



THE EFFECT OF FLYPAPER EFFECT ON ECONOMIC GROWTH AND REGIONAL FINANCIAL PERFORMANCE IN SOUTH SULAWESI

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Abstract. This study aims to determine the possibility of a flypaper effect on DAU, DAK, and DBH in South Sulawesi Province. As well as knowing the influence of DAU, DAK, and DBH which indicated flypaper effects on Regional Financial Performance both directly and indirectly through economic growth in South Sulawesi. The type of data used in this study is secondary data, panel data in the form of time series data from 2016 to 2018 and cross section data that is data from 24 districts / cities. The results showed that there was a flypaper effect on general allocation funds (DAU) and profit sharing funds (DBH), while special allocation funds showed that there was no flypaper effect. Flypaper effect on DAU and DBH shows the effect on regional financial performance both directly and indirectly through economic growth.

Key words: *Flypaper Effect*, DAU, DAK, DBH, Regional Financial Performance, Economic Growth

INTRODUCTION

One effort to manage funds from the community as much as possible is to prepare a budget (budget) as a reference in carrying out each activity. In the public sector, the budget is a public document that can be accessed by the public to be known, given input, criticized and debated. The budget in the public sector is expressed in the form of the Regional Revenue and

Expenditure Budget (APBD as the regional government annual financial plan which is discussed and agreed upon by the regional government and DPRD, and stipulated by regional regulations. The stages after the operational budget are performance measurement to assess the performance of managers and units the organization he has been carrying out. The performance of the regional government budget has always been linked to how a work unit of the local government can achieve work objectives with available budget allocations.

Public sector performance measurement is carried out to fulfill three purposes. First, measurement of the public sector is intended to improve government performance. Second, measures of public sector performance are used to allocate resources and decisions. Third, the measure of public sector performance is intended to realize public accountability and improve institutions (Mardiasmo, 2009: 121). The enactment of the Law on Regional Government raises great attention for further investigation, especially relating to the performance of local governments.

Ronald and Sarmiyatiningsih (2010) conducted a study on the analysis of financial performance and economic growth before and after the implementation of regional autonomy in Kulon Progo Regency. The conclusion from this study is that before regional autonomy the ratio of expenditure efficiency tends to decrease, but the economy does not grow.

Current conditions indicate that there has been a strong push for developing and transition countries to implement decentralization policies as an effort to escape the ineffectiveness and inefficiencies of government, macroeconomic instability, and low economic growth (Martinez and McNab, 2005). According to Bird (1995), demands regarding the need for fiscal decentralization policies have become a global phenomenon in both developed and developing countries in order to fix the financial system of regional governments and balance the central and regional finances.

The issue of fiscal decentralization in relation to economic growth has been widely investigated by experts. Through the implementation of fiscal decentralization, it is expected that services to the community will be more efficient and will ultimately drive the rate of economic growth (Akai et al, 2007).

The economic growth desired by each district / city in South Sulawesi Province is quality economic growth, namely economic growth that supports the achievement of high human development. Positive correlation of economic growth and human development is reflected in the improvement of the quality of life for the entire community.

The government system in Indonesia has changed from centralization to decentralization. This change occurred along with the economic crisis in 1998 which demanded

improvements in all fields. Decentralization is expected to make provinces and districts / cities capable of carrying out the role of the central government in all matters except security and defense, justice, macroeconomic policies, national planning, and foreign policy (Iskandar, 2012). However, on the contrary in various conditions, decentralization causes negative effects such as the flypaper effect phenomenon (Ayu and Sutha, 2015).

The flypaper effect is a condition where the response (expenditure) of the area is greater than the transfer of the region's own original income (Melo, 2002; Hines, 1995 in Lambut et al, 2013). This phenomenon occurs because the system of determining balancing funds from the center to the regions is less effective. APBN provides balance funds to the regions in order to be able to carry out operational services more properly. Balancing funds from the APBN are in the form of General Allocation Funds (DAU), Special Allocation Funds (DAK), and Revenue Sharing Funds (DBH). DAU and DBH are unconditional transfers. DAK is a conditional transfer or conditional transfer (Iskandar, 2012). This causes regional governments to tend to prioritize regional spending without considering the regional capacity to produce Regional Original Income (PAD). Exploration of PAD is not carried out optimally, but on the contrary the local government responds more to funds transfers from the center (Ekawarna, 2017).

In Indonesia alone, several studies on flypaper effects in various regions produce different conclusions and values. Oktavia (2014) who conducted a flypaper effect study in East Java which showed that for the 2003-2013 time period there was a flypaper effect as indicated by the DAU effect which was more significant than the regional expenditure rather than the PAD effect from the district / city expenditure in East Java so that generally a flypaper effect can be proven. The next study was carried out by Purbarini and Masdjojo (2015) which showed separate results which occurred in the operating expenditure of city governments in Indonesia. Flypaper effects have no effect on capital expenditure for city governments in Indonesia. DAU has no significant effect and PAD has a significant positive effect on Capital Expenditures.

Although studies on the flypaper effect of the effects of PAD or DAU on Regional Expenditure have been widely carried out, the results of these studies cannot be used throughout Indonesia, because each local government has different funding conditions.

In addition, the phenomenon that occurred in South Sulawesi shows that economic growth in 2017 ranked second best nationally under the North Maluku province with an economic growth rate of 7.23% (BPS, 2017). High economic growth has not been coupled with the level of regional independence due to the low performance of regional governments and the high regional dependence on transfer funds from the center even though the economic growth

of a region will increase the income of the region. The high regional dependence on transfer funds from the center is shown through the minimal proportion of local revenue.

This study aims to determine the possibility of a flypaper effect on DAU, DAK, and DBH in South Sulawesi Province. As well as knowing the influence of DAU, DAK, and DBH which indicated flypaper effects on Regional Financial Performance both directly and indirectly through economic growth in South Sulawesi.

LITERATURE REVIEW

A. *Fiscal Illution Theory dan Bureucratic Model*

Fillimon, Romer, and Rosenthal (1982) developed a fiscal illusion hypothesis in the context of people's ignorance of the number of transfers received. In this case, the local government hides the amount of transfer received from the center and then spends it at the peak level. As a result, the public views that there has been an increase in regional government expenditure with a higher increase than the increase in the quantity demanded as a reflection of the increase in income.

The bureaucratic model also affirms the flypaper effect as a result of the bureaucrat's behavior that is free to spend transfers rather than raising taxes. Shinta (2009: 37) states that "the important implication of this model is that fiscal decentralization spurs the growth of the public sector. In a decentralized system, local governments have more information to differentiate the interests of their population so that they can obtain more resources from the economy. So that the economic efficiency of the provision of public goods will be achieved by involving community participation".

B. *Teori Federalisme Fiscal*

The fiscal federalism theory states that economic growth will be achieved with fiscal decentralization through the implementation of regional autonomy. Where fiscal decentralization is the delegation of authority related to decision making to low-level government (Akai and Sakata, 2002) which serves to improve the efficiency of the long-term public sector (Faridi, 2011). Aristovnik (2012) states that fiscal decentralization can be divided into two broad categories, namely: regional government fiscal autonomy, and the importance of fiscal regional government. By implementing a decentralized government system, local governments will be pursued to improve their business in providing better public services in their regions (Suhardjanto, et al., 2009).

C. *Flypaper effect*

The term flypaper effect was first introduced by Courant, Gramlich, and Rubinfeld (1979) to articulate the thought of Athur Okun (1930) who stated "money sticks where its hits". Flypaper effect is a condition where local governments that spend more and are more wasteful by using transfer funds than by using personal funds from PAD (Mentayani et al, 2012).

D. General Allocation Funds

General allocation funds are funds originating from the state budget revenues allocated with the aim of equitable distribution of financial capacity between regions to fund regional needs in the implementation of decentralization (Law number 33 of 2004). The distribution of funds for the regions through revenue sharing based on regional income tends to cause inequality between regions by considering regional needs and potential. Allocation of general allocation funds that have greater fiscal potential but small fiscal needs will receive fewer general allocation funds. In contrast, regions with small fiscal potential but large fiscal needs will receive relatively large general allocation funds. With the intention of looking at the ability of the Regional Budget in financing regional needs in the context of regional development, which is reflected in the general revenue of the Regional Budget reduced by personnel expenditure (Halim, 2009).

E. Specific Allocation Fund

According to Kuncoro (2004: 34) Special Allocation Funds (DAK) are intended for selected special areas for special purposes. Therefore, allocated by the central government is given central authority for special national purposes. Special needs in accordance with the functions determined by the State Budget. DAK plays an important role in the development of infrastructure and basic service infrastructure in the regions that are in accordance with the principle of decentralization of responsibility and accountability for the provision of basic community services that have been transferred to local governments (Abdullah & Riza, 2015).

F. Revenue Sharing Funds

In Law No. 33 of 2004 concerning Financial Balance Between the Central Government and Regional Governments, Profit Sharing Funds are funds originating from APBN revenues allocated to the Regions based on a percentage number to fund Regional needs in the context of implementing decentralization. The Revenue Sharing Fund aims to reduce vertical inequality while providing greater access to the regions for relatively large sources of revenue. Profit sharing funds derived from taxes and natural resources (not tax). Tax and Non-Tax Revenue

Sharing Funds (DBH) are funds originating from APBN revenues which are divided into regions based on a certain percentage number.

G. Economic Growth

Tambunan (2011: 40) suggests that economic growth is the addition of Gross Domestic Product (GDP) which means an increase in National Income (PN). Whereas according to Kuznets in Todaro (2000: 144) economic growth is an increase in capacity in the long term from a country to provide various economic goods to its population. The increase in capacity itself occurs due to advances or technological, institutional and ideological adjustments to the various demands of the existing situation.

The process of economic growth is influenced by two types of factors, namely economic and non-economic factors. The economic growth of a country depends on its natural resources, human capital, business, technology, and so on. All of these are economic factors. But economic growth is not possible as long as social institutions, political conditions, and moral values in a nation do not support. In economic growth, social institutions, cultural attitudes, moral values, political and institutional conditions are non-economic factors (Jhingan, 2007: 67)

H. Financial Performance

Local government as the party entrusted with the task of running the wheels of government, development and community service is obliged to submit regional financial accountability reports to assess whether the local government has successfully carried out its duties properly or not. One tool to analyze the performance of local governments in managing their regional finances is by analyzing the financial ratios of the APBD that have been determined and implemented (Halim, 2007).

One tool to analyze the performance of local governments in managing their regional finances is to carry out a ratio analysis of the APBD that has been determined and implemented. Financial ratio analysis in the APBD is done by comparing the results achieved from one period compared to the previous period so that it can know how the trends occur. In addition, it can also be done by comparing the financial ratios of certain regional governments with the financial ratios of other nearby regions or their relative regional potential to see the financial position of the local government towards other local governments (Halim, 2007).

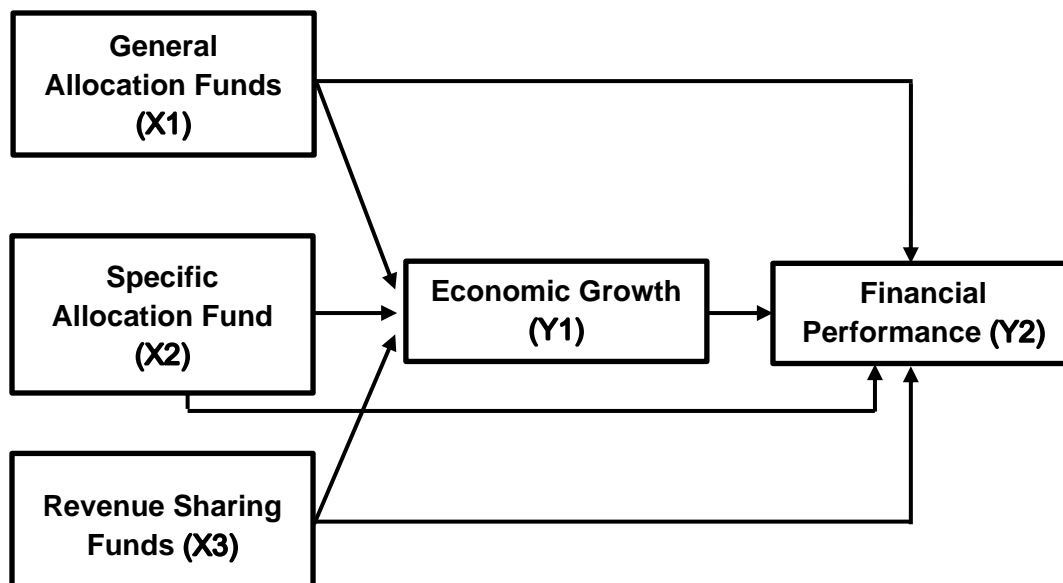


Figure 1. Conceptual framework

METHODOLOGY

This study uses one dependent variable, namely regional financial performance, one intervening variable namely economic growth and three independent variables, namely the General Allocation Fund (DAU), Special Allocation Funds (DAK), and Revenue Sharing Funds (DBH).

The type of data used in this study is secondary data, panel data in the form of time series data from 2016 to 2018 and cross section data that is data from 24 districts / cities.

The source of this research data comes from the discussion of the APBD of district / city governments in South Sulawesi, namely the General Allocation Fund (DAU), Special Allocation Funds (DAK), and 2012 Revenue Sharing Funds (DBH) data from 2017 from the Directorate General's website. Financial Balance (DGT) of the Ministry of Finance of the Republic of Indonesia and the Supreme Audit Board of the Republic of Indonesia. In addition, data on district / city economic growth in South Sulawesi from the South Sulawesi Province Central Bureau of Statistics (BPS) in 2012-2017.

This flypaper effect is proxied by the General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH). The flypaper effect calculation formulations are:

$$\text{Effectiveness ratio} = (\text{budget realization}) / (\text{budget target}) \times 100$$

Economic growth in this study was measured by the ratio between GRDP year t minus GRDP year t-1 with GRDP year t-1 expressed in units of percent (Todaro, 2000).

Regional financial performance is measured by the ratio of regional fiscal (financial) capability expressed in percent. Calculation formula for regional independence ratio (halim, 2009).

Regional Independence Ratio = (Regional Original Income (PAD)) / (Total Regional Revenue (APBD)) X 100%

RESULTS AND DISCUSSION

A. Hypothesis Testing 1. Flypaper Effect Occurs on General Allocation Funds (DAU), Special Allocation Funds (DAK), Revenue Sharing Funds (DBH) in South Sulawesi

This test uses the effectiveness ratio both PAD, DAU, DAK, and DBH with the assumption that the flypaper effect phenomenon occurs because the system of determining balancing funds from the center to the regions is less effective.

The results of testing the effect of Regional Original Revenue (PAD), General Allocation Funds (DAU), Special Allocation Funds (DAK), and Profit Sharing Funds (DBH) on Regional Expenditures (BD) to see whether or not a flypaper effect is based on research data using software Eviews 9, as shown in the following table.

Table 5.6 Results of Analysis of Flypaper Effect

<i>Dirrect Effect</i>	Koefisien Regresi	t-Statistik	Prob.	Keterangan
Efektivitas PAD → BD	0.003674	2.591678	0.0117**	Signifikan
Efektivitas DAU → BD	0.097411	5.515410	0.0000***	Signifikan
Efektivitas DAK → BD	0.001606	1.777111	0.0801*	Signifikan
Efektivitas DBH → BD	0.274607	2.039148	0.0454**	Signifikan

The results of panel data regression for the flypaper effect on general allocation funds have a coefficient of 0.097411, special allocation funds have a coefficient of 0.001606, and profit sharing funds have a coefficient of, 0.274607, and regional original income of 0.06374. This value indicates that there is a flypaper effect on general allocation funds and profit sharing funds, while special allocation funds do not indicate a flyaper effect. Based on the results of this analysis, it can be concluded that there is a flypaper effect on general allocation funds and profit sharing funds. Be accepted

B. Hypothesis Testing 2. The Effect of DAU and DBH indicated by a flypaper effect through economic growth on regional financial performance in South Sulawesi

The research results analysis model as shown in Figure 5.9 shows that there are direct effects of exogenous variables and intervening variables on endogenous variables, there is also an indirect relationship between exogenous variables towards endogenous variables through intervening variables, as shown in Table 5.9.

Table 5.9 Results of Indirect Regression Effect of Researched Variables

Hubungan Tidak Langsung	Parameter	Koefisien Indirect Effect	Keterangan
$X_1 \rightarrow Y_1 \rightarrow Y_2$	$\alpha_1 \cdot \beta_4$	0,173 (1,384*0,125)	Signifikan
$X_3 \rightarrow Y_1 \rightarrow Y_2$	$\alpha_3 \cdot \beta_4$	0,018 (0,144*0,125)	Signifikan

1. Hypothesis 2a. The influence of the DAU indicated by a flypaper effect on regional financial performance both directly and indirectly through economic growth in South Sulawesi

The results of panel data regression for the effect of flypaper effect on general allocation funds on financial performance through economic growth are significant. In addition, the coefficient value for the general allocation fund variable on financial performance through economic growth of 0.173 shows the direction of positive influence. The coefficient value that is positive indicates the direction of the relationship. This means that the higher the general allocation fund will result in higher economic growth which has an impact on the higher regional financial performance. Based on the results of this analysis, it can be concluded that general allocation funds have a positive and significant effect on regional financial performance through economic growth. Thus, Hypothesis 2a which states that the flypaper effect on general allocation funds has a positive and significant effect on regional financial performance through economic growth is **accepted**.

2. Hypothesis 2b. The influence of DBH indicated by a flypaper effect on regional financial performance both directly and indirectly through economic growth in South Sulawesi

The results of panel data regression for the effect of flypaper effect on revenue sharing funds on financial performance through economic growth are significant. In addition, the coefficient value for the variable profit sharing fund on financial performance through economic growth of 0.018 shows the direction of positive influence. and profit sharing funds The

coefficient values that are positively marked indicate a unidirectional relationship. This means that the higher the profit sharing fund will result in higher economic growth which has an impact on the higher regional financial performance. Based on the results of this analysis, it can be concluded that profit sharing funds have a positive and significant effect on regional financial performance through economic growth. Thus, Hypothesis 2b which states that the flypaper effect on profit sharing funds has a positive and significant effect on regional financial performance through economic growth is **accepted**.

CONCLUSION

The flypaper effect phenomenon occurs in general allocation funds and profit sharing funds while in special allocation funds does not indicate a flypaper effect. This shows the occurrence of a flypaper effect on general allocation funds and profit sharing funds because both are unconditional grants and do not occur in special allocation funds which are conditional grants.

The general allocation fund indicated by flypaper effects has an effect on regional financial performance both directly and indirectly through economic growth. This shows that general allocation funds are used optimally for regional development in order to increase the rate of economic growth and welfare of the people which then impacts on regional independence.

Profit sharing funds indicated by flypaper effects have an effect on regional financial performance both directly and indirectly through economic growth. This is due to the realization of received revenue sharing funds as a whole contributing to regional development and increasing regional economic growth, which means it will signify an increase in regional independence.

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