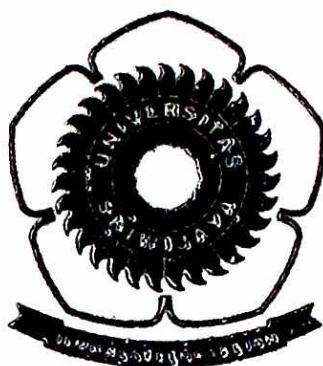


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**FLYPAPER EFFECT ON THE RELATIONSHIP OF GENERAL ALLOCATION FUND, REVENUE SHARING FUND AND REGIONAL OWN REVENUE TO INFRASTRUCTURE EXPENDITURE IN REGENCY/MUNICIPALITY OF SOUTH SUMATERA PROVINCE PERIOD 2008-2011**



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*Presented as One of the Requirement to Achieve the Degree of Sarjana Ekonomi*

**MINISTRY OF EDUCATION AND CULTURE  
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**2013**

**LEMBAR PERSETUJUAN UJIAN KOMPREHENSIF**

**Flypaper Effect on The Relationship of General Allocation Fund, Revenue Sharing Fund,  
and Regional Own Revenue to Infrastructure Expenditure in Regency/Municipality  
of South Sumatera Province period 2008-2011**

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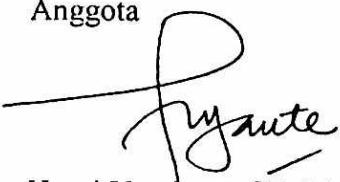
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adalah benar hasil karya Saya sendiri. Dalam skripsi ini tidak ada kutipan hasil karya orang lain yang tidak disebutkan sumbernya.

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Telah kami periksa cara penulisan, *grammar*, maupun susunan *tenses*-nya dan kami setujui untuk kami tempatkan pada lembar abstrak.

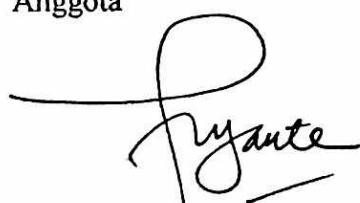
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## **MOTTO**

**Laahaulaa walaaquw-wata il-laabillahil'aliy-yil'adzim; Tiada daya upaya  
dan kekuatan selain atas pertolongan Allah  
(Abu Dzar Radhiyallahu 'anhу)**

**One today is worth two tomorrow; What you have today is better than what  
is promised  
(Anonymous)**

**Nothing is ever easy for the unwilling  
(Author)**

**Rugi karena bertindak jujur tidak akan berlangsung lama, Tuhan sedang  
menguji Anda  
(BongChandra)**

**This script is dedicated to :**

- Papa and Mama
- Family
- Alma mater

## PREFACE

Praise and thanks given to Allah SWT, God who has been giving His blessing and mercy to the Author to accomplish this script entitled *Flypaper Effect on the Relationship of General Allocation Fund, Revenue Sharing Fund and Regional Own Revenue to Infrastructure Expenditure in Regency/Municipality of South Sumatera period 2008-2011*. This script was made as one of requirements to achieve degree of Sarjana Ekonomi Strata Satu (S-1) of Economic Faculty in Sriwijaya University.

This script analyzed the occurrence of flypaper effect on local government's response by examining and comparing the influence of regional own revenue and grant which is proxied by general allocation fund and revenue sharing fund on infrastructure expenditure. This script consists of 6 chapters including Chapter I Introduction, Chapter II Literature Review, Chapter III Research Methodology, Chapter IV Data Sample, Chapter V Analysis and Discussion, and Chapter VI Conclusion.

Finally, the Author realized that this script is imperfect and there are many unintended errors in writing it. Thus, the Author really expects all readers to give any critics and suggestions to improve its content and make a better write in the future. The Author hopes this script can give contributions to several parties.

Indralaya, 26<sup>th</sup> of February 2013

The Author

## **ACKNOWLEDGEMENT**

Praise and thanks given to Allah SWT , God who has been giving His blessing and mercy to the Author to accomplish this script entitled *Flypaper Effect on the Relationship of General Allocation Fund, Revenue Sharing Fund and Regional Own Revenue to Infrastructure Expenditure in Regency/Municipality of South Sumatera period 2008-2011*. In the process of arranging this script, the Author wasn't released from some constraints. These constraints were able to be overcome by the assists, guidances, and supports from several parties. For this chance, the Author really wants to deliver regards and thanks for people who had given their hand to the Author, they are :

1. Prof. Dr. Hj. Badia Parizade, MBA, as the Rector of Sriwijaya University.
2. Prof. Dr. H. Syamsurijal, Ak, Ph. D, as the Dean of Economic Faculty in Sriwijaya University.
3. Mr. Ahmad Subeki, SE, MM, Ak. as the department head and Mr. Mukhtaruddin, SE, M.Si, Ak. as the department secretary that lead this department incredibly.
4. Mr. Mukhtaruddin, SE, M.Si, Ak as the first script supervisor that had been really helpful in giving his time, energy, and thought to guide and give advices for my interest.
5. Mrs. Hasni Yusrianti, SE, M.AAC, Ak as the second script supervisor that had been taking time, energy, and thought to give motivation and advices for my interest.
6. Dra. Hj. Kencana Dewi, Msc, Ak, the one I admired of all her personality in lecturing, mentoring, and behaving that could make me more motivated in learning for being better person.
7. Mrs. Wiwin, Mrs. Riri, and Mrs. Nurul at BPK RI Sumsel Representavive who helped in giving data for the need of script.
8. All of the script's examiners that gave critics and suggestions to fix this script.
9. All lecturers that shared knowledge and experience during college.
10. All staff of Economic Faculty in Sriwijaya University that support the course's continuity, especially Mr. Surya Adi.
11. My beloved family, Papa, Mama, and Adek who always pray, give support and affection for Author. I'm so grateful to Allah for giving me such a precious family.
12. My beloved grandparents and relatives who are always beside me and pray for my success.
13. All my beloved buddy, Atika Habsari, Mega Selvia Putri, Tiara Maharani, Elia Trianti, Adelin Saptaningtyas, Ike Susesta Adelia, Tika Amanda, Adhiah Juliarti Harahap, Emilia Nurhuda and My Best Friend since we were in senior high school, Sri Fajriani. Thank you very much for being nice to me. Thank you very much for being my friend. Thank you very

much for helping me this much. Nothing more I can give than saying thanks, forgive me please for all lack I have and mistake I do. Hope we can grow our friendship forever. You are all really worth having. I love you all.

14. All beloved friends in accounting who have been really helpful; windy, maya, amir, sintia, fika, pipid, kenny, mia, gita, fertika, odik, herpin, bendy, and others. Thank you for taking part of my college memories
15. My ultimate bias "CK, LS, SJ" that stimulate me for feeling happy and smiling unknowingly.
16. All people related to the accomplishment of this script.

Indralaya, 25<sup>th</sup> of February 2013

The Author

## **ABSTRAK**

### **Flypaper Effect on the Relationship of General Allocation Fund, Revenue Sharing Fund and Regional Own Revenue to Infrastructure Expenditure in Regency/Municipality of South Sumatera period 2008-2011**

Oleh :  
Anastasia Pratiwi

Tujuan utama dari otonomi daerah adalah untuk memberdayakan daerah agar lebih mandiri dalam hal keuangan sehingga pembangunan akan menyebar ke seluruh bangsa. Namun, beberapa penelitian menunjukkan bahwa daerah masih sangat bergantung pada pemerintah pusat secara finansial. Penelitian ini menggunakan Flypaper Effect sebagai salah satu indikator untuk melihat keberhasilan otonomi daerah dengan menganalisis bagaimana pemerintah daerah mengalokasikan sumber daya yang tersedia dalam hal pendapatan yang bersumber dari dana transfer dan pendapatan asli daerah. Penelitian ini menggunakan data dari laporan realisasi anggaran daerah di kabupaten dan kota provinsi Sumatera Selatan pada tahun 2008 hingga tahun 2011.

Penelitian bertujuan untuk menguji apakah Dana Alokasi Umum, Dana Bagi Hasil, dan Pendapatan Asli Daerah berpengaruh secara signifikan terhadap belanja infrastruktur dan menganalisa apakah telah terjadi Flypaper Effect. Hasil penelitian menunjukkan bahwa DAU, DBH, dan PAD memiliki pengaruh signifikan terhadap belanja infrastruktur secara parsial dan simultan. Nilai koefisien DAU dan DBH lebih besar dari koefisien PAD yang bernilai negatif. Hal tersebut mengindikasikan bahwa pengaruh dari dana transfer pada belanja infrastruktur lebih besar dari pada PAD. Hasil penelitian ini menunjukkan telah terjadi Flypaper Effect dalam hal pengeluaran pemerintah daerah untuk belanja infrastruktur. Perilaku pemerintah daerah dalam menetapkan kebijakan pengeluaran lebih dirangsang oleh jumlah dana transfer diterima pada tahun berjalan dibandingkan dengan PAD yang ada di daerah.

**Kata kunci:** DAU, DBH, PAD, Belanja Infrastruktur, dan Flypaper Effect.

## **ABSTRACT**

**Flypaper Effect on the Relationship of General Allocation Fund, Revenue Sharing Fund and Regional Own Revenue to Infrastructure Expenditure in Regency/Municipality of South Sumatera period 2008-2011**

**By :**

Anastasia Pratiwi; Mukhtaruddin, SE, M.Si, Ak;  
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The main objective of regional autonomy is to empower regions in order to be more independent financially so that the development would spread throughout the nation. However, some researches indicate that local governments still strongly depend on the central government financially. This research examined Flypaper Effect as one of indicators to see the success of regional autonomy. It analyzed about how local governments allocate the available resources in terms of revenue that sourced from grant or its regional own revenue. This research used data of regional budget realization report in regency and municipality of South Sumatera province in the period 2008 until 2011.

This research is aimed to test whether General Allocation Fund, Revenue Sharing Fund, and Regional Own Revenue influence Infrastructure Expenditure significantly and to analyze if there has been Flypaper Effect. The result of this research shows that GAF, RSF, and ROR have significant influence on infrastructure expenditure partially and simultaneously. Positive coefficient value of GAF and RSF is greater than the coefficient value of ROR which is negative. It implies that effect of grants on infrastructure expenditure is greater than the effect of ROR on infrastructure expenditure. This result suggests there has been a Flypaper Effect on local government's response of infrastructure expenditure. Local government's behaviour in setting expenditure policies is more stimulated by the amount of grant received in the current year than its regional own revenue.

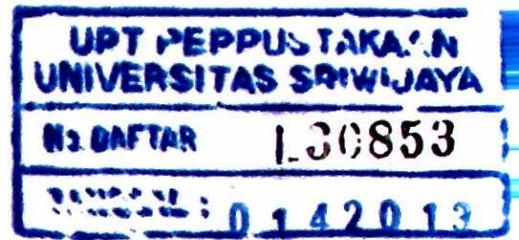
***Keywords: GAF, RSF, ROR, Infrastructure Expenditure, and Flypaper Effect***

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## **CHAPTER I**

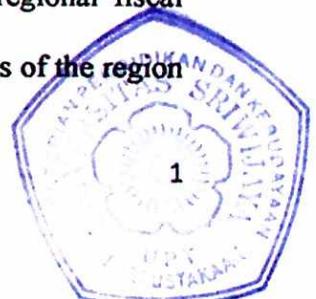
### **INTRODUCTION**

#### **1.1 Research Background**

Since first of january 2001, government had officially enacted regional autonomy in Indonesia. Regional autonomy is done related to the reformation in the existing governance system due to economic crisis. Regional autonomy is authority of autonomous regions to manage local economic resources independently and responsible for the outcome oriented to improve the welfare of the community in the region. Granting autonomy to the region is aimed to accelerate the realization of well-being society through public service improvement, empowerment and community participation (Mardiasmo, 2002).

To support the implementation regional autonomy, central government will transfer “Balance Fund” sourced from state budget to the region (Law No. 32 of 2004, article 1). Balance fund consists of General Allocation Fund (GAF), Specific Allocation Fund (SAF), and Revenue Sharing Fund (RSF) of tax and non-tax (natural resource). The purpose of this transferred (grant) is to reduce (if it's possible to eliminate) inter-regional fiscal gap and ensure the achievement of minimum service standards in the region (Simanjuntak in Maimunah, 2006).

Each type of balance fund has their respective functions. RSF acts as fiscal balance between central and local government. GAF acts as inter-regional fiscal equalization and SAF acts as fund intended to finance specific activities of the region



in accordance with national priority. Outside of those three functions, the use of the fund is handed over entirely to the regency/municipality concerned.

The mechanism of revenue sharing fund is aimed to reduce vertical fiscal imbalance between central and local government. However, its pattern could potentially sharpen horizontal fiscal imbalance experienced by producing and non-producing regions. Horizontal fiscal imbalance happened because of the fact that the characteristics of the regions in Indonesia are very diverse. There are some regions which awarded abundant natural resources in the form of oil and gas, mining or forestry. However, eventough some regions don't posses abundant natural resources but if they could have good economic structure and optimize the potential of tax receipt so that the regions can become rich.

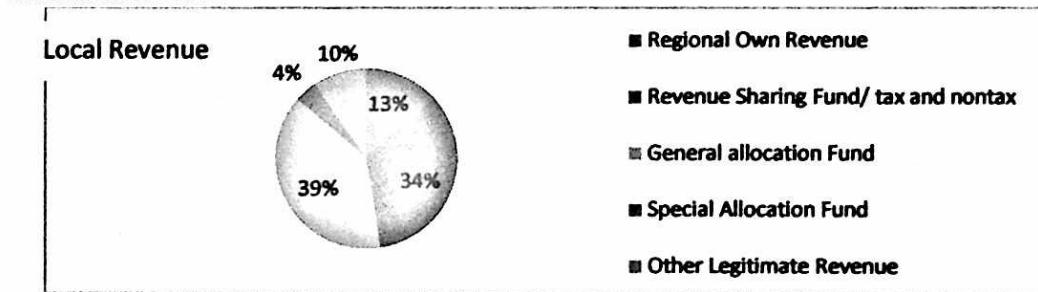
Regions that have potential tax and vast natural resources are only limited to certain regions. Thus, the role of the general allocation fund lies in its ability to create a distribution of fund based on consideration of the potential fiscal and real needs of each region (Law no. 33 of 2004). Beside that, every region also should optimize its regional own revenue (ROR) to meet the development activity and fund local needs.

In order to create the independency in the autonomous region, regional own revenue become an important factor. However, reality shows that regional own revenue is only able to pay the highest local government expenditure by 20% (Kuncoro, 2007). The dependence level of local government to central government is still quite high. If the government is too much emphasis on regional own revenue, then society will be burdened with various taxes and levies with the intention of

"target". As a result, local governments demand higher transfer from the central government.

Local governments tend to rely more on grant from central government rather than maximizing their regional own revenue. However, Allocation of grant in developing countries are generally based more on aspects of expenditure rather than the ability of local taxes collection (Kuncoro, 2004). Grant is used as the primary funding source of local governments to fund their own merit. General allocation fund that is used as horizontal instrument to reach inter-regional fiscal capacity equalization or fiscal gap filling but for local governments, general allocation fund is intended to support adequacy. Here is the proportion of revenue gained by the local governments in regency and municipality of South Sumatera in 2011 :

Figure 1.1 Chart of Revenue Source of Regency and Municipality of South Sumatera in 2011



Source : Data calculated based on Realization of Regional Budget and Report 2011, [www.djpk.depkeu.go.id](http://www.djpk.depkeu.go.id)

Based on the figure 1.1, regency and municipality have higher value of general allocation fund and revenue sharing fund as the source of fund than others. It showed the tendency that local governments are more dependent upon grant than its own revenue.

Grant may have substitution effect or stimulus for the local expenditure. Thus, governments in regency/municipality are expected to use these funds more effectively and efficiently for the improvement of services to the community accompanied by transparency and accountability. With limited resources, local governments should be able to allocate the revenue gained for local expenditure that is productive. If viewed in terms of benefits, the budget allocation for the capital expenditure sector is very useful and productive in providing services to the public. Stine (1994) in Darwanto and Yustikasari (2007) stated that government's revenues should be allocated more to the public service program.

In line with the opinion of Stine, Saragih (2003) in Darwanto and Yustikasari (2007) stated that utilization of expenditure should be allocated to productive things like to undertake development activities. These two arguments imply the importance of expenditure allocation for various public purposes. Increasing the allocation of capital expenditure in the form of fixed assets, infrastructure and equipment are very important to improve the economic productivity. Thus, local government should be able to allocate capital expenditure budget well because capital expenditure is one step for local governments to provide services to the public.

How local government allocates the available resources in terms of revenue is interesting to be researched. Researchers use a variety of approaches to explain the behavior of local governments in allocating its fund, whether the fund coming from grant (GAF, SAF, or RSF) or from its regional own revenue.

Some researchers found out different response from local government in spending grant and its regional own revenue. In which, when local revenue derived from grant then the stimulation of expenditure is different with stimulation that comes from regional own revenue and when the response (expenditure) in the regions sourced greater from the grant than the income its self, so it is called Flypaper Effect (Oates, 1999 in Abdullah and Halim, 2003). In other words, Flypaper Effect is the condition where the grant stimulates the increase of the local government expenditure larger than regional own revenue does.

Previous researchers who researched the influence of revenues on expenditures such as Maemunah (2006) who studied in Sumatra and Prakosa (2004) who studied in Yogyakarta and Central Java obtained results that ROR and GAF have significant influence on local expenditure. However, ROR has less significant influence than GAF on local expenditure. This means there has been Flypaper Effect. From the explanation and the results of previous researchers above, the researcher interested in conducting development of research with the title "**Flypaper Effect on The Relationship of General Allocation Fund, Revenue Sharing Fund and Regional Own Revenue to Infrastructure Expenditure in Regency/Municipality of South Sumatera Province period 2008-2011**"

The main difference of this research with previous research is this research used two independent variables that sourced from grant namely revenue sharing fund and general allocation fund, using different dependent variable which is more specific that is the allocation of capital expenditure in the form of infrastructure

expenditure. Things lie beyond the selection of infrastructure expenditure allocation is due to the importance of infrastructure in sustaining the economic growth by providing the easiness of mobility of production factors, resources, and information, improving the environment condition and giving an access to isolated area.

## **1.2 Research Questions**

Based on the existing background, then the research questions to be addressed are as follows:

1. Does general allocation fund have significant influence on infrastructure expenditure ?
2. Does revenue sharing fund have significant influence on infrastructure expenditure ?
3. Does regional own revenue have significant influence on infrastructure expenditure
4. Is there flypaper effect in the influence of general allocation fund, revenue sharing fund, and regional own revenue on infrastructure expenditure?

### **1.3 Research Objectives**

The objectives of this research are formulated related to the problems that have been previously stated, namely :

1. The influence of general allocation fund, revenue sharing fund, and regional own revenue on infrastructure expenditure.
2. The possibility of there is Flypaper Effect in the influence of general allocation fund, revenue sharing fund, and regional own revenue on infrastructure expenditure.

### **1.4 Research Benefits**

This research is expected to give benefits for various parties, including:

1. For the researcher, to gain new knowledge and insight about this research.
2. For the officials of government :
  - Central government : this research is expected to be able to give contribution to the central government in controlling the fund that had been transferred through general allocation fund and revenue sharing fund.
  - Local government : this research is expected to encourage the role of local government in improving the local potential and increase its regional own revenue.
3. For researchers interested in this research, this can be used as a reference and additional data.

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