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Table of Contents

Articles

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Flypaper Effect of Regional Expenditures in Yogyakarta

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Abstract

One of the consequences as a result of the implementation of regional autonomy is that local governments must have sufficient financial resources to pay their autonomy government. The financial capacity of local governments would determine the ability of local governments to perform the functions of government. Considering Article 5 of Law No. 33, 2004, sources of regional revenue are regional revenues, balance funds/transfers and financing. When local revenue comes from the transfers, the stimulation of expenditure is different from the stimulation that arises from local revenue (especially local taxes). This study focuses on identifying the *flypaper effect* on expenditure areas and its classification with samples of five districts and cities in Yogyakarta during 2006-2015. This paper argued that during the period among *flypaper* did not occur in the expenditure area and sub expenditure areas. In addition, *flypaper* found only in capital expenditure, while expenditure is not a suspect.

Keywords: *flypaper,* autonomy and fiscal needs, local autonomy, Yogyakarta

Introduction

Regional autonomy and fiscal decentralization are not a new concept in Indonesia; it has officially been issued in Law No. 5, 1975 on the main points in local government (Sundatoko, 2003). However, the policy of regional autonomy and fiscal decentralization during the New Order government has not been able to reduce inequality of the vertical and horizontal governmental system, which is indicated by the high degree of fiscal centralization and the magnitude of inequality between regions and territories (Mauro, 2005). The international practice of fiscal decentralization was implemented on January 1, 2001 based on Law No. 25, 1999 which is enhanced by Law No. 33, 2000 on the financial balance between the central government and local governments. As a consequence of the implementation of the law is that regions should be able to develop regional autonomy broadly, concretely and responsibly in empowering the society, economic institutions, sociopolitical and legal questions (Hermani, 2007).

Capacity of local government finance badly depends on the revenue from the central government. As a consequence, in the framework of decentralization to each region is required to be able to finance themselves through the financial resources under their control (Hermani, 2007). The role of local government in exploring and developing various regional potential as a source of revenue largely determine the successful implementation of government functions, development, and community services in the area (Seabright, 2005). One consequence in the implementation of regional autonomy is that local governments must have sufficient financial resources to finance their autonomy. The financial capacity of local governments determine the ability of local governments to perform the functions of government (Kelvin, 2000). The low fiscal capacity often lead to a negative cycle, namely the low level of public services, which in turn would invite intervention center, or even the transfer of most of the functions of local government into the upper levels of government (Isdijoso and Brahmantio, 2002).

Based on article 5 of Law No. 33, 2004 sources of local revenue are revenues, the balance funds/ transfer and financing. When local revenue comes from transfers, the stimulation of expenditure is different from the stimulation that arises from local revenue (especially local taxes) (Siregar, Badrudin, Melo, 2015). Melo (2005) states that a condition in which the larger expenditure areas response to the transfer, it is called *flypaper.* This technical term is first introduced by Courent, Gramlich, and Rubield (1979) for articulating Arthur Okun's mind (1970) that said "money stick where it hits" in as much as has never same word "flypaper effect" in *bahasa* Indonesia. The phenomenon *flypaper* hits wider implications when the transfer will increase local government spending that is greater than the acceptance of its transfer (Turnbull 2008). Maimunah (2006) considers that the phenomenon of *flypaper* can be happen in two versions. *The first* refers to the increase in local taxes and excessive government spending. *The second* leads to the elasticity of spending on higher transfers than the elasticity of spending on local tax revenues.

From the aforesaid, it is interesting to analyze *flypaper* on *Dana Alokasi Umum* (DAU/ General Allocation Grant) and *Pendapatan Asli Daerah* (PAD/ Direct Autonomy Income) to the expenditure district and municipal governments in Yogyakarta, Indonesia. Yogyakarta has been a province with the peculiarities of technocrats, whether it has the same trend as other regions in Indonesia in terms of government spending preferences. This study focused on identifying the *flypaper effect* on expenditure areas taking samples of five districts and cities in the Yogyakarta province for the periode of 2006-2015. This paper argues that during the period *flypaper* does not occur in the expenditure area and sub expenditure areas; while the *flypaper* found only in capital expenditure.

Revealing Regional Autonomy

In accordance with the mandate outlined in Law No. 5, 1974 on the subject of regional government, the principle of regional autonomy should be real and responsible. *Real* in the sense that the granting of autonomy is based on such factors as calculations and policies that truly warrant the region which should be able to manage her own household. In addition, *responsible* means autonomy are completely in line with the objective to launch the development scattered throughout Indonesia and in harmony with the political guidance of the unity of the nation. Therefore, there will be a harmonious relationship between the central government and the local one. Furthermore, in the official explanation of Law No. 5, 1974 precedence that the implementation of local government is based on several principles, namely:

a. Implementation of autonomy to the region should support the aspirations of the people's struggle, which is to strengthen the unity of the state and enhance the welfare of the people.
b. The division of autonomy to the regions must be a real and responsible autonomy. The principle of decentralization is carried out in conjunction with de-concentration by also providing the possibility of implementing the task of the principle of assistance.
c. Giving autonomy to the region is to declare the effectiveness and effectiveness of government administration and service to society, political stability and national unity.

Successful implementation of regional autonomy can not be separated from regional capability in finance, due to financial ability become an important indicator in measuring level of regional autonomy. Financial resources can be grouped into two, namely the source of Direct Regional Income (PAD) and the source of Non-direct Regional Income. Implementation of regional autonomy can be achieved if local financial resources can finance local activities derived from PAD (Warner, 2009). The local government in carrying out its households requires a source of income derived from the PAD. Without sufficient funds, the central features of regional autonomy are lost. Although the regions are also getting sources from PAD, but PAD has a strategic role in providing local finance due to for a region, the source of local revenue is the main pillar of the buffer of regional life. Experts therefore often use PAD as an analytically tool in assessing the degree of autonomy of a region (Peck, 2005).

Local governments in implementing various finances with autonomy to regulate and take care of the household would need funds. This shows how important the financial factor is to implement regional autonomy, because there is no government activity that does not require cost, so it requires adequate financial resources for the implementation of local government by exploring the source of PAD, for the main aim of making the dependency of local government with central government would be not too high (Abate, 2004). Practically, managing the government administration with respect to important regional finances is to have self-sufficient local revenue. If PAD revenue has reached 20% of regional expenditure, then the source of local finance may be said enough; in doing so the dependence of local governments on the central government is small. The large percentage of PAD to regional expenditure, the better the regional autonomy (Abate, 2004). In order to take care of its own household well, the region needs to be given sufficient sources of financing. Nevertheless, remember not all sources of funding can be given to the local region; consequently it is required to dig up all their own financial resources based on laws and issued regulations (Sidik and Soewondo, 2002).

Flypaper Effect, DAU/PAD and Expenditure Area

Intergovernmental transfers may be an alternative of regional policy to solving the *fiscal gap.* The act of transfer face two direct phenomena on one hand, it reveals the increase of regional spending; while on the other hand it in line with the increasing transfer of funds from the government. The transfer proposes to exercise to internalize the fiscal which emerge in inter-regional development (Melo, 2005; see also Leduc and Wilson, 2017). Ajit and Lalvani (2008) states that the granting of transfer basically aims to increase regional capacity to finance local expenditure greater than transfer administration to increase local governments' efforts excavation area financing sources primarily from the fiscal area. Nevertheless, the transfer of payments results ineffectiveness in financing regional expenditures. The phenomenon is known as *flypaper* which comprises: (1) an increase in taxes and excessive government spending, (2) the elasticity of spending on transfers higher than the expenditure elasticity of the local tax.

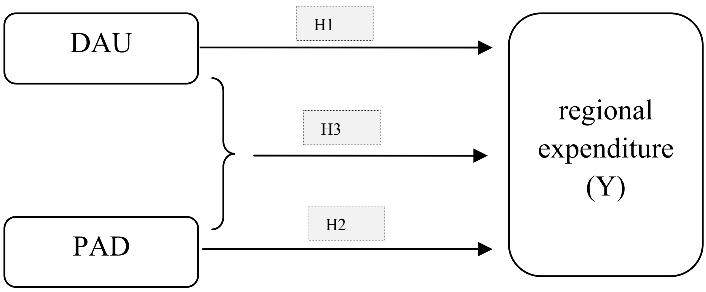
Some studies suggest that income affects financial spending; while others claim vice-versa (Abate, 2004). For thirty years, other research said, that studying the effect of *grants* from the central government to local government expenditure has been continuously running (Prakosa, 2004). Theoretically, the response will have an allocation of distributive effect that is no different from other funding sources, such as local tax revenues (Prakosa, 2004). However, the expert shows that the case irregularly happen; due to the stimulus for the expenditure incurred by the transfer area or grants are often greater than the stimulus of revenue (taxes) own area *(flypaper).* Persha and Blomley (2009) states that there is a very close relationship between transfers from the central government and local government spending.

Considering the above results have shown that the General Allocation Grant (DAU) is an important source of income for an area to meet expenditures. This DAU can simultaneously address the level of independence of a region. The more DAU received then the area is still very dependent on the Central Government in fulfilling the expenditure, this indicates that the area does not independent and *vice versa*. The study of the influence of local revenues *(local own-source revenue)* in regional spending has been done by proving hypothesis that revenues (mainly taxes) would influence local government budget known *hypothesis spend tax*. In this case, the local government spending will be adjusted to changes in local government revenue or income changes occur prior to the changes in expenditure (Regulska, 2009).

Deller and Maher (2005) have examined that the spending categories with a focus on the area of *flypaper,* surprisingly found that the effect *of unconditional grants* on expenditure category is much stronger on the needs of non-essential (*luxury)* needs such as paying parks and going recreation, consuming cultural and educational services than such the essential needs as paying security and protection against fire. Ajit Karnik and Mala Lalvani (2008) discusses the process of decentralization in the state of Maharashtra. Among the states in India, Maharashtra is considered successful in implementing decentralization. With 243 samples of local government, Lalvani identifies the occurrence of *flypaper* on spending stimulus grant from the state government to the local governments. In addition, Lewis (2003) in his study with a sample of local governments in Indonesia on the island of Java, Bali, Sumatra, and Borneo has identified also the *flypaper.* He argue that increased regional spending has implications for the central government's expenditures well. It means that the regions have not been self-sufficient even though regional expenditure has increased. The central government transfers response to regional expenditure more quickly than the PAD response to regional expenditure.

Maimunah (2006) states that regions in the area of Sumatra have got *flypaper effect* in response to transfer spending of DAU and PAD. She also observed that the *flypaper effect* have beneficial aim to predict the future period of regional financial spending. There are no differences of taking *flypaper effect* both in the areas of having low and high PAD in Sumatra. Studying *flypaper* in Yogyakarta and Central Java has also been performed by Prakosa (2004), arguing that empirically prove that the regional expenditures has been influenced by the amount of DAU received from the central government. From the regional expenditure prediction model, DAU's predicted power to regional expenditure is higher than PAD's prediction rate. The above studies have provided the fact that some local governments in Indonesia depend on the central government (cf. Roy, Ara, Das, Quisumbing , 2015; Jeyhoon-Tabar and Maddah, 2016; Baskaran, 2016).

Determining the occurrence of *flypaper* in this study focused on the comparison of the effect of PAD and DAU Expenditure Area. Melo (2005) and Venter (2007) states that the *flypaper* occur if (1) the influence/ value of the DAU coefficient on regional expenditure is greater than the effect of PAD on the regional expenditure, and both values are significant; (2) the analysis shows that the influence of the PAD to the expenditure area is not significant, it can be concluded occur the *flypaper.* It may be described as the following conceptual framework:



The hypotheses then are formulated:

- H1 : DAU takes positive influence on expenditure areas in DIY
- H2 : PAD takes positive influence on expenditure areas in DIY
- H3 : The influence of DAU to expenditure areas stronger than the influence of PAD on regional expenditure in DIY.

Research Methods

The data of this study takes from realization of budget in Yogyakarta in 2006 -2015. All of this data is secondary data obtained from the Budget Realization Report Revenue and Expenditure Provincial Level in Indonesia were obtained from the Central Bureau of Statistics and the largest Regional Financial Information System, Ministry of Finance of the Republic of Indonesia, Directorate General of Fiscal Balance which may take easily on the internet. The dependent variable is regional expenditure (BD). Regional expenditure is all local government expenditure in a budget period. Based on the Regional Budget, expenditure areas consist of personnel expenditure, spending on goods and services, business travel spending, the maintenance of its spending, capital expenditures, expenditures for the results and financial assistance, as well as expenditure does not suspect (Law No. 32 of 2004).

Personnel expenditure accommodate all public expenditure is used to pay salaries, including allowances they are entitled, and to pay the fees, overtime, vakasi, special allowances and transit personnel expenditures, and to pay pensions and health insurance (social contributions). The classification includes salary / wage expenditures of projects that have been classified as development expenditures. With this format, it will show an overlapping post between personnel expenditures classified as routine and development. This is where the efficiency will be achieved. Likewise, spending on goods that should be used to finance government operations for the procurement of goods and services, and maintenance costs of assets State (Law No. 32 of 2004).

Expenditure goods are spending to accommodate the purchase of goods and services that are consumable to produce goods and services are marketed and not marketed, and the procurement of goods intended to be given or sold to the public and expenditure pe rjalanan (Law No.

32 of 2004). While, expenditure travel service include expenditures for official travel in the framework of regular operations and surveillance k e area (Law No. 32 of 2004). In addition, maintenance expenditures include expenditures for utilization in order to maintain power, either in the form of goods moved and goods that do not move in the framework of the continuity of duty and obligation of the government (Law No. 32 of 2004).

Capital expenditure accommodates whole spending country allocated for purchase goods needs investment (in form asset permanent and asset other). Capital expenditure items specified (i) the capital expenditure of assets fixed / physical, and (ii) capital expenditure assets other / non-physical. In practice for this expenditure Other non-physical on majority composed from expenditure employees, flowers and trips that are not related directly with investation for development (Act No. 32 of 2004). Furthermore, expenditure for results and help finance is spending on interest payments *(interest)* on the use of the principal debt obligations *(principal outstanding)* were calculated based on the position of short-term loans or long-term (Law No. 32 of 2004).

Expenditure no suspect are budgetary expenditures on unusual and repeated unexpected activities such as natural disaster management, social disaster and other unexpected expenditures indispensable in the context of central / regional government (Law No. 32/2004). Then on first income local are revenues derived from local revenue sources and managed locally by the local government. In the foregoing description pursuant to Law No. 32 of 2004 Article 157 stated that the original revenue of the region consists of:

a. Results tax area
b. Results retribution area
c. Results management wealth
d. Other income original legal area.

The General Allocation Grant (DAU) is one of the transfers of Government funds to local governments derived from APBN revenues, allocated for the purpose of equitable inter-regional financial capacity to fund regional needs in the context of decentralization. DAU is *"block grant"* which means the user delegated to the regions in accordance with the priorities and needs of the regions to improve services to the community in the implementation of regional autonomy (Yuliadi, 2007). In addition Special Allocation Fund (Dana Alokasi Khusus/ DAK) are funds given to local governments provincial and regency / city to finance the special activities of local affairs by considering the financial capacity of the area in the budget and with regard to regional eristik char (Yuliadi, 2007).

Estimation of Regression with Panel Data

Panel model estimation of data depending on the assumptions made investigators to intercept / constant *(intercept),* the slope coefficient *(slope coefficients)* and variable error *(error term).* Regression analysis with panel data is used to answer some hypotheses above. Among these are to know the effect of PAD and DAU on Regional Expenditure. The data obtained will be tabulated and mathematically processed using a computer program *(software)* E-views 6. The model will be used to identify the effect of the internal variable is the local government;

$$Y_{it} = \beta_1 + \beta_2 DAU_{it} + \beta_3 DAK_{it} + \beta_4 PAD_{it} + E_{it}$$
$$Y1_{it} = \beta_1 + \beta_2 DAU_{it} + \beta_3 DAK_{it} + \beta_4 PAD_{it} + E_{it}$$
$$Y2_{it} = \beta_1 + \beta_2 DAU_{it} + \beta_3 DAK_{it} + \beta_4 PAD_{it} + E_{it}$$
$$Y3_{it} = \beta_1 + \beta_2 DAU_{it} + \beta_3 DAK_{it} + \beta_4 PAD_{it} + E_{it}$$
$$Y4_{it} = \beta_1 + \beta_2 DAU_{it} + \beta_3 DAK_{it} + \beta_4 PAD_{it} + E_{it}$$
$$Y5_{it} = \beta_1 + \beta_2 DAU_{it} + \beta_3 DAK_{it} + \beta_4 PAD_{it} + E_{it}$$
$$Y6_{it} = \beta_1 + \beta_2 DAU_{it} + \beta_3 DAK_{it} + \beta_4 PAD_{it} + E_{it}$$
$$Y7_{it} = \beta_1 + \beta_2 DAU_{it} + \beta_3 DAK_{it} + \beta_4 PAD_{it} + E_{it}$$

Remarks:

Y_{it}	: Total Regional Expenditure
$Y1_{it}$	: Employee Expenses
$Y2_{it}$	: Expenditure for Goods and Services
$Y3_{it}$	: Expenditure Travel Agency
$Y4_{it}$	: Expenditure Maintenance
$Y5_{it}$	: Capital Expenditure
$Y6_{it}$	: Revenue Sharing and Financial Aid
$Y7_{it}$	: Expenditure Not Suspect
β_1	: Constants
$\beta_2, \beta_3, \beta_4,$	: Regression Coefficients
DAU	: General Allocation Fund
DAK	: Special Allocation Fund
PAD	: Locally-generated revenue
E	: Error Term

Panel data analysis is the development of regression analysis. There are three basic regression methods that exist, namely *the Common Pooled Least Squares, Fixed Effects Regression* and *Random Effect.* To determine the most appropriate method can be done with Hausmann Test, Test Lagrange Multiplier (LM), and Chow Test.

Chow Test

Chow test is used to choose between the *common effect* models with *fixed effect.*

- If Ho is accepted, then the model pool *(common).*
- If Ho is rejected, then the *fixed effect* model

Test Haussman

Haussman test is used to select between *Fixed Effect Model (FEM)* or *Random Effects Model (REM).* The hypothesis of the Haussman test is:

Ho : *Random* consistent estimator

Ha : *Random* estimator inconsistent

When *REM* Ho accepted means better use than *FEM,* and vice versa. Then Ho accepted / rejected if:

$X^2_{\text{tab}} > X^2_{\text{hits}}$: Ho accepted

$X^2_{\text{the}} < X^2_{\text{hits}}$: Ho is rejected

To obtain the value X^2_{hits} taken from the difference in beta value and *covariance* of each method. The Haussman statistic test that can be done is (Haussman, 1978):

$$W = \frac{\left(\bar{\beta}_{FEM} - \bar{\beta}_{REM}\right)^2}{\left(V\left(\bar{\beta}_{FEM}\right) - V\left(\bar{\beta}_{REM}\right)\right)} \sim X^2(1)$$

and for multivariate,

$$W = \left(\bar{\beta}_{FEM} - \bar{\beta}_{REM}\right)\left(V\left(\bar{\beta}_{FEM}\right) - V\left(\bar{\beta}_{REM}\right)\right)^{-1}\left(\bar{\beta}_{FEM} - \bar{\beta}_{REM}\right) \sim X^2(k)$$

Haussman statistical test follows *the chi-square* ($X^{2)}$ with as many *degrees of freedom k,* where *k* is the number of independent variables. If the statistical value Haussman greater than the critical value is the right model *of FEM,* while conversely if the statistical value Haussman is smaller than the critical value then the right model is *REM.* According to the Judge (1985), there are some things that must be considered to determine which approach is selected *(FEM* or *REM)* in the estimation of panel data:

a) If ε and *X* correlated, then it is better to use *FEM,* and if ε and *X* are not correlated, then it is better to use *REM*

b) If *T* (number *time series)* large and *n* (number individual /

unit) is small, the difference both relatively small, then more good use *FEM*

c) If n big and T small, used *FEM* if the unit is not *random* from large sample and used *BRAKE* when the unit is taken on *random*

d) If n big and T small and if assumption *BRAKE* met, REM estimators more efficient compared *FEM*

If the calculation $LM > X^2$ with one degree of freedom, then Ho is rejected, meaning that *REM* can be used to estimate the regression equation.

Test Lagrange Multiplier (LM)

Test Lagrange Multiplier (LM) is used to choose between OLS without *dummy* variables or choose *random effect.* Test Lagrange Multiplier (LM) that can be done is (Breusch and Pagan, 1980):

$$LM = \frac{nT}{2(T-1)}\left(\frac{\sum_{i=1}^{n}(\sum_{i=1}^{n} e_{it})}{\sum_{i=1}^{n}\sum_{i=1}^{n} e_{it}^{2}} - 1\right)^2$$

Where,

n : the number of individuals

T : the number of time periods

e : residual method of OLS

If the calculation $LM > X^2$ with one degree of freedom, then Ho is rejected, meaning that *REM* can be used to estimate the regression equation.

Descriptive Statistics

Table 1 shows descriptive statistics of the research samples from 50 observations. In general it can be said that the sample data is normally distributed. This is seen from the relative mean and median values (little difference), except for Unexpected Expenditure.

Table 1. Descriptive Statistics

Variables	Mean	Median	Maximum	Minimum	Standard Deviation
Expenditure Area	583.41	559.41	779.85	458.91	86.77
DAU	523.77	520.99	701.49	370.69	95.49
DAK	27.99	32.21	44.08	4.80	12.09
PAD	83.27	70.34	163.07	35.09	43.27
Expenditure Employee	330.54	314.09	467.43	238.63	70.21
Expenditure Goods and Services	71.87	68.42	126.46	38.53	23.11
Expenditure Travel Service	7.07	6.94	11.94	3.29	2.19
Expenditure Maintenance	13.91	12.25	25.08	6.05	5.72
Capital expenditure	90.96	83.47	137.72	65.60	18.71
Expenditure For Results	54.80	53.33	78.50	41.68	9.49
Expenditure No Suspect	13.85	4.99	52.90	1.46	17.27

Model Selection

Before the panel data regression analysis, then tested whether the regression model selection is done with methods *common effect, fixed effect* and *random effect.* The initial phase of the chow test to choose between *common effect* models with *fixed effect.* by using Eviews 6 *software* then obtained *test Chow* test results as in Table 2.

Chow test results showed that the *P value* is greater than 5 percent *(P value*> α 5%), then the model is recommended and better model between *common effect* with *fixed effect* model is *Fixed Effect.*

Table 2. Test Results Chow

Dependent Variables	*Effects Test*	probability
	Cross-section F	0.887508
	Cross-section Chi-square	0.887419
	Cross-section F	0.869886
	Cross-section Chi-square	0.869797
	Cross-section F	0.841317
	Cross-section Chi-square	0.840961
	Cross-section F	0.866771
	Cross-section Chi-square	0.866593
	Cross-section F	0.889911
	Cross-section Chi-square	0.889911
	Cross-section F	0.887953
	Cross-section Chi-square	0.887953
	Cross-section F	0.88555
	Cross-section Chi-square	0.885461
	Cross-section F	0.885461
	Cross-section Chi-square	0.885461

Source: Results of data with Eviews 6

Table 3 shows the results of regression analysis of panel data with fixed effect model. Based on the indicators R2 and the probability of F statistics, it can be said that the models are built *fit.*

Table 3. Regression Analysis with Fixed Effect Model

Dependent variables	Constants	DAU	DAK	PAD	R^2	Prob (F-statistics)
Y	6.487 ***	0.411 ***	5,235 ***	1,884 ***	0.994	0.00
Y1	1.840	0.178	4,551 ***	1,100 ***	0.997	0.00
Y2	1,219	0.026	0.668	0.330 ***	0.994	0.00
Y3	2.402 ***	0,010 ***	-0.111 **	0,032 ***	0.992	0.00
Y4	4,726	0.018	-0.174	0.057 **	0.991	0.00
Y5	2,292 ***	0.129 ***	-0.371	0.129	0.989	0.00
Y6	1,058 ***	0.048 ***	-0.017	0.233 ***	0.989	0.00
Y7	-6.192 **	0.003	0.663 **	-0.003	0.995	0.00

Local Revenue (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), have a significant and positive effect on the level of 1 percent (α = 1%) to total regional expenditure. Although equally significant at 1 percent level, however, the PAD coefficient is greater than the DAU coefficient. This means that it does not happen *flypaper* on local expenditure in Yogyakarta.

Local Revenue (PAD) and the Special Allocation Fund (DAK) effect a significant and positive at the level of 1 percent (α = 1%) of the personnel expenditure, while the General Allocation Fund (DAU) is not significant. This indicates that the sub expenditure areas - personnel expenditure do not occur *flypaper.* On spending on goods and services that have a significant effect only Local Revenue (PAD). With can thus be said that the spending on goods and services does not happen *flypaper* area because governments tend to meet expenditures for goods and services with PAD.

General Allocation Grant (DAU) and Local Revenue (PAD) have a significant effect on official travel expenses. If seen from coefficient DAU and PAD, in the category of official travel expenditures do not occur *flypaper.* In maintenance expenditure, the only sinifikan variable which is local revenue (PAD). Thus it can be said does not happen *flypaper* on maintenance expenditures. In this analysis, there is no relation between Local Own Revenue (PAD) and capital expenditure. This means that capital expenditure met from the General Allocation Grant (DAU), so that in the case of capital expenditure sub *flypaper.*

General Allocation Grant (DAU) and Local Revenue (PAD) effect significant and positive on 1 percent level (α = 1%) against Expenditure For Results and Financial help. If the terms of the magnitude of the regression coefficients, then Expenditure For Results and Regions financial help no happen *flypaper.* In this analysis, it is found that the Special Allocation

Fund (DAK) is the only variable that has significant effect on unexpected expenditure. Local Revenue (PAD) and General Allocation Grant show an insignificant relationship.

Conclusion

Transfer inter-government is one form of policy autonomy in addressing the *fiscal gap*. Transfer Award was faced with a common phenomenon in the success of regional development is the increase in regional spending in line with the increasing transfer of funds from the government. The main purpose of the transfer exercise is to internalize the fiscal externalities that arise in inter-regional development. Giving transfer basically aims to increase local capacity to finance local expenditure greater than transfer administration to increase local governments' efforts excavation area financing sources primarily from the fiscal area. However, the provision of transfer resulting in inefficiencies in the financing of regional spending, known as *flypaper.*

This study focused on identifying the *flypaper effect* on expenditure areas and classification with samples of 5 districts and cities in the province, in 2006-2015. The analysis showed that during the period between *flypaper* does not occur in the expenditure area and sub expenditure areas. *Flypaper* found only in capital expenditure and expenditure is not a suspect. This study only identify the occurrence of *flypaper* on local government districts and cities in the province with the benchmark significance of PAD and DAU to expenditure areas. Hence the advice that can be delivered is that further research can focus more on identifying *flypaper* in each city and county governments with more complex indicators.

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