)

The research findings on the influence of General Allocation Fund (DAU) and Local Own-Source Revenue (PAD) on Regional Expenditure (BD_t) in Java Province significantly contribute to the existing body of literature in public finance and local governance. By comparing the impact of DAU-1 and PAD_{t-1} on BD_t, the study illuminates the presence of the flypaper effect in Regency/City Governments' expenditure behavior in Java Province. Building upon previous studies by Ayu Kusumadewi & Rahman (2007) and Irsyadhea Putri (2019), this research establishes continuity with existing literature, reinforcing the observation of the flypaper effect. The detailed analysis conducted in this study further elucidates the dynamics of DAU-1 and PAD_{t-1} influence on BD_t across different provinces in Java, identifying variations in strength across provinces, notably in Banten, Central Java, East Java, and West Java. The

rejection of the third hypothesis in DI Yogyakarta introduces nuance, emphasizing the need to consider contextual factors and local peculiarities in understanding expenditure patterns. This research not only confirms the flypaper effect but also enriches our comprehension by highlighting regional variations and nuances, contributing to both theoretical and practical literature in public finance and local governance. Moving forward, deeper exploration into contextual factors shaping expenditure decisions and their policy implications for fiscal efficiency and accountability at the local level is warranted.

Areas with low PAD and high PAD experience the flypaper effect

The study delved into the fourth hypothesis regarding the presence of the flypaper effect in regions with varying levels of Local Own-Source Revenue (PAD), employing multiple linear regression in SPSS across several provinces. Results exhibited a mixed pattern across regions. Provinces like Banten, East Java, West Java, and DI Yogyakarta refuted the hypothesis, suggesting that changes in regional expenditure aren't primarily driven by central government transfers, consistent with prior research. Conversely, in Central Java, evidence supported the flypaper effect, aligning with previous studies, indicating that the General Allocation Fund (DAU) notably influences regional expenditure, irrespective of PAD levels. Notably, research by Puspitawati Chairunnisa highlighted disparities in the flypaper effect's magnitude between high and low PAD regions, emphasizing the complexity of this phenomenon. Overall, the study enriches the literature by offering empirical insights into the flypaper effect's manifestation in Central Java while contrasting findings across other provinces, emphasizing the necessity of tailored policies to address regional fiscal disparities effectively.

6. Conclusion

The conclusion of this study underscores the substantial impact of both Local Own-Source Revenue (PAD) and General Allocation Fund (DAU) on Regional Expenditure in select provinces of Java, including Banten, Central Java, East Java, West Java, and DI Yogyakarta. While the flypaper effect is evident in several provinces and years, Central Java notably deviates from this pattern in the current year. However, a key limitation lies in the restricted sample size, as not all Java provinces were included. To enrich future research recommendations, a more detailed exploration is warranted, focusing on strategies to bolster PAD and reduce dependence on DAU. This could involve optimizing taxation policies, fostering economic growth, and enhancing revenue collection mechanisms. Additionally, there is scope for directing DAU funds towards promoting more equitable development by considering criteria such as socio-economic disparities and infrastructure needs. Comparative studies across islands could provide valuable insights into the efficacy of fiscal policies and aid in devising tailored strategies for equitable development across regions, considering variations in economic conditions and levels of financial autonomy.

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