
The flypaper effect as political budget to achieve economic growth in Eastern Indonesia

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Abstract: The allocation of resources into the capital expenditure is a process that is loaded with political interests. This relates to the politics of local government budgets in managing the budget and how regional financial management can be audited by the Supreme Audit Agency through audit opinion statement as a control variable. The purpose of this study is to determine empirically the flypaper effect as political budget to achieve economic growth in Eastern Indonesia. The purposive sampling method was used resulting in a total of 86 samples for 10 years period observations. The analysing method is used E-views. The results of this study indicate that general allocation fund and own source revenue have a positive significant effect on capital expenditure; not occurs flypaper effect; and the audit opinion statement has a positive effect on economic growth in districts in Eastern Indonesia but not significant.

Keywords: general allocation fund; own source revenue; capital expenditure; growth; flypaper effect; political budget; audit opinion.

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1 Introduction

Regional autonomy is a form of delivery system of government affairs and delegation of authority to regions from central to local government. Regional autonomy is defined as the right, authority, and obligation of the autonomous regions to regulate and manage their own governmental affairs and the interests of the local community in accordance with the laws and regulations. Based on Law Number 23/2014 on Regional Government, decentralisation is defined as the transfer of government authority by the Government to the Autonomous Region within the framework of the Unitary State of the Republic of Indonesia.

Through regional autonomy, local governments have the authority to generate revenue and perform independent allocation roles in setting development priorities. The objectives of regional autonomy are to help increase the national allocation and operational efficiency of local governments and meet regional aspirations; improve overall fiscal structure and mobilise regional and national revenues; improve accountability, transparency, and develop constituent participation in decision-making at the local level; reducing fiscal gaps among local governments, ensuring the implementation of basic community services across Indonesia, and promoting government efficiency goals; and improve the social welfare of the Indonesian people.

Regional autonomy aims to improve the efficiency of local government performance, especially in service to the community, so that the results achieved can be maximised. In the implementation of regional autonomy, the regions are given the authority to explore the potential of regional income consisting of two main components, namely own source revenue (PAD) and balancing fund. The own source revenue is a source of local revenue derived from the economic activities of the region itself (Badrudin and Kuncorojati, 2017). Source of own source revenue consists of local taxes, levies, results of management of local wealth, and other legitimate local revenue.

According to Purbarini and Masdjojo (2015), the proportion of PAD in financing regional government expenditure is highest by 20%. Thus, regional governments rely on general allocation fund (DAU) as the main source in financing regional government expenditure compared to other funding sources such as revenue sharing fund (DBH), special allocation fund (DAK), and PAD. This dependence will lead to the low role of the region itself in financing regional government expenditure and the increasingly dominant role of transfer from the central government. This has resulted in the districts government having a budget usage behaviour called flypaper effect. According to Purbarini and

Masdjojo (2015) and Ash Shiddieqy and Afriana (2013), flypaper effect is the response of capital expenditure is greater for balancing fund from the central government rather than own sourced revenue from district. As a result, regional governments have always demanded greater transfers to the central government, rather than exploring local tax base results optimally (Purnomo, 2011). The situation is also encountered in the case of regional government in Indonesia. Therefore, as a primary source DAU should be used effectively and efficiently to improve services to the community, accelerate regional development, and maximise the potential of the region to finance local needs. The flypaper effect is a condition that occurs when regional governments respond to financing more (wasteful) using transfer funds produced with DAU rather than using their own capabilities proxied by PAD.

Regional expenditure as a form of local government expenditure in the Regional Government Budget (APBD) is one of the factors driving regional economic growth (Manek and Badrudin, 2016). Therefore, regional expenditure as one of the fiscal policy instruments in Regional Government Budget should be used to finance various regional development programs effectively and efficiently in order to be able to increase economic activity and economic growth rate of the region through regional economic growth, local governments can improve the welfare of the people with prioritise, improving regional innovational infrastructure (Lyapina et al., 2019). But, the efficiency levels of local government expenditures of provinces outside of Java Island are still deficient. This is the result of investigates the efficiency of local governments' expenditures in Indonesia, setting Human Development as the designated outputs (Prasetyo et al., 2018).

Does the government strategically manipulate fiscal policy tools to win elections, such as reducing taxes and or increasing spending nearing elections? The political budget only occurs in certain countries in special circumstances. At the local level, there is some evidence of a budget on the expenditure side, especially for public investment. The political budget relates to the management of the budget should be based on the public interest that appears on the magnitude of the budget allocation for the public interest and the amount of public participation (DPRD) in the planning, implementation and monitoring of local development. In addition, the budget politics is also related to local governance is good governance which local governments should be able to meet the basic principles of financial management, which is transparent, efficient, effective, accountable, and participatory. These five principles must be reflected in any implementation of financial management policies, both in the context of the preparation, the process of defining, implementing, and budget accountability (Harsasto, 2014; Susanto and Badrudin, 2016; Jaelani, 2017).

The national government introduced a new real estate tax that allowed some cities to be flexible on tariffs. This new policy is very prominent, discussed at length in parliament and the press. In fact, considering the large share of wealth in real estate held by Italians is a major policy issue (Guiso et al., 2013). Italian cities for various reasons have staggered in terms of elections. So every year there is a group of cities holding elections. This feature allows us to test whether the selected tax rate is influenced by the distance from the next election. Guiso et al. (2013) shows evidence of a political budget cycle. Urban communities in Italy choose lower tax rates when it is close to election day. This is evident from the findings of the research in southern Italy and in various small cities. Guiso et al. (2013) shows how the level of trust, citizenship, participation in social and political activities is substantially lower in Southern Italy than in the rest of the country.

Nannicini et al. (2013) argued that lower social capital implies lower control of politicians. Therefore, the latter may feel less constrained in pursuing strategic policy manipulation. But the political budget cycle is smaller in cities that have a larger deficit. The left-wing government sets a lower tax than the right-wing. When some regions could choose to decide the tax rate before or after the election, a tendency to choose the previous tax. This may be consistent with efforts to convince voters that a non-excessive tax rate will be chosen immediately after the election. In line with this view, the tendency to anticipate deliberation is even stronger in contested cities. Theoretically this shows how this cycle can survive even with rational voters if the latter are not perfectly informed about the complexity of the government budget and if they learn by delaying the full set of fiscal variables in the game. Empirical evidence shows that while all democratic systems display cycles before elections, only presidential systems show evidence of fiscal adjustment after the election.

Brender and Drazen (2008) find the political budget only in new democracies. Some papers also look at national-level cycles for certain countries. First, the study of local government in the same country makes it possible to maintain a series of cultural and institutional characteristics that can potentially threaten the identification of causal effects in cross-country analysis. Second, local governments can easily target policies to special interest groups or voters and this makes the political budget cycle more likely to emerge. Third, as we show in this paper, policies designed by the central government and imposed on all local governments can be good natural experiments.

Akhmedov and Zhuravskaya (2004) examine the theory of political budget cycles in Russian provinces which show evidence of increased monetary transfers to voters before elections. To achieve identification, they exploit the orthogonality of timing to implement policy. However, as they pointed out, some of their samples moved the selection away from the date originally scheduled to create concerns about identifying an interesting causal effect.

In carrying out a political budget, the regional government must pay attention to the Minister of Home Affairs Regulation No. 52 of 2015 concerning Guidelines for the Preparation of Regional Revenues and Expenditures in 2016, in planning expenditure allocations to the local government budget (APBD) to prioritise alignments for the public interest (direct expenditure) rather than interests apparatus (indirect expenditure). In allocating direct expenditures components in the form of capital expenditures must pay attention to several things, namely

- directing capital expenditures for infrastructure development that supports investment in the regions in encouraging economic growth in the regions
- evaluating and assessing inventory items available both in terms of condition and economic age so that the procurement of inventory items can be carried out selectively according to the needs of each regional government
- compile capital expenditures at the purchase/build price of fixed assets plus all expenditures related to the procurement of the fixed assets until they are ready for use.

Capital expenditures used in funding the implementation of government affairs which are the authority of the province or districts are called regional expenditures. Regional expenditures consist of compulsory affairs, optional affairs, and matters that deal with certain parts or fields that can be carried out jointly between the central government and

regional governments or between regional governments that are stipulated by law. Expenditures for organising affairs must be prioritised to protect and improve the quality of life of the community in an effort to fulfil regional obligations that are realised in the form of improved basic services, education, health, social facilities and appropriate public facilities and develop a social security system. Improving the quality of life of the community is realised through work performance in achieving minimum service standards in accordance with the legislation.

This study adds audit opinion as a control variable to find out the audit opinion statement by the Supreme Audit Agency (BPK) regarding the level of fairness of information and comparison of financial or government performance in each region. The regional financial performance depends on how the local government manages PAD, DAU, and regional capital expenditure. Therefore, audit opinion as a control variable for PAD, DAU, and regional capital expenditure. The existence of audit opinion can also influence the interaction between PAD and DAU on the performance of local governments, not only the interaction between PAD and the performance of local governments such as capital expenditure as compiled in the first research hypothesis. The audit opinion contains the results of the audit regarding the fairness of financial statements, compliance with laws and regulations, and the effectiveness of the internal control system (Ar Rozy and Wijayanti, 2014). The bigger of results measurement Audit Opinion Statement value, the better of results measurement Audit Opinion Statement. The better of results measurement Audit Opinion Statement of Supreme Audit Agency, the more capable the districts government is in managing regional finances in accordance with the provisions of legislation. So that the regional financial management is in accordance with the objectives and regulations of the legislation, the district government must prepare regional financial reports to be audited by the Supreme Audit Agency (BPK).

Auditing is functioned as to provide assurance on the fairness of presentation of financial statements in describing the actual economic activity. The Supreme Audit Agency (BPK) acts as an independent examiner assigned to evaluate the accountability of government financial reporting which aims to provide information to the public on the government's financial management processes. The Supreme Audit Agency (BPK)'s auditing results include audit opinion, audit findings, and recommendation of inspection result. The financial audit carried out to giving opinions about the level of fairness of the information presented in the financial statements of the government. The opinion is a professional statement of the auditor regarding the fairness of financial information presented in the government financial statements (Din et al., 2017).

Based on the explanation, this study aims to examine and analyse the effect of PAD and DAU on regional expenditures and analyse whether flypaper effect occurs in districts in Eastern Indonesia. The author choose a district in the Eastern Indonesia because the district in the Eastern Indonesia was the district that received the most transfer funds from the central government in addition to the balance fund, namely the special autonomy fund. However, the impact of the allocation of transfer funds from the central government in the form of balance funds and special autonomy funds has not been optimal in achieving inclusive economic development because the Gini Index and the proportion of the poor are still high even in a declining condition. Based on the results of testing and analysis will be shown the effect of flypaper effect as a political budget to economic growth in districts in Eastern Indonesia. This study also tested whether the audit opinion

statement by the Supreme Audit Agency (BPK) as a the control variable has a positive significant effect on economic growth in districts in Eastern Indonesia.

2 Hypothesis development

The authority of the regional government in carrying out its policy as an autonomous region is strongly influenced by the ability of the region to generate regional income. The larger the PAD, the greater the authority of regional governments in implementing autonomy policies. The implementation of regional autonomy aims to improve public services and promote the regional economy. One way to improve public services is to spend money on investments that are realised in regional expenditures.

According to Prakosa (2015) and Al Khoiri (2015) have proved that PAD has a significant positive effect on the allocation of Regional Government Budget. These findings indicate that the magnitude of PAD is one of the decisive factors in regional expenditure. This is in accordance with Government Regulation No. 58/2005 stating that the APBD is prepared with the needs of government administration and the ability of regions to generate income. In the preparation of APBD, the amount of local expenditure allocation must be adjusted to the needs of the region by considering the received revenue. If regional governments want to increase regional expenditure for public services and public welfare, then regional governments should dig into PAD as much as possible. Local governments are directed to be able to manage their PAD which are shown for regional economic development. Increased decentralisation is related to how regions are able to extract revenues or revenues from within the region itself. PAD part of local income extracted from available resources in areas that do not include balancing funds and other receipts. Based on the explanation, the hypothesis is formulated as follows:

H1: Own source revenue (PAD) has a positive significant effect on regional capital expenditure in districts in Eastern Indonesia.

DAU is a component of balancing fund that aims to reduce inequality of revenue between regions. Balancing funds, especially DAU, can provide certainty for each region to obtain financing sources to finance all activities and expenditures that are the responsibility of the region. Areas that have a small fiscal gap, then will get a small DAU distribution as well, vice versa. The allocation of DAU is left entirely to the regions to improve public services in their areas to be more efficient. Areas with low PAD will rely on transfers from the central government to finance regional capital expenditures.

Financial allocation from the centre to the local government includes DAU provided to provide equitable and uniform financial benefits in the implementation of regional government activities. Allocation of DAU is calculated based on the regional financial capacity obtained from the difference in regional needs with the capabilities of the region. Provision of DAU for regions that have sufficient finance, but the financial needs are small, then they get a small DAU, and vice versa.

Study of Kusumadewi and Rahman (2007) proves that DAU has a positive significant effect on the allocation of Regional Government Budget. These findings indicate that the magnitude of DAU is one of the decisive factors in local spending and indicates if regional dependence is very high on DAU to finance regional capital expenditure. Based on the explanation, the hypothesis is formulated as follows:

H2: General allocation fund (DAU) has a positive significant effect on regional capital expenditure in districts in Eastern Indonesia.

Purbarini and Masdjojo (2015) stated that several studies on the behaviour of local governments in responding to central government transfers that have been done resulted in the conclusion that the responses of local governments differ for their own transfers and revenue. When the response of the local government is greater for transfer than its own source revenue is called the flypaper effect (Ash Shiddieqy and Afriana, 2013).

According to Harsasto (2014), Susanto and Badrudin (2016), and Jaelani (2017), political budget relates to the management of the budget should be based on the public interest that appears on the magnitude of the budget allocation for the public interest and the amount of public participation (DPRD) in the planning, implementation and monitoring of local development. In addition, the budget politics is also related to local governance is good governance which local governments should be able to meet the basic principles of financial management, which is transparent, efficient, effective, accountable, and participatory. These five principles must be reflected in any implementation of financial management policies, both in the context of the preparation, the process of defining, implementing, and budget accountability. Thus, the flypaper effect as a political budget in a region that can be used as a tool to achieve regional economic growth.

The political budget is actually the government's way to use a limited budget so that it can be used optimally to prosper the community through a program that is right on target. This is in accordance with economic principles. That is why development priorities are important. In the end, efforts to build in any sector as well as the ultimate goal must be able to increase the productivity of the people, increase competitiveness, and build people towards the welfare of the people. The way to achieve these three things is to boost the development of basic infrastructure including roads, railroads, ports, airports, health facilities and education. The political budget supports and focuses on these sectors so that the budget can be allocated maximally. Budget distribution according to priority programs makes the ministry that has many priority programs will get a bigger budget, vice versa. Gradually this ministry will also distribute its budget to directorates with the same criteria.

According to Listiorini (2012) and Rokhaniyah and Rudi (2011), the flypaper effect is widely documented as a regulation in public finance that holds the tendency of local governments to spend higher transfer funds than to spend their own income. Thus, the flypaper effect is a condition where the stimulus to local government spending caused by changes in the amount of transfer funds from the central government is greater than that caused by changes in income alone.

The flypaper effect is a condition that occurs when the local government spend uses more with transfer funds pro dedcted by DAU than using its own capabilities, proxied with PAD. According to Siregar and Badrudin (2017), Ash Shiddieqy and Afriana (2013), Aprilia and Saputra (2013), and Masdjojo and Sukartono (2009), flypaper effects occurred in districts government in Indonesia. Based on the explanation, the hypothesis is formulated as follows:

H3: The flypaper effect occurred on regional capital expenditure in districts in Eastern Indonesia.

Hasthoro and Sunardi (2016) state that in the era of public sector reform, the government is expected to be able to report on the results of the programs that have been implemented to be able to assess whether the government works economically, effectively, and efficiently. According to Mistry (2012) and Hartati (2011), one of the criteria for auditing financial statements conducted in order to provide opinions on the fairness of financial information presented in financial statements is one based on complete disclosures. Therefore disclosure is very important in the examination to issue opinions on financial statements. The BPK audit opinion as a control variable can be used as a reference to find out the funds allocation policies carried out by the local government, by linking the financial statements of the local government with the existing conditions. Audit opinion as a control variable can strengthen or weaken the relationship between Regional Original Revenue (PAD), General Allocation Fund (DAU), and Regional Expenditure (BD) on the performance of local governments as measured by Economic Growth (Sutopo et al., 2017).

The research is in line with the research of Suryaningsih and Sisdyani (2016) which states that audit opinion by the Supreme Audit Agency (BPK) has an effect on the performance of 295 districts local governments in Indonesia. If the Supreme Audit Agency (BPK) finds fair opinion in a local government, the performance of the local government can be said better. The existence of audit opinion can also influence the interaction between PAD and DAU on the performance of local governments, because the audit opinion contains the results of the audit regarding the fairness of financial statements, compliance with laws and regulations, and the effectiveness of the internal control system (Ar Rozy and Wijayanti, 2014). The bigger of results measurement Audit Opinion Statement value, the better of results measurement Audit Opinion Statement. The better of results measurement Audit Opinion Statement of Supreme Audit Agency, the more capable the districts government is in managing regional finances in accordance with the provisions of legislation. Based on the explanation, the hypothesis is formulated as follows:

H4: The audit opinion statement by the Supreme Audit Agency (BPK) has a positive significant effect on economic growth in districts in Eastern Indonesia.

3 Data and methodology

The population used in this study is the entire in 86 districts in Eastern Indonesia (West Nusa Tenggara, 10 districts; East Nusa Tenggara, 22 districts; Maluku, 11 districts; North Maluku, 10 districts; Papua, 20 districts; and West Papua Province, 13 districts) from 2008 to 2017. The year 2008 was chosen as the beginning of the study period because of the implementation of regional autonomy that began on January 1, 2001, over the past seven years has been running well and smoothly in accordance with Law No. 22/1999 regarding Regional Government and Law No. 25/1999 on Financial Balance between Central Government and Local Government, which is then finalised by Law 23/2014 on Regional Government and Law No. 33/ 2004 regarding Financial Balance between Central Government and Local Government.

Determination of sample uses purposive sampling method. The data used are secondary data. Purposive sampling method is a non-random sampling technique where

the researcher determines the sampling by determining particular characteristics in accordance with the purpose of the study so that it is expected to answer the research problem. That is, the districts selected as the sample in this study are the districts in Indonesia with particular characteristics in the form of own source revenue (PAD), general allocation fund (DAU), regional capital expenditure (CE), audit opinion statement (AOS), and economic growth (EC). Economic growth (EC) implies an annual increase of material production expressed in value, the rate of growth of gross regional domestic product (GRDP) (Lin, 2014).

$$EG = \frac{GRDP_t - GRDP_{t-1}}{GRDP_{t-1}} \times 100\%$$

The data of GRDP which is used to measure economic growth is sourced from Central Bureau of Statistics.

The type of data used in this study is secondary data which generally in the historical reports that have been arranged in the archive each year. The data used are time series and cross sectional data in districts in Eastern Indonesia from 2008 to 2017. The data is sourced from the document of APBD realisation report obtained from the website of Directorate General of Fiscal Balance of the Ministry of Finance of the Republic of Indonesia from 2008 to 2017 which includes data of PAD, DAU, and CE; from Central Bureau of Statistics which includes data of Economic Growth; and from Supreme Audit Agency which includes data of Audit Opinion Statement.

Based on hypothesis and study framework, this study uses an estimation regression model with combination data between time series and cross section data called pooled data. The use of pooled data in research causes the research model obtained to be at risk of containing autocorrelation problems (in time series data) and heteroscedasticity problems (in cross section data). In order not to incorrectly use the estimated regression model for the purpose of analysis, E-views is used for the panel data estimation regression model. Estimated regression capital with panel data often used is the common effects (CE), fixed effects (FE), and random effects (RE) estimation model. To identify which estimation model is best, it is necessary to do statistical testing. For explaining to the empirical models for each hypothesis testing, we use to the results of testing of the common effects (CE), fixed effects (FE), and random effects (RE) estimation model use E-views as shown in below (Tables 2a–2e, 3a–3c, Table 4) along with an explanation of each table.

Statistical testing is also done on the effect of Audit Opinion Statement as a control variable on the performance of local governments as measured by economic growth. The results measurement Audit Opinion Statement variable expressed in quantitative form in the following order: (5) Unqualified Opinion (UO), (4) Unqualified Opinion with Explanatory Language (UO-EL), (3) Qualified Opinion (QO), (2) Adverse Opinion (AO), and (1) Disclaimer Opinion (DO). The bigger of results measurement Audit Opinion Statement value, the better of results measurement Audit Opinion Statement. The better of results measurement Audit Opinion Statement of Supreme Audit Agency, the more capable the districts government is in managing regional finances in accordance with the provisions of legislation.

4 Results and discussion

The findings of data analysis with descriptive statistics are shown in Table 1.

Table 1 Descriptive statistics of research variables

<i>Descriptive statistic</i>	<i>Own source revenue (PAD) (millions Rupiah)</i>	<i>General allocation fund (DAU) (millions Rupiah)</i>	<i>Regional capital expenditure (millions Rupiah)</i>	<i>Economic growth (%)</i>	<i>Audit opinion statement</i>
Mean	45,502	439,884	628,015	5.18	2.22
Minimum	2,582	40,269	87,252	-2.80	1
Maximum	282,963	1,232,993	2,469,976	14.86	5
Standard deviation	40,049	198,212	215,929	5.46	1.25

Source: Obtained from data processing

Based on Table 1, PAD has an average for all in districts in Eastern Indonesia from 2008 to 2017 amounting to Rp45,502,042,110,-. The lowest PAD value in Central Mamberamo Regency in 2008 was Rp2,582,750,000,- and the highest PAD value in Mimika Regency in 2017 was Rp282,963,687,000,-. The value of PAD illustrates the capability in districts in Eastern Indonesia in exploring the potential of the districts to increase the own source revenue of the region planned to finance the needs of the region in order to achieve economic growth. During the course of regional development, the acquisition of sources of funds from PAD has not been fully sufficient to finance the development undertaken. This resulted in a source of financing for regional development still requires funding sourced from central government balance funds. Therefore, DAU from the central government is used to meet the shortage of funding.

Based on Table 1, DAU variable has an average for all in districts in Eastern Indonesia from 2008 to 2017 amounting to Rp439,884,098,750,-. The lowest DAU in Pulau Taliabu Regency in 2008 was Rp40,269,048,550,- and the highest DAU value in Merauke Regency in 2017 was Rp 1,232,993,695,000,-. The higher DAU value reflects the dependence on higher transfer funds from the central government, indicating less autonomy. Based on Table 1, the regional capital expenditure variable has an average for all districts in Eastern Indonesia from 2008 to 2017 amounting to Rp628,015,000,000,-. The lowest value of regional capital expenditure in Keerom regency in 2008 was Rp87,252,280,000,- and the highest regional capital expenditure in Teluk Bintuni Regency was Rp2,469,976,000,000,- in 2017. The value of regional capital expenditure represents the amount of indirect expenditure and direct expenditure required for districts development budgets in Eastern Indonesia.

Based on Table 1, the economic growth variable has an average for all in districts in Eastern Indonesia from 2008 to 2017 amounting to 5.18%. The lowest economic growth in West Sumbawa Regency in 2011 was -2.80% and the highest economic growth in Tambrauw Regency in 2017 was 14.86%. The development of overall economic growth in districts in Eastern Indonesia experienced fluctuations in economic growth but tended to increase. Most of the Audit Opinion Statement in districts in Eastern Indonesia have opinions in unqualified opinion (UO) and qualified opinion (QO). Several districts in Eastern Indonesia have opinions in disclaimer opinion (DO).

The authors has tested the models by the audit opinion simultaneously using e-views (included in the models). Estimated regression capital with panel data often used is the common effects (CE), fixed effects (FE), and random effects (RE) estimation model. To identify which estimation model is best, it is necessary to do statistical testing. Statistical testing is also done on the effect of Audit Opinion Statement as a control variable on the performance of local governments as measured by economic growth. The results measurement Audit Opinion Statement variable expressed in quantitative form in the following order: (5) Unqualified Opinion (UO), (4) Unqualified Opinion with Explanatory Language (UO-EL), (3) Qualified Opinion (QO), (2) Adverse Opinion (AO), and (1) Disclaimer Opinion (DO). The bigger of results measurement Audit Opinion Statement value, the better of results measurement Audit Opinion Statement. The better of results measurement Audit Opinion Statement of Supreme Audit Agency, the more capable the districts government is in managing regional finances in accordance with the provisions of legislation.

The results of testing of the common effects (CE), fixed effects (FE), and random effects (RE) estimation model use E-views as shown in Tables 2a and 2b.

Table 2a Common effect estimation model (CE)

<i>Variable</i>	<i>Coefficient</i>	<i>Std. error</i>	<i>t-statistic</i>	<i>Prob.</i>
C	2.620080	0.426689	6.140491	0.0000
LOG(PAD_?)	0.199507	0.028811	6.924621	0.0000*
LOG(DAU_?)	0.665347	0.047983	13.86636	0.0000*

*significant at $\alpha = 5\%$.

Source: Obtained from data processing

Table 2b Fixed effect estimation model (FE)

<i>Variable</i>	<i>Coefficient</i>	<i>Std. error</i>	<i>t-statistic</i>	<i>Prob.</i>
C	0.885687	0.596844	1.483949	0.1418
LOG(PAD_?)	0.206967	0.040900	5.060347	0.0000*
LOG(DAU_?)	0.794682	0.073209	10.85503	0.0000*

*significant at $\alpha = 5\%$.

Source: Obtained from data processing

To find out which estimation model is better (CE or FE), the Chow Test is performed. The hypothesis in the Chow test is as follows:

H₀: The estimation model has the same intercept.

H_a: The estimation model has a different intercept.

The test results of Chow test are shown in Table 2c.

The calculation results show Prob. = 0.0000 smaller than $\alpha = 5\%$, so the decision on this test is rejecting *H₀*. The Chow test results show that the FE estimation model is better than the CE estimation model. The FE estimation model is consistent, but not efficient (has a high error variance). While the random effect (RE) estimation model is efficient, but tends to be inconsistent. A good estimation model, especially the estimation

model that is consistent. If from the results of this test it turns out that the RE estimation model is better, then the RE estimation model obtained is an estimation model that is consistent and efficient. To find out which estimation model is better between the estimated FE model or the RE estimation model, we need to test the consistency of the RE estimation model. The Hausman test can be used to find out whether the RA model has a consistent nature. The results of the RA model testing are presented in Table 2d.

Table 2c Results of Chow test

Redundant fixed effects tests			
Pool: EQ2_FE			
Test cross-section fixed effects			
<i>Effects test</i>	<i>Statistic</i>	<i>d.f.</i>	<i>Prob.</i>
Cross-section <i>F</i>	7.438692	(8.79)	0.0000*
Cross-section Chi-square	50.534218	8	0.0000

*significant at $\alpha = 5\%$.

Source: Obtained from data processing

Table 2d Random effect estimation model (RE)

<i>Variable</i>	<i>Coefficient</i>	<i>Std. error</i>	<i>t-statistic</i>	<i>Prob.</i>
<i>C</i>	1.747354	0.464482	3.761941	0.0003
LOG(PAD_?)	0.213987	0.031589	6.774169	0.0000*
LOG(DAU_?)	0.721766	0.054802	13.17032	0.0000*

*significant at $\alpha = 5\%$.

Source: Obtained from data processing

To find out whether the RE estimation model is consistent, the Hausman test is carried out. The hypothesis of the Hausman test is as follows:

Ho: The RE estimation model is consistent.

Ha: RE estimation model is inconsistent.

The test results of Hausman test are shown in Table 2e.

Table 2e Results of Hausman test

Correlated random effects – Hausman test			
Pool: EQ3_RE			
Test cross-section random effects			
<i>Test summary</i>	<i>Chi-Sq. statistic</i>	<i>Chi-Sq. d.f.</i>	<i>Prob.</i>
Cross-section random	16.517165	2	0.0003*

*significant at $\alpha = 5\%$.

Source: Obtained from data processing

The calculation results show that Prob. = 0.0003 smaller than $\alpha = 5\%$, so the decision on this test is rejecting H_0 . The Hausman test results show that the RE estimation model is inconsistent, so it can be concluded that the FE estimation model is better than the RE estimation model. The estimation model used is the Fixed Effect model. Based on the fixed effect estimation model, the PAD and DAU have a positive effect on regional capital expenditures (BD).

Statistical testing is also done on the effect of Audit Opinion Statement as a control variable on the performance of local governments as measured by economic growth. For testing the control variable, the testing stages are carried out as in Tables 3a and 3b.

Table 3a Common effect estimation model (CE)

<i>Variable</i>	<i>Coefficient</i>	<i>Std. error</i>	<i>t-statistic</i>	<i>Prob.</i>
<i>C</i>	-2.816480	40.13226	-0.070180	0.9442
LOG(BD_?)	0.729055	2.914514	0.250146	0.8031*
OP_?	-0.177637	1.238004	0.143487	0.8862*

*not significant at $\alpha = 5\%$.

Source: Obtained from data processing

Table 3b Fixed effect estimation model (FE)

<i>Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-Statistic</i>	<i>Prob.</i>
<i>C</i>	-44.67798	53.86634	-0.829423	0.4094
LOG(BD_?)	3.766117	3.902905	0.964952	0.3375*
OP_?	0.614728	1.562687	0.393379	0.6951*

*significant at $\alpha = 5\%$.

Source: Obtained from data processing

To find out which estimation model is better (CE or FE), the Chow Test is performed. The hypothesis in the Chow test is as follows:

H₀: The estimation model has the same intercept.

H_a: The estimation model has a different intercept.

The test results of Chow test are shown in Table 3c.

Table 3c Results of Chow test

Redundant fixed effects tests			
Pool: EQ1_CO			
Test cross-section fixed effects			
<i>Effects test</i>	<i>Statistic</i>	<i>d.f.</i>	<i>Prob.</i>
Cross-section <i>F</i>	0.260602	(8.79)	0.9766*
Cross-section Chi-square	2.344307	8	0.9686

*not significant at $\alpha = 5\%$.

Source: Obtained from data processing

The probability value of 0.9766 is greater than $\alpha = 5\%$, the decision does not reject H_0 which states that the estimation model has the same intercept. Therefore, it is concluded that the common effect model is better. Based on Table 3a, the audit opinion statement by the Supreme Audit Agency (BPK) has a positive effect on economic growth in districts in Eastern Indonesia but not significant.

The results of testing of the common effects (CE), fixed effects (FE), and random effects (RE) estimation model use E-views as shown in Table 4.

Table 4 Results of hypothesis testing

<i>Hypothesis</i>	<i>Relationship between variables</i>	<i>t-statistic</i>	<i>P-value</i>	<i>Conclusion</i>
H1	Own source revenue \rightarrow Regional capital expenditure	5.06	0.0000	Supported*
H2	General allocation fund \rightarrow Regional capital expenditure	10.85	0.0000	Supported*

*significant at $\alpha = 5\%$.

Source: Obtained from data processing

Based on Table 4, *t*-statistic of the effect own source revenue (PAD) to regional capital expenditure (5.06) lower than *t*-Statistic of the effect General Allocation Fund (DAU) to regional capital expenditure (10.85). Therefore, the flypaper effect occurred on regional capital expenditure in districts in Eastern Indonesia (H3).

Based on the results of the test as shown in Table 4, it appears that PAD has a positive significant impact on regional capital expenditure in districts in Eastern Indonesia. This can be seen from the value of coefficient (β) of 5.06 (positive) indicating PAD has a positive effect on regional capital expenditure. The significance level of 0.00000, smaller than the specified significance level of 5%. This means PAD has a significant influence on regional capital expenditure. The results of this test indicate that H1 is supported.

The results of the first hypothesis testing Prakosa (2015) and Al Khoiri (2015), which states that PAD has a positive significant effect on regional capital expenditure. These findings indicate that the magnitude of PAD is one of the decisive factors in local spending. The amount of received PAD value is one of the factors considered by districts government in regional government budget preparation. Thus, the amount of PAD received will affect the amount of regional capital expenditure. If local governments want to increase regional capital expenditure for public services and public welfare, then local governments should dig into PAD as much as possible.

Based on the test results as shown in Table 4, it appears that DAU has a positive significant effect on regional capital expenditure in districts in Eastern Indonesia. This can be seen from the value of coefficient (β) of 10.85 (positive) which shows DAU has a positive effect on regional capital expenditure. The significance level of 0.0000, smaller than the specified significance level of 5%. This means DAU has a significant influence on regional capital expenditure. The results of this test indicate that H2 is supported.

The results of the second hypothesis testing in this study support Kusumadewi and Rahman (2007), which states that the DAU has a positive significant effect on regional capital expenditure. These findings indicate that the magnitude of DAU is one of the decisive factors in regional capital expenditure and indicates if regional dependence is very high on DAU to finance regional capital expenditure. This indicates that the higher

DAU districts receives then the higher the dependence of districts government budget in Eastern Indonesia to DAU obtained from central government transfers.

Based on the results of the test as shown in Table 4, DAU proxy for regional capital expenditure is greater than the proportion of PAD to regional capital expenditure in districts in Eastern Indonesia. It can be seen from the coefficient (β) DAU of 10.85 which is greater than the coefficient (β) PAD of 5.06 and has the same significant level value of 0.0000 which is smaller than the 5% significance level specified. This means that PAD and DAU each have a significant effect on capital regional expenditure. The results of this test show that H3 is supported, which means showing the flypaper effect occurred on regional capital expenditure in districts in Eastern Indonesia.

The results of the third hypothesis test on Table 4 supported the studies of Siregar and Badrudin (2017), Aprilia and Saputra (2013) and Masdjojo and Sukartono (2009) that explained the flypaper effect occurred in districts. As in the preliminary explanation, the districts governments in Eastern Indonesia placed DAU as the largest contributor of regional income with a percentage of 59%, then PAD 13%, other legitimate local revenue 10%, DBH 8%, and DAK 7%. According to Wati (2012), the proportion of DAU to regional revenue is still the highest compared to other regional revenues including PAD.

The largest budgeting of APBD in districts in Eastern Indonesia for regional capital expenditure. This means, the regional revenue component derived from the DAU is mostly to meet regional capital expenditure as the largest component of regional expenditure. According to Law No. 58/2005 on Regional Financial Management, regional capital expenditure is a duty of local government recognised as a deduction of net worth. The regional capital expenditure is all local government expenditure in a budget period. Regional capital expenditure as a component of regional expenditure is used to finance infrastructure development activities aimed at the public interest. Good infrastructure will facilitate the community to conduct economic activities, resulting in demand for goods and services to be responded by producers to produce goods and services in accordance with the needs of the community. As a result there will be economic activities that increase the GRDP and the relative value of GRDP changes called economic growth. Study of Hamzah (2009), economic growth is the development of activities in the economy that cause goods and services produced in society increases and the prosperity of society increases. Study of Mawarni and Abdullah (2016) and Deviani (2016) indicate that regional capital expenditure has a positive significant effect on economic growth. Structure of APBD in districts in Eastern Indonesia is probable to achieve economic inclusive growth because Gini index and the proportion of the poor declined (Badrudin and Siregar, 2015).

Based on Table 3a, the audit opinion statement by the Supreme Audit Agency (BPK) has a positive effect on economic growth in districts in Eastern Indonesia but not significant. The influence of insignificant variables may be caused by lack of control over regional economic conditions such as the quality of human resources, inflation, and indicators of the human development index. The quality of human resources in managing regional development will be seen in its ability to carry out various development innovations. The inflation rate in the Eastern Indonesia district is relatively high due to the relatively poor infrastructure conditions. Most indicators of the human development index in districts in Eastern Indonesia are relatively low.

Although the test results are not significant which means the fourth research hypothesis is rejected, but the direction of the relationship between the two research variables is the same. That is, the better of results measurement Audit Opinion Statement

of Supreme Audit Agency, the more capable the districts government is in managing regional finances in accordance with the provisions of legislation. The results of this study are supported by Sutopo et al. (2017), Hastoro and Sunardi (2016), Suryaningsih and Sisdyani (2016), Ar Rozy and Wijayanti (2014), Mistry (2012), and Hartati (2011).

5 Conclusion

Based on the analysis and discussion, then compiled the following study conclusions, namely

- own source revenue (PAD) has a positive significant impact on regional capital expenditure in districts in Eastern Indonesia
- general allocation fund (DAU) has a positive significant effect on regional capital expenditure in districts in Eastern Indonesia
- the flypaper effect occurred on regional expenditure in districts in Eastern Indonesia
- the audit opinion statement by the supreme audit agency (BPK) has a positive effect on economic growth in districts in Eastern Indonesia but not significant.

The flypaper effect not indicates that personnel expenditure dominates budgeting of APBD in districts in Eastern Indonesia, dependency of the districts government in Eastern Indonesia to central government transfers, as well as an indication of the extravagance of local governments in addressing transfer funds rather than optimising PAD sources in financing development. This indicates that the local government in the districts in Eastern Indonesia should use as a political budget to achieve inclusive economic growth as well.

The limitation of this research is that it does not use society welfare variables as indicators of development success such as the Human Development Index, Gini Index, open unemployment rate, and the ratio of poor population. In addition, the quality of human resources in managing regional development is relatively low so that its ability to carry out various development innovations is relatively limited which results in relatively high inflation rates in Eastern Indonesia districts due to relatively poor infrastructure conditions. Therefore, in the following research the authors suggest that the quality of human resources, the Human Development Index, the Gini Index, the open unemployment rate, and the ratio of the poor population are used as research variables to be indicators of society welfare.

Based on the conclusion that the flypaper effect is occurred on regional expenditure in districts in Eastern Indonesia and the audit opinion statement by the Supreme Audit Agency (BPK) has a positive effect on economic growth in districts in Eastern Indonesia but is not significant, the authors suggest for policy implications for the central and regional governments, namely the government needs to enforce government regulations regarding the management of state finances in order to obtain optimal results for the welfare of society and the need for continuous education and training for government officials to be able to manage state finances that are good government governance.

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