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Financial Capability Index on Regencies and Cities in Indonesia

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Abstract

This study aims to analyze the effect of the Local Own Revenue and General Allocation Fund on district and city regional expenditures in Indonesia, in addition to analyzing the flypaper effect that occurs in regencies/cities in Indonesia on the Low, Medium, and High Financial Capability Index.The data used is secondary data and uses multiple regression analysis with a combination of time-series data from 2017 to 2021 and cross-section data consisting of 499 districts and cities. The result shows that Local Own Revenue and General Allocation Fund have positive significant effect on regional expenditures, an increasing in Local Own evenue will increase regional expenditures. Transfers from the central government will be responded to by increasing regional spending. This shows that local governments are still dependent on the General Allocation Fund. 30 Regencies/cities in Indonesia with a low classification of Financial Capability Index (IKK) proved to be a flypaper effect phenomenon, while 187 districts/cities with a medium classification of Financial Capability Index (IKK), and 282 regencies/cities there is a flypaper effect on the financial capability index at a high level.

Keywords : local own revenue, general allocation fund, regional expenditures

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1. Introduction

Regional autonomy is defined as a right, authority, and obligation obtained by a region in order to be able to regulate the interests of the government and society in the area according to the law. The decentralization system provides opportunities for underdeveloped regions to develop and align with developed regions (Kalb, 2010). Implementing fiscal decentralization in Indonesia is characterized by greater financial delegation to the regions to run government operations (Fadilah & Helmayunita, 2020). The unconditional grant aims to minimize the fiscal gap between the central and regional governments and the gap between regional governments and improve the existing tax system (Jesika & Satrianto, 2019). Regional governments are expected to optimize and explore the income of Local Own Revenue according to the potential of their respective regions through the provision of unconditional grants; thus, fiscal capacity can increase and minimize dependence on the central government (Carolus, Askikarno, 2019).

Table 1 Composition Regional Revenues of National, Provincial, and Regencies and Cities Level in 2021

No	Components	National		Provincial		Regency/City	
		Rupiah in Trilions	%	Rupiah in Trilions	%	Rupiah in Trilions	%
Total Income		1,137 T	100%	364,5 T	100,0%	791,6 T	100,0%
1	Local Own Revenue	330,9 T	29,1%	178,3 T	48,92%	131,8 T	16,6%
2	Balancing Fund	647,7 T	56,9%	167,8 T	46,03%	500,9 T	63,28%
3	Other Legitimate Regional Income	158,4 T	13,9%	18,4 T	5,05%	158,9 T	20%

Source: Directorate General of Fiscal Balance, 2021

Table 1 shows that balancing funds dominates at the national, provincial, and regency/city levels. The largest balancing fund allocation is at the regency/city level, amounting to 66.8% of the total revenue. The smallest contribution of Local Own Revenue is at the regency/city level of 15.5%. This means that regency/city governments have not been able to optimize Local Own Revenue from regional potential and are still dependent on balancing funds from the central

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government.

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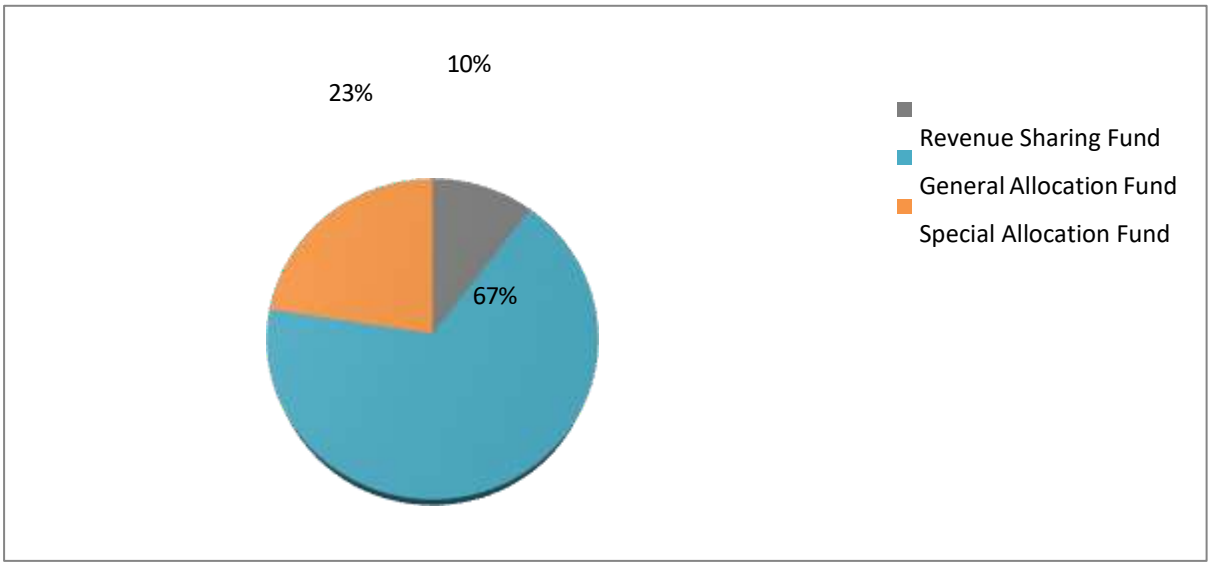

Figure 1 Detailed Composition of Balancing Funds at the Regencies and Cities in Indonesia (percent), 2021
Source: Central Bureau of Statistics, 2021

Figure 1 shows that the General Allocation Fund is the largest component in the balancing fund with a percentage of 68%, followed by the Special Allocation Fund at 22%, and Revenue Sharing Fund at 10%. The balancing fund in the form of the General Allocation Fund is an unconditional grant; thus, the use of the General Allocation Fund is considered more flexible (Mulya & Bustamam, 2016). General Allocation Fund is granted based on the fiscal capacity of a region. Regions with low fiscal capacity will receive a relatively large General Allocation Fund. On the contrary, regions with high fiscal capacity will receive a relatively small General Allocation Fund or may not even receive it. Regions are expected to utilize the grant in the form of a General Allocation Fund in the productive sector; thus later, the regions can encourage investment and can impact improving public services (Heryana, 2014).

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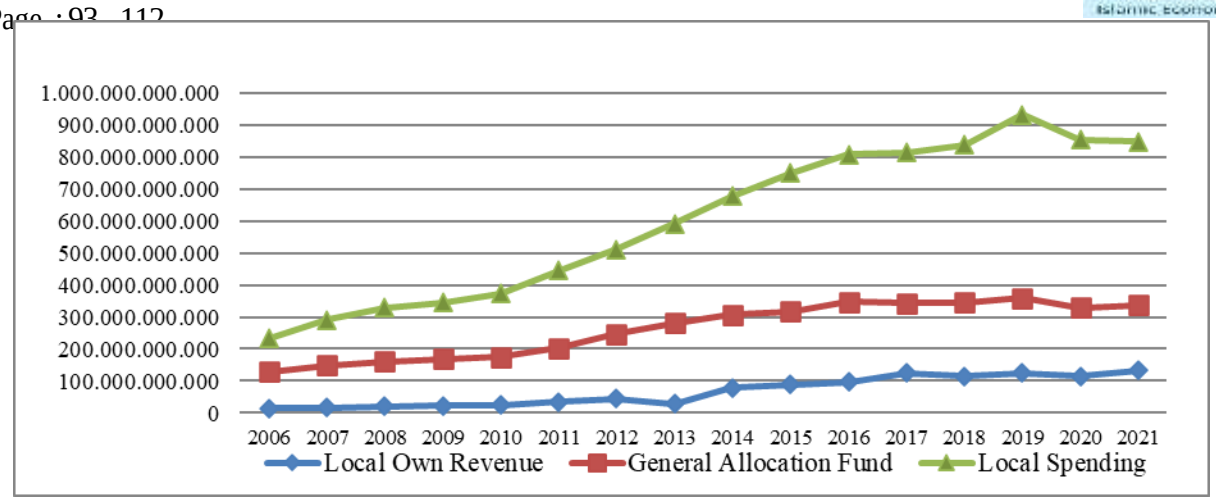

Figure 2 Comparison of Local Own Revenue, General Allocation Fund, and Local Spending for Regencies/Cities in Indonesia (Rupiah), 2006-2021

Source: Central Bureau of Statistics, 2021

Figure 2 shows that the amount of the General Allocation Fund is greater than that of Local Own Revenue in regencies/cities in Indonesia. This means that an unconditional grant in the form of the General Allocation Fund can still not increase Local Own Revenue. From 2015 to 2019, regional spending experienced a significant increase from the previous year. In addition, regional revenues in the form of Local Own Revenue and General Allocation Fund also increased compared to the previous year, which tended to be stable. Nurhayati & Septiana, 2019 explained that regional governments caused asymmetric behavior in using the unconditional grant received. An increase in regional spending will respond to the unconditional grant by local governments. This shows that there is still a dependence on the General Allocation Fund in the regions. This phenomenon is known as the flypaper effect.

In several previous studies, the flypaper effect has been shown to occur in several regions in Indonesia. Nurhayati & Septiana, 2019 explained that the General Allocation Fund and Local Own Revenue had a significant effect on regional spending, and it was proven that there was a flypaper effect in regencies/cities in Sumatra. Research by Masdjojo, 2009 and Salawali et al., 2019 concluded that there was a flypaper effect in regencies/cities in Central Java and Central Sulawesi. Amalia et al., 2015 and Oktavia, 2015 discovered a flypaper effect in areas with low Local Own Revenue and areas with high Local Own Revenue in regencies/cities in South Kalimantan and East Java. Indonesia has 34 provinces, 419 regencies, and 93 cities with different characteristics, economic conditions, and geographical conditions from each region. Therefore, the Financial Capability Index can observe the region's financial capacity and reflect the region's capability and efforts to meet its fiscal needs. With Indonesia's heterogeneous conditions, the financial capability index can classify regencies/cities based on the level of financial capability owned by the regions, i.e., the classifications of low, moderate, and high.

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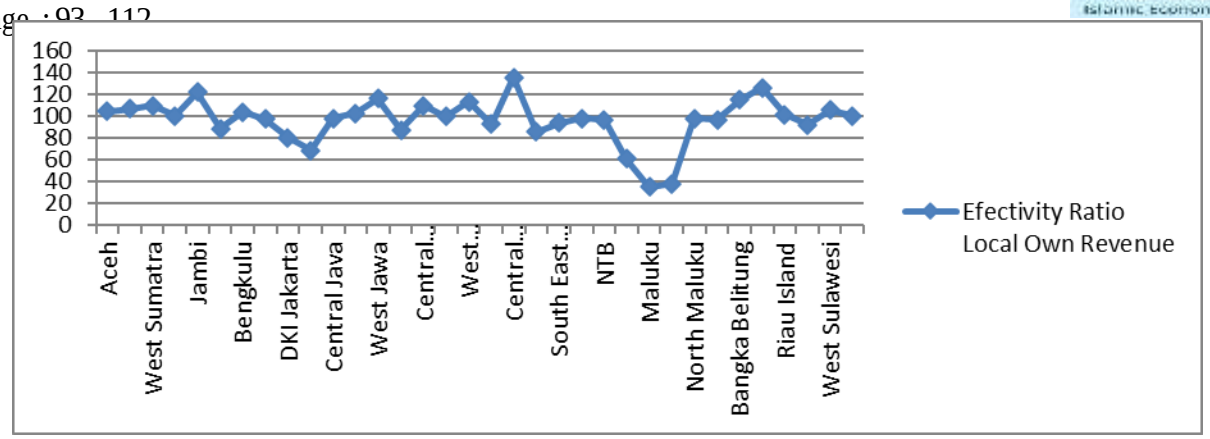

Figure 3 Comparison of the ratio of Local Own Revenue between provinces in Indonesia (%), 2021

Source: Directorate General of Fiscal Balance, 2021

Figure 3 shows that each province has a different level of independence. The province with the highest Local Own Revenue ratio is DKI Jakarta, and the lowest is Papua. The independence level shows a region's financial capability in financing government activities which can be seen through the comparison of Local Own Revenue to total income.

Table 2 Distribution of Provinces in Indonesia by Category of Independence Level 2017-2020

Category of Independence	2017	2018	2019	2020	2021
Very Low	8	10	10	11	7
Low	19	16	16	15	19
Moderate	7	8	8	8	8
High	0	0	0	0	0
Total	34	34	34	34	34

Source: Financial Statistics of Provincial Government, 2021

Table 2 shows that the category of moderate independence consists of 8 provinces, an increase compared to 2016. The low category consists of 15 provinces, which decreased compared to 2016. Moreover, the very low category is 11 provinces, an increase compared to 2016. This means that the provinces in Indonesia have not yet achieved a high level of independence. Based on the explanation regarding the condition of the independence of the provinces in Indonesia, it is different from the condition of the independence of the regencies/cities in Indonesia. Therefore, there needs to be a study of the regional financial capability of the regencies/cities in Indonesia as a benchmark for assessing the ability of Local Own Revenue. Therefore with that study, it can be determined whether or not an area with a certain level of financial capability has a flypaper effect.

Bappenas previously studied the Financial Capability Index in 2003. The Financial

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Capability Index observes the financial capacity of a region using the Local Own Revenue share index, Local Own Revenue growth index, and elasticity index. The three indices reflect the capacity and efforts of the region to meet its fiscal needs. Thereby, it is easier to map the financial capacity of regencies/cities in Indonesia. Further efforts will be made to increase Local Own Revenue and decrease dependence on General Allocation Fund.

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2. Literature Review

Iskandar, 2012 revealed that Local Own Revenue significantly positively affects regional spending. Another research by Oktavia, 2015 also concluded that Local Own Revenue significantly positively affects regional spending. In addition, research from Rahman & Chamelia (2015) stated that Local Own Revenue positively affects regional spending. There is a significant positive impact on regional spending, even for regional governments with a high level of Local Own Revenue have higher spending on regional expenditure allocations. Mentayani et al., (2012) concluded that Local Own Revenue significantly affects regional spending. The government can reduce its dependence on regional governments through high Local Own Revenue.

Siregar & Badrudin (2017) proved that the General Allocation Fund significantly positively affects regional spending. Another study conducted by Apriana & Suryanto, (2010) also proved that the General Allocation Fund positively influenced regional expenditures. Further research from Saputri & Muid (2014) stated that the General Allocation Fund significantly positively affected regencies/city regional expenditures in the Central Java Province. Then Putra (2014) with a study in Karang Asem Regency, stated the same result that the General Allocation Fund has a significant effect on regional spending.

3. Research Method

3.1 Data

This study uses secondary data from regency/city government financial reports in Indonesia. The data are published through the official website of the Directorate General of Fiscal Balance of the Ministry of Finance of the Republic of Indonesia, i.e., www.djpk.kemenkeu.go.id and the Central Statistics Agency, i.e., www.bps.co.id. The data obtained include regional spending data, local own revenue, general allocation funds, and GRDP. The population in this study is regencies/cities in Indonesia, consisting of 415 regencies and 97 cities in the period 2017-2021. However, the conditions in Indonesia during the research period changed due to mergers, regional expansion, and area deletion. Data were obtained from as many as 499 regencies/cities spread over 34 provinces in Indonesia. This data was due to as many as six districts experiencing the regional expansion, and three districts did not have a General Allocation Fund in a certain year.

3.2 Econometric Model

Multiple regression analysis through the panel data method aims to analyze the effect of the General Allocation Fund and Local Own Revenue on regional spending in regencies/cities in Indonesia in 2017-2021 based on the classification of high, moderate, and low Financial Capability Index. The equation model in this study is as follows:

$$LOG\_REx_{it} = \beta_0 + \beta_1 LOG\_LoR_{it} + \beta_2 LOG\_GAF_{it} + \mu_{it} \quad (1)$$

Details:

REx : Regional Expenditures

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LoR	: Local Own Revenue
GAF	: General Allocation Fund
β	: regression coefficient

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i : Regencies/cities in Indonesia

t : n-th year (2017-2021)

μ : *error*

The ground for using logarithms is to reduce data scale. Variables with a large enough nominal number must be adjusted to other variables. In addition, logarithmic transformations are used to normalize the data distribution to pass the classical assumption test, i.e., the normality test. Suppose the coefficient of the General Allocation Fund is higher than the coefficient of Local Own Revenue. In that case, it can be concluded that the regencies/cities in certain classifications have a flypaper effect.

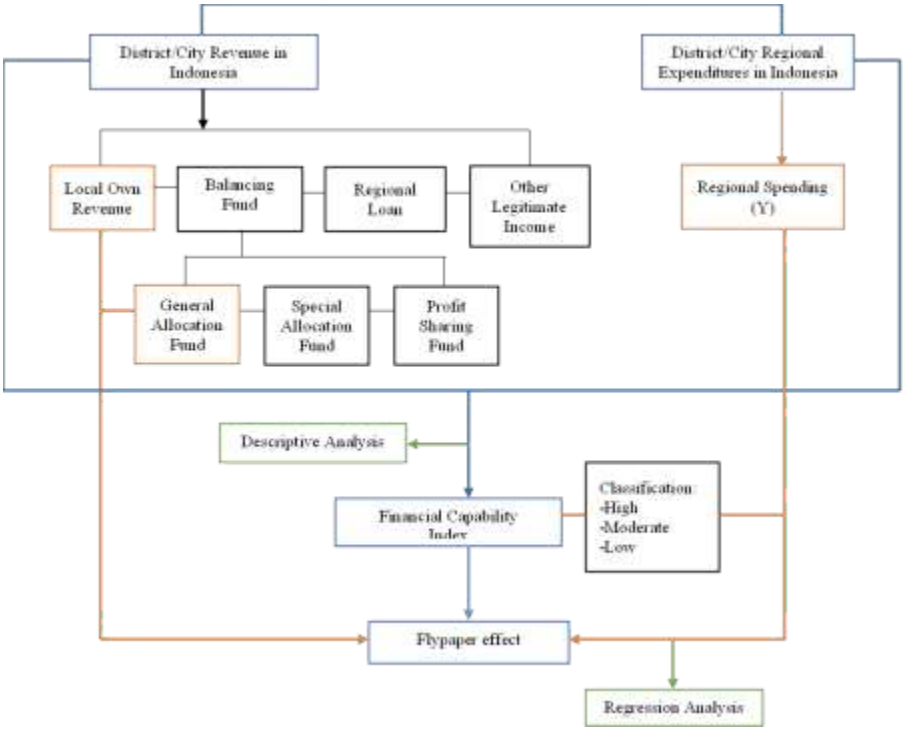

Figure 4 Framework

4. Result and Discussion

4.1 Result

4.1.1 Model Accuracy Test

Below are the results of the Fixed Effect Model, Random Effect Model, and Common Effect Model. The test results can be seen in the table below:

Table 3 Financial Capability Index of Low Classification, 2017-2021

		Model

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No.	Variable	FEM	REM	CEM
1	Constant	-0.071249* (0.9872)	0.938179* (0.6930)	1.225854* (0.4145)
2	**LOGLoR**	0.063987*** (0.0059)	0.062789*** (0.0017)	0.060921*** (0.0000)
3	**LOGGAF**	0.968723 (0.0000)	0.932425 (0.0000)	0.923457*** (0.0000)
6	R^2	0.989587	0.516266	0.723348
7	Adj R^2	0.985530	0.509684	0.719584
8	Std.Error	0.114662	0.113912	0.170301
9	F-Statistik	34.00449	78.44298	192.1763
10	Prob (F-Statistik)	0.000000***	0.000000***	0.000000***

Details: * Significant at $\alpha = 10\%$
** Significant at $\alpha = 5\%$
*** Significant at $\alpha = 1\%$
Source: Output Results of E-Views 10, 2022

Table 3 describes the estimation model of the panel data on the Financial Capability Index of low classification through the Common Effect Model (CEM), Fixed Effect Model (FEM) model selection test, and the random effect model (REM), resulting in the best model used in the low classification of Financial Capability Index was random effect model (REM).

Table 4 Financial Capability Index of Moderate Classification, 2017-2021

No.	Variable	Model		
		FEM	REM	CEM
1	Constant	-6.367686*** (0.0000)	-1.100700* (0.1272)	0.585682*** (0.1720)
2	**LOGLoR**	0.091021*** (0.0000)	0.116153*** (0.0000)	0.147591*** (0.0000)
3	**LOGGAF**	1.174143 (0.0000)	0.957505 (0.0000)	0.866016*** (0.0000)
6	R^2	0.982200	0.703735	0.878830
7	Adj R^2	0.977653	0.703089	0.878566
8	Std.Error	0.071712	0.074265	0.167169
9	F-Statistik	216.0028	1089.101	3325.445
10	Prob (F-Statistik)	0.000000***	0.000000***	0.000000***

Details: * Significants at $\alpha = 10\%$

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** Significants at α = 5%
*** Significants at α = 1%
Source: Output Results of E-Views 10, 2022

Table 4 describes the estimation model of the panel data on the Financial

Capability Index of moderate classification through the selection test of the Common Effect Model (CEM), Fixed Effect Model (FEM), and random effect model (REM). Resulting in the best model used in the Financial Capability Index of medium classification is the Fixed Effect Model (FEM).

Table 5 Financial Capability Index of High Classification, 2017-2021

No.	Variable	Model		
		FEM	REM	CEM
1	Constant	12.36735*** (0.0000)	9.045919*** (0.0000)	6.096108*** (0.0000)
2	LOGLoR	0.228384*** (0.0000)	0.236765*** (0.0000)	0.229210*** (0.0000)
3	LOGGAF	0.357660 (0.0000)	0.472123 (0.0000)	0.587876*** (0.0000)
6	R^2	0.974532	0.566050	0.802534
7	Adj R^2	0.968131	0.565433	0.802253
8	Std.Error	0.089852	0.090600	0.223821
9	F-Statistik	152.2496	917.6530	2859.139
10	Prob (F-Statistik)	0.000000***	0.000000***	0.000000***

Details: * Significant at α = 10%
** Significant at α = 5%
*** Significant at α =1%
Source: Output Results of E-Views 10, 2022

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Details: * Significant at α = 10%
** Significant at α = 5%
*** Significant at α =1%
Source: Output Results of E-Views 10, 2022

Table 5 describes the panel data estimation model for the Financial Capability Index of high classification through the model selection test of the Common Effect Model (CEM), Fixed Effect Model (FEM), and the random effect model (REM), resulting in the best model used in the high classification of Financial Capability Index is Fixed Effect Model (FEM).

4.1.2 Model Selection Test

1. Financial Capability Index of Low Classification

Table 6 Results of Model Selection Test

Model Accuracy Test	Prob	P-value (5%)	The Accurate Model
Chow Test	0.0000	P-value < 0.05	FEM
Hausman Test	0.9588	P-value > 0.05	REM
Lagrange Multiplier	0,0000	P-value < 0.05	REM

Source: Output Results with E-Views 10, 2022

The table shows the probability value for the chow chi-square test, which is 0.0000 < 0.05. Therefore the selection of the model in this study is FEM. Then for the Hausman test, the probability value of the cross-section is 0.9588 > 0.05. Therefore, the best model selected is REM. Furthermore, for the lagrange multiplier test, the Breusch- Pagan statistical value in this model is 0.000 <0.05, meaning that the best model chosen is REM. Thus, it can be concluded that the selection of the model used in the research of the Financial Capability Index of low classification is REM.

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2. Financial Capability Index of Moderate Classification

Table 7 Results of Model Selection Test

Model Accuracy Test	Prob	P-value (5%)	The Accurate Model
Chow Test	0.0000	P-value < 0.05	FEM
Hausman Test	0.000	P-value > 0.05	REM
Lagrange Multiplier	0,0000	P-value < 0.05	REM

Source: Output Results with E-Views 10, 2022

Table 7 shows the cross-section probability value of 0.0000 <0.05. This means that it can be concluded that the best model selected is FEM because it is considered more appropriate than REM.

3. Financial Capability Index of High Classification

Table 8 Results of Model Selection Test

Model Accuracy Test	Prob	P-value (5%)	The Accurate Model
Chow Test	0.0000	P-value < 0.05	FEM
Hausman Test	0.9588	P-value > 0.05	REM
Lagrange Multiplier	0,0000	P-value < 0.05	REM

Source: Output Results with E-Views 10, 2022

Table 4.16 shows the cross-section probability value of 0.0000 <0.05. Meaning that H0 is rejected and H1 is accepted. Therefore, it is concluded that the best model selected is FEM because it is considered more appropriate than REM. The estimation results show that the Financial Capability Index of low classification uses the best model of REM, the Financial Capability Index of moderate classification uses the model of FEM, and the Financial Capability Index of high classification uses the best model of FEM. Therefore, the equation of this research regression model is as follows:

$$LOG\_RExLOWFCI = 0.9381 + 0.0627*LOG\_LoR + 0.9324*LOG\_GAF + \varepsilon \quad \ldots\ldots(2)$$

The regression equation of panel data on the Financial Capability Index of low classification can be explained as follows: the constant value (C) of 0,9381 indicates a constant value; if all independent variables are equal to zero, then the regional spending variable on the Financial Capability Index of low classification is 0.9381. The coefficient of Local Own Revenue of 0.0627 indicates that Local Own Revenue has a positive effect on regional spending. This means that every 1 rupiah increase in Local Own Revenue will increase regional spending by 0.0627 rupiahs. The coefficient of the General Allocation Fund of 0.9324 indicates that

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the General Allocation Fund has a positive effect on regional spending. This means that every 1 rupiah increase in the General Allocation Fund will increase regional spending by 0.9324 rupiahs.

$$LOG\_REx\ MODERATE\ FCI = -6.3676 + 0.0910*LOG\_LoR + 1.1741*LOG\_GAF + \varepsilon..(3)$$

The regression equation for the panel data on the Financial Capability Index of moderate classification can be explained as follows: the constant value (C) of -6.3676 indicates a constant value; if all independent variables are equal to zero, then the regional spending variable on the Financial Capability Index of moderate classification

is -6.3676. The coefficient of Local Own Revenue of 0.0910 indicates that Local Own Revenue has a positive effect on regional spending. This means that every 1 rupiah increase in Local Own Revenue will increase regional expenditures by 0.0910 rupiahs. The coefficient of the General Allocation Fund of 1.1741 indicates that the General Allocation Fund positively affects regional spending. This means that every 1 rupiah increase in the General Allocation Fund will increase regional spending by 1.1741 rupiahs.

$$LOG\_REx\ HIGH\ FCI = 12.3673 + 0.2283*LOG\_LoR + 0.3576*LOG\_GAF + \varepsilon\ (4)$$

The regression equation of panel data on the Financial Capability Index of high classification can be explained as follows: the constant value (C) of 12.3673 shows a constant value; if all independent variables are equal to zero, then the regional expenditure variable on the Financial Capability Index of high classification is 12.3673. The coefficient of Local Own Revenue of 0.2283 indicates that Local Own Revenue has a positive effect on regional spending. This means that every 1 rupiah increase in Local Own Revenue will increase regional spending by 0.2283 rupiahs. The coefficient of the General Allocation Fund of 0.3576 indicates that the General Allocation Fund positively affects regional spending. This means that every 1 rupiah increase in the General Allocation Fund will increase regional spending by 0.3576 rupiahs.

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4.1.3 T-statistic test

The value of the t-table can be seen in the statistical t-table using df = n-k-1 or 150-2-1 = 147 for the Financial Capability Index of low classification, 920 2-1 = 917
for the Financial Capability Index of moderate classification, and 1410- 2-1 = 1407 for Financial Capability Index of high classification with a significance level of 0.05.

Table 8 T-Test (Partial Significance) of Financial Capability Index of Low Classification

	T- Count	T-Table	Probability	Significant/Not Significants
Local Own Revenue	3.195	1.659	0,0000	**Significant**
General Allocation Fund	10.065	1.659	0,0000	**Significant**

Source: Output Results with E-Views 10, 2022

Based on table 8, it can be explained that the results of the significance test on the t-test are both Local Own Revenue and General Allocation Fund had a positive significant effect on regencies and cities in Indonesia.

4.2 Discussion

4.2.1 The Effect of Local Own Revenue on Regional Spending

The testing results of the t-test on the Financial Capability Index of the low classification show the t-count value of 3,195, which is greater than the t-table value of 1,659. This explains that Local Own Revenue has a significant effect on regionalspending. The Financial Capability Index of the moderate classification shows a t-count value of 8,961, which is greater than the t-table value of 1,659. This explains that Local Own Revenue has a significant effect on regional spending. In the Financial Capability Index of high classification, the t-count value of 13,493 is greater than the t-table value of 1,659. This explains that Local Own Revenue has a significant effect on regional spending. The coefficient value in the Financial Capability Index of moderate classification is 0.091021, which indicates that an increase in Local Own Revenue by one rupiah will increase regional spending by 0.091021 rupiahs with the assumption of ceteris paribus. The coefficient value in the Financial Capability Index of high classification is 0.228384, which indicates that an

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increase in Local Own Revenue by one rupiah will increase regional spending by 0.228384 rupiahs with the assumption of ceteris paribus

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The results of this study are also in line with research Fadilah & Helmayunita, (2020), Nurul Ikhwani (2019), Jesika & Satrianto (2019), and Soeharjoto et al., (2020) that Local Own Revenue has a positive and significant effect on regional spending. This means that the higher the Local Own Revenue, the number of regional spending will increase.

4.2.2 The Effect of the General Allocation Fund on Regional Spending

The results of the t-test test on the Financial Capability Index of the low classification show the t-count value of 10,065, which is greater than the t-table value of 1,659. This explains that the General Allocation Fund significantly influences regional spending. The Financial Capability Index of moderate classification shows a t-count value of 22,204, which is greater than the t-table value of 1.659. This explains that the General Allocation Fund significantly influences regional spending. In the Financial Capability Index of high classification, the t-count value of 10.740 is greater than the t-table value of 1,659. This explains that the General Allocation Fund significantly influences regional spending. The coefficient value on the Financial Capability Index of low classification obtained is 0.932425, which indicates that an increase in the General Allocation Fund by one rupiah will increase regional spending by 0.932425 rupiahs with the assumption of ceteris paribus. The coefficient value on the Financial Capability Index of moderate classification obtained is 1.174143, which indicates that an increase in the General Allocation Fund by one rupiah will increase regional spending by 1.174143 rupiahs with the assumption of ceteris paribus. The coefficient value on the Financial Capability Index of high classification obtained is 0.357660, which indicates that an increase in the General Allocation Fund by one rupiah will increase regional spending by 0.357660 rupiahs with the assumption of ceteris paribus.

The results of this study are also in line with research Salawali et al., (2019), Fadilah & Helmayunita, (2020), Nurul Ikhwani (2019), Jesika & Satrianto (2019), Soeharjoto et al. (2020), Kusuma (2017) and Pradana et al., (2019) that is, there is a positive and significant effect of the General Allocation Fund variable on regional spending. This means that the increasing income of the General Allocation Fund will result in an increase in regional spending.

4.2.3 Financial Capability Index of Low Classification

The General Allocation Fund coefficient of 0.9324 is greater than the Local Own Revenue coefficient of 0.0627; this shows study results of the presence of the flypaper effect phenomenon on the Financial Ability Index of low classification in regencies and cities in Indonesia from 2016 to 2020.

This study's results align with the research of Kusumadewi & Rahman, 2007

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which explained that areas with low Local Own Revenue are proven to have a flypaper effect. In

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addition, Kurnia's research (2013) also explained that there is a flypaper effect in regency/city with low Local Own Revenue. In this case, the General Allocation Fund from the central government is greater than that caused by changes in regional revenues (Oktavia, 2015).

4.2.4 Financial Capability Index of Moderate Classification

The coefficient of the General Allocation Fund is greater than that of Local Own Revenue; thus, the study results show that on the Financial Capability Index of moderate classification, there is a flypaper effect phenomenon in regencies and cities in Indonesia.

This study's results align with Kurnia's research (2013), which also explained that there is a flypaper effect in regencies/cities with low to high Local Own Revenue. However, this is not in line with the research by Carolus, Askikarno (2019) which explained that no flypaper effect occurs in regencies/cities with a moderate Financial Capability Index. However, because this study covers a wider regional area, i.e., regencies/cities in Indonesia, it delivers different results, i.e., there is a flypaper effect in regencies/cities in Indonesia with moderate financial capability.

4.2.5 Financial Capability Index of High Classification

The regression equation shows that the constant value of 12.3673 shows a constant value. If all independent variables are equal to zero, then the regional spending variable on the Financial Capability Index of low classification is 12.3673. If other variables are considered constant, every 1 rupiah increase in Local Own Revenue will increase regional spending by 0.2283 rupiahs, while every 1 rupiah increase in General Allocation Fund will increase regional spending by 0.3576 rupiahs. The coefficient of the General Allocation Fund is greater than Local Own Revenue; thus, the study results show a flypaper effect phenomenon with a high classification of Financial Ability Index in regencies/cities in Indonesia.

This study's results align with Kurnia's research (2013), which also explained that there is a flypaper effect in districts/cities with high Local Own Revenue. In Indonesia, 282 regencies/cities are included in the Financial Capability Index of high classification. This means that the regencies/cities have an ideal Local Own Revenue growth; thus, Local Own Revenue can absorb a large portion of regional spending. The flypaper effect can occur in areas with low, moderate, or high financial capabilities (Tasri, 2018). This is because the government still relies heavily on the unconditional grant in all conditions of financial capacity despite having high financial capacity or a high Local Own Revenue ratio (Jesika & Satrianto, 2019).

5. Conclusion

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Based on the research results and the discussions regarding flypaper analysis in regencies/cities in Indonesia based on the financial capability index in 2017-2021, this study concludes, among others, that Local Own Revenue has a positive and significant effect on regional spending in regencies/cities in Indonesia, both on the low, moderate, and high classification of Financial Capability Index. The increase in Local Own Revenue will increase regional spending because regional spending continues to increase. The General Allocation Fund has a positive and significant impact on regional spending in

regencies/cities in Indonesia, either in the low, moderate, or high classification of the Financial Capability Index. This shows local governments' asymmetrical behavior in using the unconditional grant they receive. Transfers from the central government will be responded to by increasing regional spending. This shows that local governments are still dependent on the General Allocation fund.

Regencies/cities in Indonesia with a low classification of Financial Capability Index consisting of 30 districts/cities have proven to have a flypaper effect from 2017 to 2021. Regencies/cities in Indonesia with a moderate classification of Financial Capability Index (IKK) consisting of 187 regencies/cities have proven to have a flypaper effect phenomenon from 2017 to 2021. Regencies/cities in Indonesia with a high classification of Financial Ability Index consisting of 282 districts/cities have proven to have a flypaper effect phenomenon.

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6. Suggestions

Based on the conclusions of this study, the researcher can offer suggestions, including, among others, an increase in Local Own Revenue will cause regional spending to continue to increase. Therefore, it is necessary to develop the potential of the regions; thus, regional expenditures can be financed through Local Own Revenue. Therefore, the objectives of regional autonomy are achieved. The General Allocation Fund experienced an increase accompanied by an increase in regional spending. Therefore, it is necessary to increase Local Own Revenue; thus, the income of the General Allocation Fund can be reduced, and the level of regional independence can be increased. The government's asymmetrical behavior in the form of a flypaper effect can also be avoided when the General Allocation Fund is reduced. In low-classification areas affected by the flypaper effect, the government's role is needed in recognizing local potential and develop it in order to increase the ratio of Local Own Revenue. Thereby, it can increase financial capacity and reduce the level of dependence on the central government.

The moderate classification area affected by the flypaper effect requires the role of regional governments to develop the existing potential thus, local own revenue can be higher. Therefore it can increase financial capacity and reduce dependence on General Allocation Fund. Policies that need to be implemented include increasing the role of regional companies as sources of regional income, optimizing BUMD, and increasing awareness of taxes and levies as sources of Local Own Revenue. The moderate classification area affected by the flypaper effect requires local government policies to continue exploring the local potential to increase Local Own Revenue even better and reduce dependence on General Allocation Fund. If the General Allocation Fund's revenue is decreasing and a large portion is in the form of Local Own Revenue, then it will not be affected by the flypaper effect.

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