The Effect Of Regional Original Revenue And Balancing Funds On Regional Expenditure And The Occurrence Of The Flypaper Effect On The Kupang District Government Fiscal Year 2019-2023

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ABSTRACT

This study aims to analyze the influence of Regional Original Income (PAD) and Balancing Funds on Regional Expenditures and explore the occurrence of the Flypaper Effect in the Kupang Regency Government during the 2019-2023 period. This type of research is quantitative research. The population in this study is the Kupang Regency APBD report for the 2019-2023 fiscal year and the sample used is the Kupang Regency LRA for 2019-2023. The data used are secondary data with documentation and literature study methods. The analysis method used is multiple linear regression with the help of SPSS software.

The results of the study indicate that partially, both PAD and Balancing Funds do not have a significant effect on Regional Expenditure as evidenced by a greater significant value (PAD 0.416 > 0.05 and Balancing Fund 0.423 > 0.05). Simultaneously, these two variables also do not have a significant effect on Regional Expenditure as evidenced by a greater significant value level (0.451 > 005). However, a Flypaper Effect phenomenon was found in Kupang Regency, where Balancing Funds have a greater effect than PAD on Regional Expenditure as evidenced by the regression coefficient value of Balancing Funds of 0.299 compared to PAD which is -2.546. This study suggests that the Kupang Regency Government evaluate the PAD management policy and optimize the use of Balancing Funds to increase the effectiveness of regional expenditure allocation

Keywords: Regional Original Income, Balancing Funds, Regional Expenditures, *Flypaper Effect*
JEL Classification: G3, H32, A00

INTRODUCTION

Indonesia as an archipelagic country with various regions has very different characteristics and potentials. Each region has unique needs, both in terms of economy, social, and natural resources. With such a vast area and various differences in characteristics, the central government faces a major challenge in planning development that can meet the specific needs of each region. This requires a flexible government system, where regions have greater authority in managing their own government affairs (Susan et al., 2023:389). In this context, regional autonomy policy emerged as a strategic solution to enable regions in Indonesia to develop according to their respective potentials and needs. Law Number 32 of 2004 concerning Regional Government is an important foundation for the implementation of regional autonomy, where regional governments are given the authority to regulate and manage resources, finances, and policies in their respective regions. The main objective of this policy is to improve community welfare through more effective, efficient, and local-appropriate management. Regional autonomy is also expected to accelerate the pace of development in regions that have so far received less attention from the central government (Alliya and Rahmawati, 2023:235-236).

In the implementation of regional autonomy, one of the most crucial aspects is fiscal decentralization, which gives regions the freedom to manage their own finances. This is further regulated in Law Number 33 of 2004 concerning the Financial Balance between the Central Government and Regional Governments, which establishes the mechanism for the distribution of financial resources between the center and regions. This fiscal decentralization policy is intended to reduce fiscal disparities between regions, considering that each region has very diverse financial potential.

However, in practice, fiscal inequality between regions is still a significant problem. There are regions that are rich in natural resources so that they have high Regional Original Income (PAD), while there are also regions that are still very dependent on the Balancing Fund from the central government. This Balancing Fund is provided to help regions with low PAD so that they can continue to carry out their functions and meet the needs of their communities.

In an effort to improve this policy, the government issued Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments (HKPD), which replaces Law Number 33 of 2004. The HKPD Law is designed to strengthen fiscal decentralization, with the aim of encouraging a more proportional, democratic, and transparent distribution of finances. This law emphasizes the importance of regional governments to optimize their own fiscal potential, while the central government continues to provide assistance through the Balancing Fund for regions in need.

However, although the HKPD Law aims to encourage regional fiscal independence, in reality many regions in Indonesia still depend on the Balancing Fund from the center. One of the regions facing this problem is Kupang Regency. The following is the realization data of the Kupang Regency APBD for the 2019-2023 fiscal year.

Table 1.1 Realization of Kupang Regency APBD for Fiscal Year 2019-2023

Year	Local Original Income (Rp)	Balancing Fund (Rp)	Regional Shopping (Rp)
2019	62,047,535,548.64	949,294,954,609.00	972,650,862,223.00
2020	65,952,353,499.95	852,263,771,208.00	917,289,146,611.39
2021	74,342,549,538.39	839,045,848,924.00	953,737,411,725.37
2022	52,409,861,383.60	872,581,883,658.00	1,016,249,755,505.87
2023	65,664,133,068.40	992,361,717,552.36	1,011,479,503,798.14

Source: BPKAD Kupang Regency

From table 1.1 above, it can be seen that in 2019 the realization of regional spending was IDR.972,650,862,223.00 but PAD is only able to finance regional spending of Rp.62,047,535,548.64 while the balancing fund was able to finance regional spending of Rp. 949,294,954,609.00. In 2020, the balancing fund also helped finance regional spending compared to PAD. Seen from table 1.1 above, the realization of regional spending reached Rp. 917,289,146,611.39 and the balancing fund was able to finance regional spending of Rp. 852,263,771,208.00 while PAD was only able to finance regional spending of Rp. 65,952,353,499.95. Then in 2021 the realization of regional spending was Rp. 953,737,411,725.37 and the balancing fund still contributed to financing the regional spending of Rp. 839,045,848,924.00 while PAD was only able to finance regional spending of Rp. 74,342,549,538.39. In addition to 2021, it turned out that in 2022 the balancing fund also financed regional spending of Rp. 872,581,883,658.00 with a regional spending realization value of Rp. 1,016,249,755,505.87 compared to PAD which was only able to finance regional spending of Rp. 52,409,861,383.60. Furthermore, in 2023 it also turned out that the balancing fund also contributed to financing regional spending compared to PAD. According to the APBD realization data above, it can be seen that the realization of regional spending in 2023 was IDR 1,011,479,503,798.14 and PAD was only able to finance regional spending of IDR 65,664,133,068.40 while the balancing fund contributed more to regional spending of IDR 992,361,717,552.36. This shows that PAD Kupang Regency is only able to finance a small part of regional spending, while most of it is financed by transfers from the central government.

This phenomenon reflects the Flypaper Effect, a condition in which local governments are more dependent on transfer funds from the central government compared to PAD in financing regional spending. The Flypaper Effect describes regional dependence on transfer funds, which causes regions to be more likely to use these funds for spending, rather than optimizing their PAD. This phenomenon often occurs because transfer funds from the center are more easily accessible and often come in larger amounts than PAD. In fact, ideally PAD should be an indicator of a region's financial independence and be able to make a significant contribution to financing regional spending.

Kupang Regencyis one of the regions in East Nusa Tenggara Province consisting of 24 sub-districts, 17 urban villages, and 160 villages, with an area of 5,298.13 km² and a population of around 388,882 people. Despite having a large area and large population, the economic potential in Kupang Regency has not been fully developed. Natural resources in this area are limited, and the industrial sector has not developed rapidly. This causes the PAD of Kupang Regency to be relatively small, while regional spending needs continue to increase, especially to finance various infrastructure development programs and public services.

In the 2019-2023 period, it can be seen that the Balancing Fund always contributes more than PAD in financing regional spending. This dependence on the Balancing Fund not only reflects the lack of regional fiscal independence, but also shows a significant Flypaper Effect, where local governments rely more on transfer funds than trying to increase PAD.

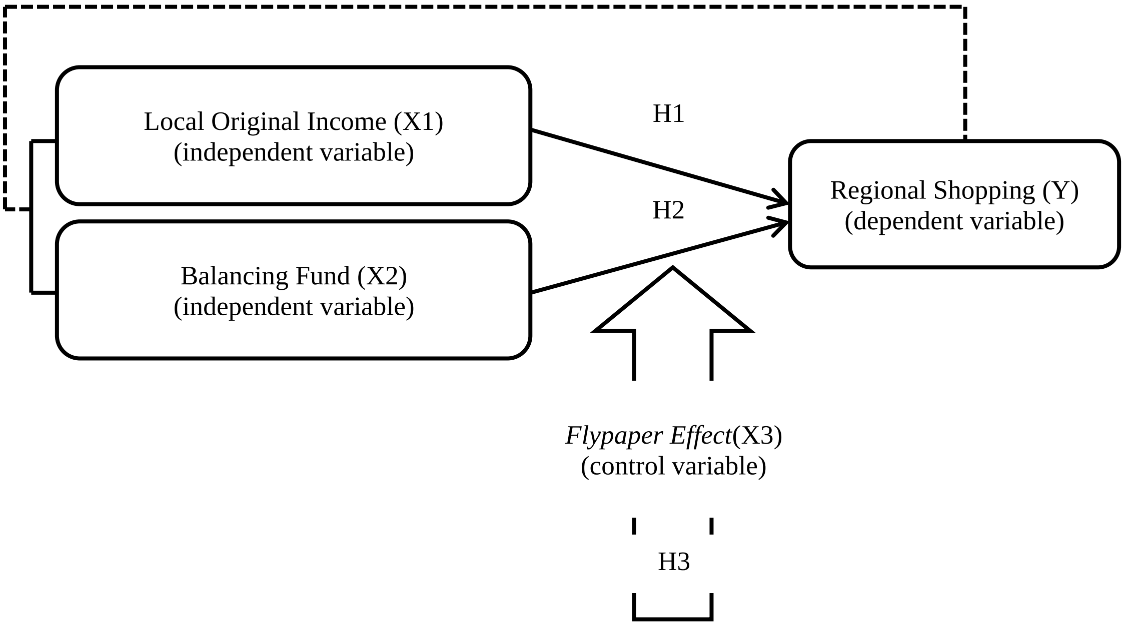
This situation is a major challenge for the Kupang Regency government in managing its regional finances. On the one hand, the Balancing Fund provides a significant contribution in helping to finance regional spending, so that various development programs can continue to run. However, on the other hand, excessive dependence on central transfer funds can weaken the regional government's initiative to increase its PAD potential. This dependence can also hinder the process of fiscal independence which is the main objective of fiscal decentralization. Therefore, it is important for the Kupang Regency government to find an effective strategy in increasing PAD in order to reduce dependence on the Balancing Fund.

Based on this problem, this study aims to analyze the influence of PAD and Balancing Funds on Regional Expenditures, and to identify the Flypaper Effect in financing Regional Expenditures in Kupang Regency in 2019-2023.

METHOD

This research method uses a quantitative method with a causal associative approach that aims to analyze the causal relationship between independent and dependent variables. The research was conducted at the Office of the Regional Financial and Asset Management Agency (BPKAD) of Kupang Regency, with the objects of research in the form of Regional Original Income (X1), Balancing Funds (X2), Regional Expenditures (Y), and the Flypaper Effect phenomenon (X3) as a control variable in the Kupang Regency Regional Government during 2019-2023. The type of data used is quantitative data, namely data in the form of numbers (Hamid et al., 2019: 3), sourced from the Kupang Regency Budget Realization Report (LRA) for the 2019-2023 fiscal year. This data is secondary data that already exists and is taken through document studies, where the LRA document includes information on Regional Original Income, Balancing Funds, and Regional Expenditures. In addition, a literature study was also conducted to support the theoretical basis in this study.

The population of this study is the Kupang Regency APBD Report for 2019-2023, and because the population is small, the saturated sampling technique is used, where the entire population is sampled (Hikmawati, 2017:69), namely the APBD realization report from the five budget years. Data analysis was carried out using multiple linear regression techniques which aim to determine the effect of Regional Original Income and Balancing Funds on Regional Expenditures, as well as to see the Flypaper Effect phenomenon. This analysis was carried out with the help of the SPSS program, where the data that has been collected will be tested descriptively and then processed through linear regression to determine the magnitude of the influence of each independent variable on the dependent variable. The Flypaper Effect phenomenon will be analyzed by comparing the effect of Balancing Funds and Regional Original Income on Regional Expenditures, so that it can be seen whether the region is more dependent on central transfer funds than PAD in financing its expenses.



Gambar 1. Hubungan antar Variabel

RESULTS AND DISCUSSION

Descriptive statistical analysis can be seen in table 4.3 which displays descriptive statistics for variables such as local revenue, balancing funds and regional spending. This table shows the minimum, maximum, average (mean), and standard deviation values for each variable.

Table 4.3 Results of Descriptive Statistical Analysis

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Locally-generated revenue	5	52409861383.60	74342549538.39	64083286607.7960	7931867707.20114
Balancing Fund	5	839045848924.00	992361717552.36	901109635190.2720	66521485522.10273
Regional Shopping	5	917289146611.39	1016249755505.87	974281335972.7540	41285205715.86652
Valid N (listwise)	5				

Source: Data processing results using SPSS 29, 2024

Based on table 4.3 above, the results of the descriptive statistical analysis with 5 samples can be explained as follows:

1. Local Original Income has a minimum value of 52,409,861,383.60 and a maximum value of 74,342,549,538.39, this shows a significant difference between the lowest and highest PAD values during the study period. With an average of 64,083,286,607, this means that, on average, Kupang Regency

received around Rp.64 billion from Local Original Income each year during the analysis period and a standard deviation of 7,931,867,707 shows how far the distribution of PAD is from its average value.

2. The Balancing Fund has a minimum value of 839,045,848,924 and a maximum value of 992,361,717,552.36 with an average of 901,109,635,190. This shows that the average transfer of funds from the center to the Kupang Regency area during this period was around Rp. 901 billion and a standard deviation of 66,521,485,522 shows a greater variation compared to PAD, which means there is a significant fluctuation in the Balancing Fund received.

Regional Expenditure has a minimum value of 917,289,146,611 and a maximum value of 1,016,249,755,505.87 with an average of 974,281,335,972 indicating that Kupang Regency spends an average of around Rp.974 billion each year on regional expenditure and a standard deviation of 41,285,205,715 indicating that the level of variation in regional expenditure is lower compared to the Balancing Fund).

Classical Assumption Test Results

The classical assumption test is an important step before conducting multiple linear regression analysis. The classical assumption test aims to ensure that the regression model used meets the necessary assumptions and to ensure that the results of the multiple linear regression analysis carried out later will be accurate and reliable. The classical assumption test method consists of:

1. Normality Test

Normality test is conducted to determine whether the data is normally distributed or not. This test uses the Kolmogorov-Smirnov test and the results are compared with a significance value of 0.05. If the asymp. Sig. (2-tailed) value > 0.05, then the data has a normal distribution and vice versa. This can be seen in the following table:

Table 4.4 Results of Normality Test Using the Test*Kolmogorov-Smirnov*

Asymp.Sig.(2-tailed)	Sig	Information
0.187	0.05	Normally Distributed

Source: Data processed by the Author, 2024

Based on table 4.4 shows that the normality test using Kolmogorov-Smirnov with asymp.sig. (2-tailed) value 0.187 > 0.05. This means that the data is normally distributed.

2. Multicollinearity Test

The multicollinearity test aims to test whether there is a correlation between independent variables in the regression model. A model is said to be free from multicollinearity if it has a Variance Inflation Factor (VIF) value of less than 10 and a Tolerance (TOL) value of more than 0.1. This can be seen in the following table:

Table 4.5 Multicollinearity Test Results

Variables	Tolerance	VIF	Information
Locally-generated revenue	0.973	1,028	Multicollinearity Free

Balancing Fund	0.973	1,028	Multicollinearity Free

Source: Data processed by the Author, 2024

Based on table 4.5 above, it shows that all VIF values are less than 10 and Tolerance is more than 0.1, so it can be concluded that the regression model in this study did not find multicollinearity problems.

3. Heteroscedasticity Test

The heteroscedasticity test is conducted to determine whether the interfering variables have the same distribution at each level of the independent variable. This test uses the Glejser test and the results are compared with a significance value of 0.05. If the significance value is > 0.05, then the data does not have heteroscedasticity. This can be seen in the following table:

Table 4.6 Results of Heteroscedasticity Test Using Glejser Test

Variables	Sig	Information
Locally-generated revenue	0.886	There is no heteroscedasticity
Balancing Fund	0.306	There is no heteroscedasticity

Source: Data processed by the Author, 2024

Based on table 4.6, it can be seen that the significance value of the PAD and balancing fund variables is greater than 0.05. So it can be concluded that there is no heteroscedasticity in the regression model.

4. Autocorrelation Test

The autocorrelation test is used to determine whether there is a significant correlation between residuals at different time periods. This test uses the Run Test and the results are compared with a significance value of 0.05. If the Asymp.Sig. (2-tailed) value > 0.05, then the data does not have autocorrelation.

Table 4.7 Autocorrelation Test Results Using Run Test

Asymp.Sig. (2-tailed)	Sig	Information
0.326	0.05	No autocorrelation occurs

Source: Data processed by the Author, 2024

Based on the results of the Runs Test in table 4.7 with an Asymp. Sig. (2-tailed) value of 0.326 > 0.05, this means that the data does not experience autocorrelation.

Multiple Linear Regression Analysis Results

Multiple Linear Regression Analysis is conducted to test the influence of two or more independent variables on one dependent variable. The following are the results of multiple linear regression analysis stated in the statement of Table 4.8 as follows:

Table 4.8 Results of Multiple Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	868203976040.649	336004080860.718		2,584	.123

Locally-generated revenue	-2,546	2,506	-.489	-1.016	.416
Balancing Fund	.299	.299	.481	1,000	.423
a. Dependent Variable: Regional Spending					

Source: Data processing results using SPSS 29, 2024

With the results of the existing data processing, the regression equation can be written as follows:

Y = α + β1 X1 + β2 X2 +……+ e
Y =868,203,976,040,649+ (-2.546)X1 + (0.299)X2 + e
Y =868,203,976,040,649 - 2.546 X1 + 0.299 X2 + e
Y =868,203,976,040,649 - 2,546 PAD + 0.299 Balancing Fund + e

Interpretation of regression coefficients:

1. Constant (α) :868,203,976,040,649
   This shows that if both independent variables (Regional Original Income and Balancing Funds) are zero, then the value of the dependent variable (Regional Expenditure) will be868,203,976,040,649.
2. Regression coefficient for local original income (β1): - 2.546
   This shows that every 1% increase in local revenue will cause a decrease of 2,546 in local spending.
3. Regression coefficient for balancing funds (β2): 0.299
   This shows that every 1% increase in balancing funds will cause a 29.9% increase in regional spending.

Hypothesis Test Results

1. T-Test (Partial)

T-test is one of the statistical methods used to test hypotheses about the influence of independent variables individually on dependent variables. By using the significance value in the T-test, it can determine whether there is a significant difference between the averages of the two groups being tested. If the significance value is <0.05, then there is a partial influence and if >0.05, then there is no partial influence. The results of the T-test are shown in the following table:

Table 4.9 T-Test Results (Partial)

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.

		B	Std. Error	Beta		
1	(Constant)	868203976040.649	336004080860.718		2,584	.123
	Locally-generated revenue	-2,546	2,506	-.489	-1.016	.416
	Balancing Fund	.299	.299	.481	1,000	.423
a. Dependent Variable: Regional Spending						

Source: Data processing results using SPSS 29, 2024

a. Results of hypothesis testing of regional original income variables on regional spending
Based on table 4.9 above, the results of statistical analysis show that the Sig. Value of Regional Original Income is 0.416 (0.416 > 0.05). This shows that partially Regional Original Income has no effect on Regional Expenditure. This means that Regional Original Income has not been able to contribute to regional expenditure.

b. Results of hypothesis testing of balancing fund variables on regional spending
Based on table 4.9 above, the results of statistical analysis show that the Sig. Value of the Balancing Fund is 0.423 (0.423> 0.05). This shows that partially the Balancing Fund does not affect Regional Expenditure. The results of this study state that the amount of balanced fund receipts does not affect regional expenditure.

2. F Test (Simultaneous)

The F test is one of the statistical methods used to test the hypothesis about the influence of independent variables simultaneously on the dependent variable. By using the significance value in the F test, it can be determined if the significance value <0.05, then there is a simultaneous influence and if >0.05, then there is no simultaneous influence. The results of the F test are shown in the following table:

Table 4.10 F Test Results (Simultaneous)

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3743222548654826500000.000	2	1871611274327413200000.000	1.217	.451b
	Residual	3074650295350850000000.000	2	1537325147675425000000.000		
	Total	6817872844005676000000.000	4			
a. Dependent Variable: Regional Spending						
b. Predictors: (Constant), Balancing Fund, Local Original Income						

Source: Data processing results using SPSS 29, 2024

Based on the results of statistical analysis in table 4.10 above, it shows that the Sig. Value of the F test is 0.451 (0.451 > 0.05). This shows that Regional Original Income and Balancing Funds simultaneously do not affect Regional Expenditure.

3. Results of the Determination Coefficient Test (R2)

Test the coefficient of determination (Adjusted R2) to measure the extent to which the model is able to explain the variation of the dependent variable with a value between zero and one (0 < R2 < 1). The results of the coefficient of determination test are shown in the following table:

Table 4.11 Results of the Determination Coefficient Test (R2)

Model Summaryb				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.741a	.549	.098	39208738154.59285
a. Predictors: (Constant), Balancing Fund, Local Original Income				
b. Dependent Variable: Regional Spending				

Source: Data processing results using SPSS 29, 2024

Based on table 4.11 above, it is known that the R Square value is 0.549 or 54.9%, meaning that Regional Original Income and Balancing Funds are only able to explain the Regional Expenditure variable by 54.9%, and 45.1% is explained by other variables that are not used in this research model.

Flypaper Effect Analysis Results

Flypaper effectis an economic phenomenon in which transfers of funds from the central government to regional governments tend to be used more for regional spending compared to funds originating from regional original income (PAD). This phenomenon shows that regions are more dependent on transfer funds than optimizing their own income.

*Flypaper effect*can be identified and measured through regression analysis conducted, with independent variables in the form of Balancing Funds and PAD, and dependent variables in the form of Regional Expenditures. If the regression coefficient for Balancing Funds is greater than PAD, this indicates that central transfer funds have a greater influence on regional expenditures, indicating the presence of a flypaper effect.

Table 4.12 Results of Flypaper Effect Analysis

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	868203976040.649	336004080860.718		2,584	.123
	Locally-generated revenue	-2,546	2,506	-.489	-1.016	.416
	Balancing Fund	.299	.299	.481	1,000	.423
a. Dependent Variable: Regional Spending						

Source: Data processing results using SPSS 29, 2024

Based on table 4.12 above and the results of multiple linear regression analysis, the coefficient value of Regional Original Income is -2.546, while the coefficient value of Balancing Fund is 0.299 indicating that regional original income has a negative effect on regional spending, while balancing funds have a positive effect on regional spending. This shows that there is a flypaper effect in the utilization of Regional Spending in the Kupang Regency Regional Government.

CONCLUSION

Based on data analysis conducted using the regression method through SPSS, this study found several key findings related to the relationship between Regional Original Income (PAD), Balancing Funds, and Regional Expenditures, as well as the flypaper effect phenomenon in Kupang Regency in the 2019-2023 period. The main conclusions of this study are as follows:

1. The Influence of PAD on Regional Expenditure: The results of the analysis show that PAD does not have a significant influence on Regional Expenditure when tested partially. This indicates that although PAD is a source of regional income, its contribution to regional expenditure in Kupang Regency during the analyzed period has not been optimal and does not play a dominant role in determining the amount of regional expenditure.
2. The Influence of Balancing Funds on Regional Expenditures: Partial tests on Balancing Funds also show that this variable does not have a significant influence on Regional Expenditures. This reflects that although Balancing Funds are the main component in the APBD, their allocation does not directly impact regional development patterns in Kupang Regency.

Flypaper Effect Phenomenon: The Flypaper Effect occurred in Kupang Regency, where the Balancing Fund showed a greater influence on Regional Expenditure compared to PAD. This phenomenon shows that the Kupang Regency Government tends to use the Balancing Fund rather than PAD to increase regional expenditure, although in theory PAD should be the main source in supporting regional fiscal independence.

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