

# The Influence of Flypaper Effect on Financial Performance with Local Taxes as an Intervening Variable in the Districts / Cities of South Sulawesi Province Period 2014-2017

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**Abstract:- This study aims to determine the effect of the flypaper effect on regional financial performance both directly and indirectly through local taxes as an intervening variable. The type of data used for this study is secondary data with a population of 96 data on the realization budget report of the district / city South Sulawesi province during 2014-2017. The Report consist of Revenue Sharing, General Allocation Funds, Regional Revenues and Regional Taxes. This research was tested using path analysis. Research Results Flypaper Effect in General Allocation Funds (DAU) and Flypaper Effect on Revenue Sharing Funds (DBH) have direct influences to local taxes, second Flypaper Effect in General Allocation Funds (DAU) and Flypaper Effect on Revenue Sharing Funds (DBH) have direct and indirect effects on local financial performance through local taxes on South Sulawesi district/city during 2014-2017.**

**Keywords:- DBH, DAU, PAD, Local Taxes, Regional Financial Performances, Flypaper Effect.**

## I. INTRODUCTION

Economic growth apparently created a large economic gap during the New Order era. Even worse, the economic crisis has disrupted public services, and people have begun to lose confidence in the government. Therefore, further laws are stipulated where the contents of the Act state about the change of the regional government system from centralization to decentralization (Ilmiyah, Dewata, Sarikardawati, 2017).

Decentralization is the transfer of government affairs by the central government to regional governments. The sources of the implementation of decentralization consist of regional own-source revenue (PAD), balance funds, regional loans, and legal revenues (Saputra, Suwendra, and Yudiantmadja, 2016).

Rondonuwu et al. (2015) states that the ability to manage finances conducted by local governments is reflected in the Regional Revenue and Expenditure Budget such as the ability of local governments to increase revenue from their regions and be able to finance regional development and social services provided to the community. The Regional Revenue and Expenditure

Budget is the scope of regional finance at the regional government level consisting of three components, namely revenue, expenditure, and financing (Halim and Kusufi, 2016:31). Regional financial management which is reflected in the Regional Revenue and Expenditure Budget of each region can be used as an instrument to make regulations in regional development so that the regional financial accountability report must be given annually (Lucky, 2013).

As an autonomous region, an area is able to demonstrate its independence by carrying out development in accordance with the financial capacity of the region. Every potential in each region has the right to be explored by the regional government in order to have sources of revenue which will be used to finance the regional government expenditure. Therefore, the size of the degree of fiscal decentralization is a variable in measuring whether the district / city can implement autonomy. Because actually, the dream of every local government that is can be a more independent region.

Utilization of available resources is able to generate regional income as much as possible as regional capital to carry out economic development. With the maximum regional revenue coming from the source of Regional Original Revenue (PAD), the region is able to finance development without having to rely entirely on finances sourced from the Central Government (Junita, Lubis, Zamzami 2017).

Local taxes have a very important role in financing the administration and development of a region. The ability of local governments to collect local taxes is one of the benchmarks in the implementation of regional autonomy. Local governments need to be able to increase the maximum potential that exists, especially the potential to be subject to local taxes. Along with the running of regional autonomy, the Regional Government is expected and demanded to be able to manage and maximize the potential that exists in the region for the survival and progress of the region. One of the potentials can be obtained from sources of revenue derived from local taxes. With so many sources of revenue derived from regional taxes, it is hoped that the Regional Government has the opportunity to be able to increase PAD through local taxes, so that the contribution or contribution made by local taxes to PAD is considered large and sufficient to finance government administration and regional development.

The low of financial independence on the Regency / City in South Sulawesi Province makes it dependent on financial assistance from the central government. Thus, the amount of balance funds received by the regions will certainly greatly influence regional fiscal decentralization policies. The implementation of the budget that is carried out in the regions is very dependent on the amount of balance funds provided by the central government in the form of General Allocation Funds (DAU), Special Allocation Funds (DAK), and Revenue Sharing Funds (DBH) (Junita, Lubiz, Zamzami, 2017)

Based on the financial data of the Regional Government of the Regency / City of South Sulawesi Province 2014-2017 (table 1), the Composition of the Transfer is greater than the Regional Original Revenue.

This indicates that the government is still relying on operational activities from the State Budget.

Intergovernmental transfers as a form of autonomy implementation policy in overcoming the fiscal gap is an important source of local government revenue. The main objective of the transfer implementation is to internalize the fiscal externalities that arise in inter-regional development (Oates in Kuncoro, 2007, in Amril 2015). Even so the provision of transfers also resulted in the ineffectiveness of regional expenditure financing. This phenomenon is known as the flypaper effect which implies: (1) an increase in tax and excessive government spending, (2) the elasticity of expenditure on transfers is higher than the elasticity of expenditure on local taxes.

Flypaper Effect is a condition where the response (expenditure) is greater for the transfer than the original income of the region itself (Mello, 2002; Hines, 1995). This phenomenon occurs because the system of determining the balance of funds from the center to the regions is less effective. The APBN provides equal funds to the regions to be able to carry out public service operations more properly. Balancing funds from the APBN are General Allocation Funds (DAU), Special Allocation Funds (DAK), and Revenue Sharing Funds (DBH). DAU and DBH are unconditional transfer categories. DAK is a conditional transfer or conditional transfer (Iskandar, 2012). This causes the regional government to tend to prioritize regional expenditure without considering the ability of the region to produce Regional Original Revenue (PAD). Exploration of PAD was not carried out optimally, but instead local governments responded more to transfer funds from the center (Ekawarna, 2017).

Region	Regional Original Revenue	Transfer	Expenditure
Kab. Bantaeng	218,634,511,766	2,635,493,528,334	3,364,949,663,121
Kab. Barru	314,497,877,553	2,825,675,416,741	3,478,966,733,710
Kab. Bone	775,928,114,638	5,379,494,032,071	7,614,248,640,056
Kab. Bulukumba	524,971,204,378	3,807,201,218,410	5,352,348,833,495
Kab. Enrekang	240,264,615,665	2,865,802,266,088	3,638,810,914,389
Kab. Gowa	759,640,317,969	4,330,056,695,670	6,061,274,972,656
Kab. Jeneponto	282,868,958,282	3,267,209,719,916	4,192,285,794,875
Kab. Luwu	347,240,639,424	3,420,795,131,517	4,827,094,915,770
Kab. Luwu Utara	467,052,408,576	3,157,283,414,050	4,326,749,342,227
Kab. Maros	620,242,325,060	3,444,377,295,489	4,700,894,450,208
Kab. Pangkajene dan Kepulauan	592,035,446,484	3,715,228,928,006	5,032,308,756,951
Kab. Pinrang	470,987,428,361	3,288,270,223,302	4,323,776,258,486
Kab. Kepulauan Selayar	373,903,308,965	2,688,513,109,446	3,701,788,635,307
Kab. Sidenreng Rappang	357,965,524,376	3,274,949,498,834	4,282,165,274,541
Kab. Sinjai	315,469,184,287	3,124,157,354,177	3,980,057,919,008
Kab. Soppeng	297,371,254,268	3,100,202,434,815	3,905,310,849,300
Kab. Takalar	393,123,891,791	3,321,172,963,920	4,394,615,989,056

Kab. Tana Toraja	389,649,352,521	2,959,111,274,346	3,772,475,586,709
Kab. Wajo	443,516,695,319	3,557,580,768,968	4,937,021,317,937
Kota Pare-Pare	504,171,952,166	2,529,014,784,252	3,533,119,688,639
Kota Makassar	2,709,450,598,615	5,756,093,738,445	10,429,421,509,822
Kota Palopo	448,656,207,539	2,611,767,986,709	3,425,341,368,096
Kab. Luwu Timur	1,804,563,752,990	3,795,546,281,536	6,819,776,979,268
Kab. Toraja Utara	144,984,786,524	2,625,796,214,891	3,324,302,234,493

Table 1:- Budget Realization Report District / City Government of South Sulawesi Province Period 2014-2017

Pentury (2011), states that to find out whether or not there is a flypaper effect in an area, it can be done in two (2) ways, namely (1) by looking at the influence of PAD. If PAD does not have a significant effect on regional expenditure, it can be said that there has been a flypaper effect, and (2) by looking at the coefficient values of the independent variables, namely General Allocation Fund (DAU), Special Allocation Fund (DAK), Revenue Sharing Fund (DBH) and Regional Original Revenue (PAD). If the coefficient value owned by PAD is greater than the coefficient value owned by DAU, DAK and DBH on regional expenditure, it can be said that no flypaper effect occurs. Whereas on the contrary if the coefficient value owned by one originating from regional transfers namely DAU, DAK, and DBH is greater than the coefficient value of the PAD, it can be said that a flypaper effect has occurred.

For the Regencies / Cities of South Sulawesi Province based on the data in Table 2 the test results state that there was a flypaper effect during 2014-2017 in the General Allocation Fund (DAU) and Revenue Sharing Fund (DBH) but did not occur in the Special Allocation Fund (DAK).

In Indonesia, several studies on the flypaper effect in various regions have produced different conclusions and values. Oktavia (2014) conducted research on the flypaper effect in the City District in East Java. The final result is that the flypaper effect applies at DAU on regional spending. Seeing his predecessor researcher, Mentayani (2012) conducted the same research on the district / city government in South Kalimantan. The results obtained are different from Oktavia's research (2014) where PAD has a greater influence than DAU on regional spending, so the conclusion is that districts / cities in South Kalimantan have not experienced the flypaper effect. Irham (2015) who

conducted a flypaper effect study in Aceh Province showed that there was a flypaper effect which was demonstrated by the DAU effect being more significant than regional expenditure than the PAD effect of regional expenditure in Aceh Province so that generally a flypaper effect could be demonstrated. The next study was carried out by Purbarini and Masdjojo (2015) which showed its own results which occurred on the expenditure of city government operations in Indonesia. The flypaper effect has no effect on city government capital expenditure in Indonesia. DAU has no significant effect and PAD has a significant positive effect on Capital Expenditures. Santoso et al (2015) examined the flypaper effect in Lampung Province with the results showing that PAD and DAU are interrelated and have a positive bond for spending in districts / cities in Lampung Province. The results of the DAU influence coefficient are very large than the PAD coefficient value and the two differences in the two values are very drastic. This shows the occurrence of the flypaper effect on district / city regional spending in Lampung Province.

Based on the background, the author is interested in conducting research with the title The Influence Of Flypaper Effect On Financial Performance With Local Taxes As An Intervening Variable In The Districts / Cities Of South Sulawesi Province period 2014-2017. The fundamental difference of this research with previous research is in the local tax variable as an intervening variable to mediate the effect of DAU, and the DBH indicated flypaper effect on the financial performance of local governments. The assumption of using intervening variables is that increasing local taxes is a form of optimizing the realization of the use of DAU, and DBH, can encourage the high performance of local government finances

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-15917756005.685	52243176950.554		-.305	.761
PAD	1.037	.112	.388	9.283	.000
DBH	1.848	.499	.112	3.705	.000
DAU	1.382	.101	.542	13.665	.000
DAK	.487	.120	.105	4.046	.000

Table 2:- Data Processing to See the Phenomenon of the Flypaper Effect Based on the 2014-2017 Budget Realization Report Processed by the Author.

## II. LITERATURE REVIEW

According to Hewitt (1989) in Kuncoro (2007) this fiscal illusion occurs because of asymmetric information the central government did not fully understand local fiscal capacity and situation like this would be used to raise the needed fiscal area (increasing spending) in order to obtain a large transfer of funds. According Putro (2013) stewardship theory assumes a strong relationship between the success of the organization to the satisfaction of the owner. The government will try its utmost to run the government to achieve the government goal of improving people's welfare. If the destination is able to be achieved by the people's government as the owner will be satisfied with the performance of the government.

Performance is the achievement of a business whether it's successful or not in accordance with the objectives of the organization that has been set. Public sector performance measurement capabilities not only how public money is spent, but is seen also in terms of economic, efficiency, and effectiveness, and certainly in terms of outcome. Public sector performance measurement undertaken to assess the achievement of the organization through financial and non-financial measurement tool. Flypaper phenomenon can occur in two versions. First, referring to the increase in local taxes and excessive government spending. Second, leading to the transfer expenditure elasticities higher than expenditure elasticity of the local tax revenue

## III. HYPOTHESIS

Research conducted by Wahab et al 2014 stated that the financial ability Jayapura regency in Fiscal Year 2010 to 2014 is measured by the ratio of regional financial dependence, included in the criteria area with a level of dependency that is Very High. This is why the level of Regional Independence Very Low, so that the level sendiriya Fiscal Decentralization is also included in the criteria is very less. Research conducted by Enceng et al concluded that the Local Financial Revenue in Purworejo most funds still come from the central government allocation, the average reached 82.68% per year, while revenue was only 7.99% per year. Research conducted by Saputri and Muid in 2014 concluded that the influence of DAU on regional spending was stronger than the influence of PAD on regional expenditure. Or in other words, regional governments in determining their spending policies are more stimulated by the amount of DAU received in the current year than their own PAD. This proves the existence of flypaper in the Regional Government's response to the DAU and PAD. Prakosa (2004), Masdjojo (2009), and Maimunah (2006). The researchers examined the effect of PAD and DAU on Regional Expenditures by taking samples of districts / cities Based on the description stated above, the research hypothesis can be described as follows

- H1: There is an Influence of Flypaper Effect on DAU directly on Local Taxes
- H2: There is an Influence of Flypaper Effect on DBH directly on Local Taxes
- H3: There is an Influence Between the Flypaper Effect on DAU on Regional Financial Performance, both directly and indirectly through Local Taxes
- H4: There is an Influence between Flypaper Effect on DBH on Regional Financial Performance, both directly and indirectly through Local Taxes

## IV. RESEARCH METHOD

This study uses one dependent variable, namely regional financial performance, one intervening variable, namely local tax and two independent variables, namely Flypaper Effect on the General Allocation Fund (DAU), and Flypaper Effect on 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 2014 to 2017 and cross section data that is data of 24 districts / cities times 4 years means 96 data. The data source of this research is sourced from the realization report of the revenue and expenditure budget of the Regional Government of the regency / city in South Sulawesi, namely in the form of a General Allocation Fund (DAU), and Revenue Sharing (DBH), Regional Tax and Regional Financial Performance data for 2014 to 2017 obtained from the official website of the Directorate General of Fiscal Balance (DJPK) of the Ministry of Finance of the Republic of Indonesia. Calculation formulation consist of

1. Flypaper effect on DAU :  

$$\frac{\text{Realization of DAU}}{\text{Realization of total Regional Revenue}} \times 100$$
2. Flypaper effect on DBH :  

$$\frac{\text{Realization of DBH}}{\text{Realization of total Regional Revenue}} \times 100$$
3. Local Taxes Contribution :  

$$\frac{\text{Realization of Local Taxes}}{\text{Realization of total Original Regional Revenue}} \times 100$$
4. Regional Financial Performances :  

$$\frac{\text{Realization of total Original Revenue}}{\text{Realization of total Regional Revenue}} \times 100$$

This study uses an analysis tool that is multiple regression (multiple regression). According to Gujarati (2003) in Ghazali (2005) that regression analysis is basically a study of the dependence of the dependent variable with one or more independent variables with the aim of estimating and or predicting the population average or the average value of the dependent variable based on the value of the independent variable known . The results of the analysis are in the form of coefficients for each independent variable.

$$Y_1 = \rho_{y1X1} + \rho_{y1X2} + \epsilon_1$$

$$Y_2 = \rho_{y2X1} + \rho_{y2X2} + \rho_{y2Y1} + \epsilon_2$$

Description :

$X_1$  : Flypaper Effect on DAU  
 $X_2$  : Flypaper Effect On DBH  
 $Y_1$  : Local Taxes  
 $Y_2$  : Regional Financial Performances  
 $\rho_{y1X1}$  : Path Coefficient Flypaper Effect on DAU towards local taxes  
 $\rho_{y1X2}$  : Path Coefficient Flypaper Effect on DBH towards local taxes

$\rho_{y2X1}$  : Path Coefficient Flypaper Effect on DAU towards Regional Financial Performances  
 $\rho_{y2X2}$  : Path Coefficient Flypaper Effect On DBH towards Financial Performances  
 $\rho_{y2Y1}$  : Path Coefficient Local Taxes Towards Regional Financial Performances  
 $e$  : Error term

**V. RESEARCH RESULT**

The results of path analysis in this study using SPSS version 22 as shown in Table 3 below.

Dirrect Effect	Regression Coefficient	Standard Error	t-Statistik	Probability.*)	Description
$X_1 \rightarrow Y_1$	-1,019	0,221	-4,607	0,000	Significant
$X_2 \rightarrow Y_1$	2,131	0,962	2,214	0,029	Significant
$X_1 \rightarrow Y_2$	-0,295	0,065	-4,565	0,000	Significant
$X_2 \rightarrow Y_2$	-0,195	0,261	-0,747	0,457	Not Significant
$Y_1 \rightarrow Y_2$	0,161	0,026	5,871	0,000	Significant

Table 3:- Results of Direct Effect Regression of the Variables Under Study with Probability 0,05.

Based on the results of the analysis of equation Y1 and equation Y2, it can be made the results of the analysis of the research model as shown in Figure 1.

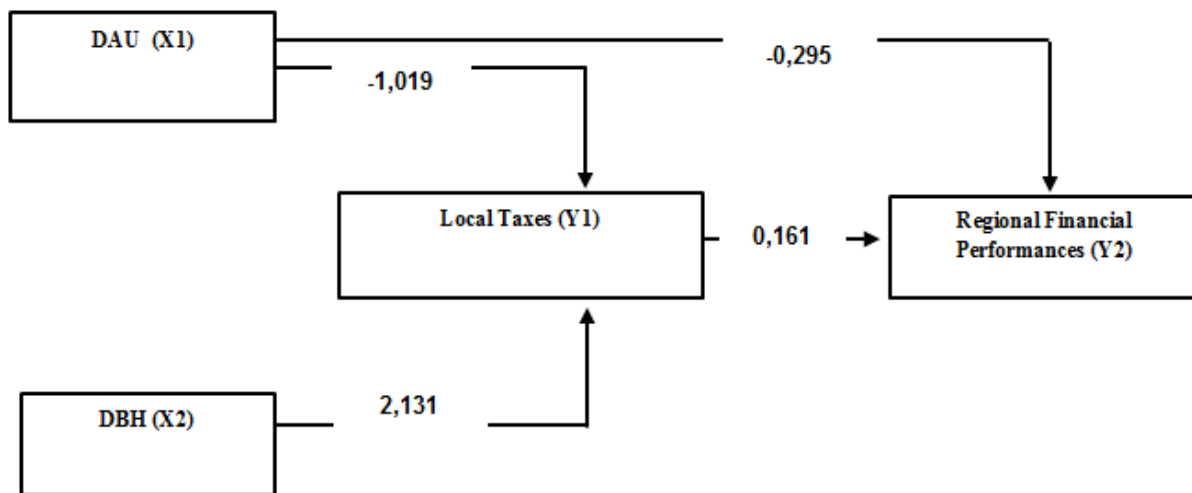


Fig 1

**VI. DISCUSSION**

➤ **H1 The Influence of flypaper effect on DAU towards Local Taxes**

Based on the results of Hypothesis 1 testing shows that the effect of flypaper effect on general allocation funds has a significant negative effect on local taxes.

According to the Directorate General of Fiscal Balance the General Allocation Fund (DAU) is one of the transfers of Government funds to regional governments sourced from APBN revenues, which are allocated with the aim of equitable distribution of financial capacity between regions to fund regional needs in the context of

implementing decentralization. The General Allocation Fund (DAU) is a "Block Grant" which means its use is given to the regions in accordance with the priorities and needs of the region to improve services to the community in the context of implementing regional autonomy. General allocation funds can be used for many purposes as needed. So that the general allocation fund is one part of the balance fund that can be used in order to increase infrastructure development and infrastructure in the regions. It is expected that from this development, it will have an impact on the rate of economic growth, which is marked by increasing people's income in the area. Unfortunately, depending on the Allocation Fund, the Government does not focus on collecting local taxes. This is evidenced from the analysis



of research results which prove that an increase in the DAU variable by 1% causes a decrease in the local tax variable by 1%.

The results of this hypothesis are in line with the Fiscal Illusion Theory which states that the Flypaper effect occurs due to the ignorance or indifference of voters or local residents regarding financing and spending and decisions taken as a result of these misperceptions. In the implementation of fiscal decentralization, each region is required to finance its own regional development. Even though the regional income is not able to finance all of its expenses. Therefore, the transfer of funds from the central government becomes a very dominant source of revenue for regional governments. The government in its activities will use goods and services in various forms that are expected to meet the goals and desires of the people to achieve prosperity. The high prosperity of a region shows the good financial performance of local governments.

This finding is in line with the results of research conducted by Amril (2015) and Mulya (2016) which states that there has been a flypaper effect on unconditional transfers in this case the DAU. This means that local governments still have a large dependency on transfer funds. Every transfer received by the regional government will be intended for regional government expenditure, one of which is capital expenditure. This is not much different from the role of PAD as a source of funding for infrastructure development that will have an impact on economic growth while increasing regional financial performance. Armawaddin, rumbia, afiat (2017) also states that in the 2016-2017 period, using a partial regression model, a flypaper effect was detected in the district and city regional expenditure in Sulawesi sourced from tax / non-tax revenue sharing funds (DBH) and general allocation fund (DAU).

While the results found are inversely proportional research by Subekan (2016) which found that the response of regional spending from the influence of general allocation funds is greater than the PAD, this proves that there has been a flypaper effect phenomenon. This means that central government transfers provide a stronger stimulus to regional government spending than self-generated regional income (PAD) for the creation of economic growth in the region. This indicates the over-reactive attitude of the regional government towards the importance of transfers. For the central government, transfers are indeed expected to be an incentive for local governments to intensively explore sources of revenue according to their authority. However, PAD extraction which is only based on incremental factors will have a negative impact on the regional economy and will further reduce the region's financial capacity.

## ➤ H2 The Influence of Flypaper Effect on DBH Towards Local Taxes

Based on the results of Hypothesis 2 testing shows that the effect of flypaper effect on revenue-sharing funds has a significant positive effect on local taxes. The results of this hypothesis are in line with the Fiscal Illusion Theory which states that the Flypaper effect occurs due to the ignorance or indifference of voters or local residents regarding financing and spending and decisions taken as a result of these misperceptions. Besides this result is also in line with the theory of fiscal federalism. This theory emphasizes that economic growth is obtained through fiscal decentralization as a form of implementing regional autonomy. In the implementation of fiscal decentralization, each region is required to finance its own regional development. Even though the regional income is not able to finance all of its expenses. Therefore, the transfer of funds from the central government becomes a very dominant source of revenue for regional governments. The government in its activities will use goods and services in various forms that are expected to meet the goals and desires of the people to achieve prosperity. The high prosperity of a region shows the good financial performance of local governments.

The results of this hypothesis are in line with the Stewardship Theory which assumes a strong relationship between organizational success and owner satisfaction. The government will try its best to run the government to achieve the government's goal of improving people's welfare. If this goal can be achieved by the government, the people as the owner will be satisfied with the government's performance

The findings of the research are in line with research conducted by Armawaddin, thatch, afiat (2017) which states that in the 2016-2017 period, using a partial regression model, a flypaper effect was detected in the district and city regional expenditure in Sulawesi sourced from funds for tax / non-tax proceeds (DBH) and general allocation funds (DAU). The research conducted by Enceng et al concluded that the Regional Financial Revenue in Purworejo Regency was mostly funded by the Central Government Allocation, with an average of 82.68% per year while PAD only reached 7.99% per year.

The results found are inversely proportional to the research of Subekan (2016) which found that the response of regional expenditure from the influence of general allocation funds is greater than the PAD, this proves that there has been a flypaper effect phenomenon. This means that central government transfers provide a stronger stimulus to regional government spending than self-generated regional income (PAD) for the creation of economic growth in the region. This indicates the over-reactive attitude of the regional government towards the importance of transfers. For the central government, transfers are indeed expected to be an incentive for local governments to intensively explore sources of revenue according to their authority. However, PAD extraction which is only based on incremental factors will have a

negative impact on the regional economy and will further reduce the region's financial capacity.

➤ **H3 The Influence Between the Flypaper Effect on DAU on Regional Financial Performance, both directly and indirectly through Local Taxes**

Hypothesis 3 test results show that the flypaper effect on general allocation funds has a negative significant direct effect on regional financial performance and indirectly through local taxes.

The results of this hypothesis are in line with the Fiscal Illusion Theory which states that the Flypaper effect occurs due to the ignorance or indifference of voters or local residents regarding financing and spending and decisions taken as a result of these misperceptions. In the implementation of fiscal decentralization, each region is required to finance its own regional development. Even though the regional income is not able to finance all of its expenses. Therefore, the transfer of funds from the central government becomes a very dominant source of revenue for regional governments. The government in its activities will use goods and services in various forms that are expected to meet the goals and desires of the people to achieve prosperity. The high prosperity of a region shows the good financial performance of local governments

The findings of the study are in line with research conducted by Sumarsono (2017) and Nasution (2017) who state that there is a flypaper effect in districts / cities in East Java, where local governments use transfer funds more than PAD. This shows that the increase in expenditure shows that many local governments use the budget for public purposes which can stimulate economic growth which will further enhance inter-regional financial capacity by taking into account regional potential, area size, geographical conditions, population and level of income of the community in the area for finance regional expenditure needs, so as to improve the Regional Government's Financial Performance.

➤ **H4 The Influence between Flypaper Effect on DBH on Regional Financial Performance, both directly and indirectly through Local Taxes**

Hypothesis 4 test results show that the flypaper effect on revenue-sharing funds does not have a direct effect on regional financial performance but can have a positive effect if through local taxes. This is based on the success of a region in tax revenue and natural resources in their respective regions. If a region receives a large local tax revenue and results of natural resource management, then the revenue from the DBH allocation will also be large. In addition, although the DBH flypaper effect has a positive and significant effect on financial performance through economic growth. This means that the greater the allocation of revenue sharing funds received, it will be able to increase the rate of economic growth which also has an impact on improving the financial performance of local governments. This is because the realization of revenue sharing received overall contributes to regional development and increased regional economic growth,

which means it will signify an increase in regional independence.

Revenue-sharing funds in the form of revenue-sharing from services are funds sourced from the APBN which are collected to the regions based on certain percentage figures by taking into account the potential of producing regions. Revenue sharing is categorized as a block grant, meaning that the authority to use it is given entirely to the regional government. Therefore, local governments can optimize the use of revenue sharing funds to finance local government activities that are in accordance with regional needs. This is because the regions are the producers and managers of the wealth of the region itself which is used to develop and prosper the region. That is, the more prosperous an area is, the higher the financial performance of the region.

In fiscal federalism theory it is revealed that fiscal decentralization is expected to improve public welfare through intergovernmental revenue and expenditure management. The essence of fiscal decentralization is the granting of authority and flexibility to allocate budget according to regional needs and priorities. Fiscal decentralization applies the principle of money follow function. Every handover of authority to the subordinate government has consequences on the budget needed. The delegation of authority must be followed by the transfer of funding sources to the regional government. The transfer of sources of funds to local governments can be done through the provision of transfers to the regions in the form of profit sharing funds. In addition, the theory of fiscal federalism emphasizes that fiscal decentralization is expected to improve the performance of local governments in improving the welfare of the community through the allocation of programs that are planned to increase local revenue sources in order to increase regional independence.

The findings of the study are in line with research conducted by Sumarsono (2017) and Nasution (2017) who state that there is a flypaper effect in districts / cities in East Java, where local governments use transfer funds more than PAD. This shows that the increase in expenditure shows that many local governments use the budget for public purposes which can stimulate economic growth which will further enhance inter-regional financial capacity by taking into account regional potential, area size, geographical conditions, population and level of income of the community in the area for finance regional expenditure needs, so as to improve the Regional Government's Financial Performance

## VII. CONCLUSION

The Flypaper Effect on DAU affects local taxes. This is evidenced by the results of the influence of the two variables that have a significant negative effect. Thus indicating the higher the response of the region to the DAU, the lower the response of the Region to the Regional Tax which means the region is still dependent on regional expenditure on DAU for regional development

Flypaper Effect on DBH affects local taxes. This is evidenced by the results of the influence of the two variables that are significantly positive influences. Thus indicating the higher the response of the region to DBH, the higher the response of the region to regional taxes, which means that even though the regions depend on regional expenditure on DBH, indirectly it affects the increase in regional taxes that contribute to the regional PAD. Flypaper Effect on DAU directly influences the regional financial performance. The Flypaper Effect on DBH has no direct effect on regional financial performance. Flypaper Effect on DAU has an indirect effect on regional financial performance through local taxes. Flypaper Effect on DBH has an indirect effect on the performance of regional finances through local taxes

The results of this study can contribute to public sector accounting, especially in terms of financial performance which theoretically can provide evidence regarding the factors that influence the flypaper effect phenomenon. In addition, this study can also contribute to local government policy patterns in managing government finances optimally spending general allocation funds, special allocation funds, and revenue sharing funds for increasing local revenue sources to increase regional productivity and regional income towards regional independence. as a form of successful implementation of regional autonomy.

This research was carried out inseparable from the existence of some limitations that can be the quality of research data. These limitations are that this study only looks at the effects arising from the phenomenon of the flypaper effect on regional taxes and regional financial performance during the implementation of regional autonomy

Based on the conclusions of the study, the following recommendations are recommended:

- The district / city regional government in South Sulawesi needs to utilize general allocation funds instead of prioritizing regional spending proportionally between consumptive routine expenditure and development spending which is more in favor of the public interest so as to be able to have a positive effect on economic growth and increase local revenue sources , through increasing the ability of human resources in managing public funds that are expected to significantly increase regional productivity.
- The regional government needs to open access to supporting the economy through general allocation funds, special allocation funds, and revenue sharing funds directed at the development of infrastructure supporting the community's economy to increase local revenue sources.
- Regional governments in spending balancing funds in the form of general allocation funds, special allocation funds, and revenue-sharing funds are carried out effectively and efficiently as government spending uses local revenue so as to prevent the occurrence of

flypaper effects for the achievement of development goals in the region namely bringing prosperity to the community.

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